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PRESS CLIPPINGS

2013/2014



LAW &
INTELLECTUAL
PROPERTY

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Major developments in 2012

Zhang Xu and Eric Su of HFG
provide an overview of the changes
in China's IP laws and practices in
the past year, which together signal
a concerted effort to strengthen
protection

In recent years, more and more attention has been paid to IP development in China both on an international and national scale. There were several important events in legislation, justice and administrative enforcement in 2012. On the macro level, the Government has continued to enhance IP protection, and carried on the severe attitude as seen in The Special Action Plan for Attacking Infringement of Intellectual Property and the Manufacturing and Selling of Fake and Shoddy Commodities in 2011. In enforcement and justice, a number of major IP cases have been dealt with and examined by the NAIC (National Administration for Industry and Commerce), the AQS (Administration for Quality Supervision), the local IPO (Intellectual Property Office), the Copyright Administration, the PSB (Public Security Bureau) and the courts. In general, the government has taken various measures to protect the interests of the owners of intellectual property.

Legislation

The legislative department and relevant governmental departments brought about the amendment of the three significant IP laws – the

Trademark Law, the Patent Law and the Copyright Law. Through these amendments, we can see the legislators' wish to increase the capacity of the relevant laws and regulations in order to curtail infringement in response to the digital age.

The draft of the fourth amendment to the Trademark Law has been submitted to the standing committee of the National People's Conference. This could result in sound trade marks being protected by law, the procedure of trade mark opposition being modified, and compulsory compensation for infringement being raised to Rmb1 million (\$160,000). To prevent a rush on registrations and hoarding of trade marks, the criterion that applying for a trade mark will be subject to the principle of good faith, will probably be added into the law. The provision of such a principle will discourage a rush on trade mark registration, clear surplus trade marks, and make the trade mark registration system as a whole more coherent.

Administration

The amendment to the Patent Law has also raised concerns in relation to the Patent Administration Department's specified limits of authority being broadened. These limits include the power to handle patent infringements, the penalty to the infringers and even the amount of compensation and damages. According to the present regulations in Measures for Patent Administrative Law Enforcement, the Patent Administration Department can only judge whether something constitutes an infringement. However, in the past year, the Patent Administration Department's enforcement procedures have been playing an increasingly prominent role. The local Patent Administration Department proves an ideal alternative to mediate and resolve patent infringement: it is quick, low risk, inexpensive, and effective. Comparatively, the judicial remedy to patent infringement in China is inefficient, high risk, and expensive due to a lengthy timescale with various procedures: invalidation of patent rights, patent administrative litigation (including first instance and second instance), and finally civil litigation (including first instance and second instance). In the future, the Patent Administration Department's enforcement procedures will no doubt become a welcome and important alternative for patent owners looking to deal with patent disputes. These procedures also embody one feature of durable IP protection in China: administrative and judicial enforcement as two parallel dispute resolution mechanisms.

The digital age has come, and so further amendments to the Copyright Law are unavoidable, even though it was amended in 2010. In the latest amendment, there are several points of note: (i) in the classification of the work, work of applied art has been raised, and toys, furniture and decorations are listed as the flat (two-dimensional) or solid (three-dimensional) plastic arts with both utility function and aesthetic significance. In addition, it

ANNUAL OVERVIEW



specifically regulates that the protection period of a copyright is 25 years after the first publication. It can be imagined that in the age of industrial design, these regulations will bring a positive effect to the industry; (2) on the ascription of a work that is created in the course of employment, the principle will be modified from the author enjoying the right and with exception in some specific conditions, to it being in accordance with the agreement between the parties; (3) requirements on the exclusive licensing and record-keeping are added into the Law which have borrowed some measures from the Trademark Law; (4) copyright collective management, technology protection measures and copyright management information are regulated by new provisions; (5) further defining the liability of the network service provider; (6) the maximum compulsory compensation has been raised to Rmb1 million, and a more severe standard of administrative punishment to infringement has been proposed.

Justice

Regarding judicial practice, enterprises can learn a lot from two trade mark disputes: the ascription of the trade marks iPad and *(Wanglaoji, a famous Chinese tisane)*. The iPad case has been settled, and the dispute over *is ongoing*. The two cases remind companies that when applying, transferring, or granting a licence to use a trade mark, besides the legitimate procedure that is subject to the relevant laws and regulations, a brand owner needs to make decisions strategically. The high expenses for the settlement of the iPad case undoubtedly made an impact on the trade mark rights owners, and those

who may rush to register a trade mark. Some companies dream of getting rich overnight by rushing to register a trade mark. But it is important for trade mark owners to think in advance, and make a determination on whether it is necessary to register a trade mark or raise an opposition to another trade mark which has not been used yet with those goods and services. In China, the so-called factory of the world, the threat of trade mark counterfeit and infringement will not be turned around overnight: it must be a joint endeavour of rights owners and government agencies.

In 2012, copyright disputes still occupied a large proportion of IP disputes as a whole. Considering the past few years, the number of infringing acts of the right to network dissemination of information have accelerated. The Supreme Court promulgated Regulations for Several Issues Concerning Trial of the Disputes of Infringement of the Right to Network Dissemination of Information to define what constitutes the infringement responsibility and how to bear the infringement responsibility for a network service provider and an infringer, which guides courts to trial the network tort of copyright in practice. Additionally, cases on the copyright of fonts, a controversial topic, also take place frequently, and local courts differ as to whether fonts enjoy copyright protection or not.

Other developments

Concerning the development of intellectual property of other types, protection of trade secrets still receives the most attention. However, companies are always at a loss in defending their rights, for



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it is difficult in practice to obtain evidence, and the enforcement authority is not professional when assessing what constitutes a trade secret. Judicial statistics shows that in the past few years, a person or company that raises an action of trade secret usually wishes to totally defeat its competitor, and such cases almost always follow the same pattern: abusing the public power with the excuse of defending its trade secret – firstly to penalise the leaders of the competitor criminally and then to claim for damages through civil procedure. The trend of criminalising trade secrets has aroused intense focus both on the theory and on practice. In anti-unfair competition, the acts of unfair competition which are expressly prohibited by the law have decreased, but



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infringers frequently try to evade the law under the appearance of legitimate acts, that challenges the boundary of the Anti-unfair Competition Law so that more and more cases need to be trialed by applying the regulation of principle in the Anti-unfair Competition Law.

Positive moves

In the past year, the Chinese Government and its judicial system has kept a positive attitude in protecting intellectual property. Protection measures need to be further strengthened by discouraging rush registration, promoting the quality of intellectual property, and introducing larger penalties to act as a deterrent, so as to maintain a fair competitive market.



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^(*) The image above contains few anomalies. Visit our website to find out more.

LEGISLATION UPDATE



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CHINA TRADEMARK LAW THIRD AMENDMENTS: IMPORTANT CHANGES IN THE DRAFTS

China's Trademark Law was adopted in 1982. After amended in 1993 and 2001 respectively, the law is now under the third amendments. The first draft amendments ("Draft 1") was publicized at the official website of the National People's Congress (the "NPC") at the end of 2012 for public opinions and the second draft ("Draft 2") based on public opinions was examined by the NPC Standing Committee at the end of June 2013.

According to Draft 1 and Draft 2, there are quite a few important changes to current law that trademark proprietors should note:

Trademark registration application

Single color and sound are acceptable for trademark registration according to Draft 1. In Draft 2, sound is remained as registrable trademark while single color is deleted.

Electronic filing and multi-class application are adopted in both drafts. If they are adopted in the final amendments, trademark proprietors can expect saving in trademark application cost.

Trademark collective assignment

Trademark collective assignment has already been provided in the examination rules used by China Trademark Office (the "CTMO") and now it is to be formally adopted in the law. It is provided in Draft 2 that when a trademark registrant files request for assignment of its registration for one trademark, its registrations for all identical and similar trademarks on identical and similar goods/services should be collectively assigned at the same time.

Under this provision, trademark proprietors need to make comprehensive review of related registrations in trademark transaction and make necessary preparations.

Trademark opposition

Trademark opposition procedure is one of the significant changes in the third amendments. The opposition procedures provided in Draft 1 is remained in Draft 2 which is, if the opposer wins the opposition, the trademark applicant may appeal and the appeal procedures are same with current law; if the opposer loses the opposition, the opposition procedure ends here and the opposed trademark should be approved for registration. If the opposer wants to further challenge the trademark, the action to take is invalidation with the Trademark Review & Adjudication Board (the "TRAB").

This change has been causing wide discussion among trademark proprietors. Based on current opposition winning rates, trademark proprietors have enough reason to worry that bad faith applications will be easier to get registrations and cracking down bad faith registrations will be more difficult under the new law because challenging a trademark with stable legal status will be much more difficult than a trademark in unstable status.

It is not mentioned in both drafts if there will be evidence exchange procedure in opposition. There is no under current law but it will be reasonable to have this procedure in the new law based on above change.

Prior use right

It is provided in Draft 1 and remained in Draft 2 that if a 3rd party has already been using an identical or similar trademark on identical or similar goods before the trademark registrant's application of that trademark is filed, that 3rd party shall have the right to continue to use that trademark in the scope as it has been using.

Punitive damages and statutory damages

The general principle applied in China's civil damages is no punitive damages. That means, the highest damages a person can obtain is the amount of actual loss, or the amount the infringer gained, or the amount of the actual royalties. Punitive damages is added in Draft 1 and remained in Draft 2 which provides a range from one to three times of above amount.

In addition to punitive damages, the statutory damages is also improved. The upper limit is increased from RMB500,000 to RMB1,000,000 in Draft 1 and further increased from RMB1,000,000 to RMB2,000,000 in Draft 2.

Definition of trademark use adopted

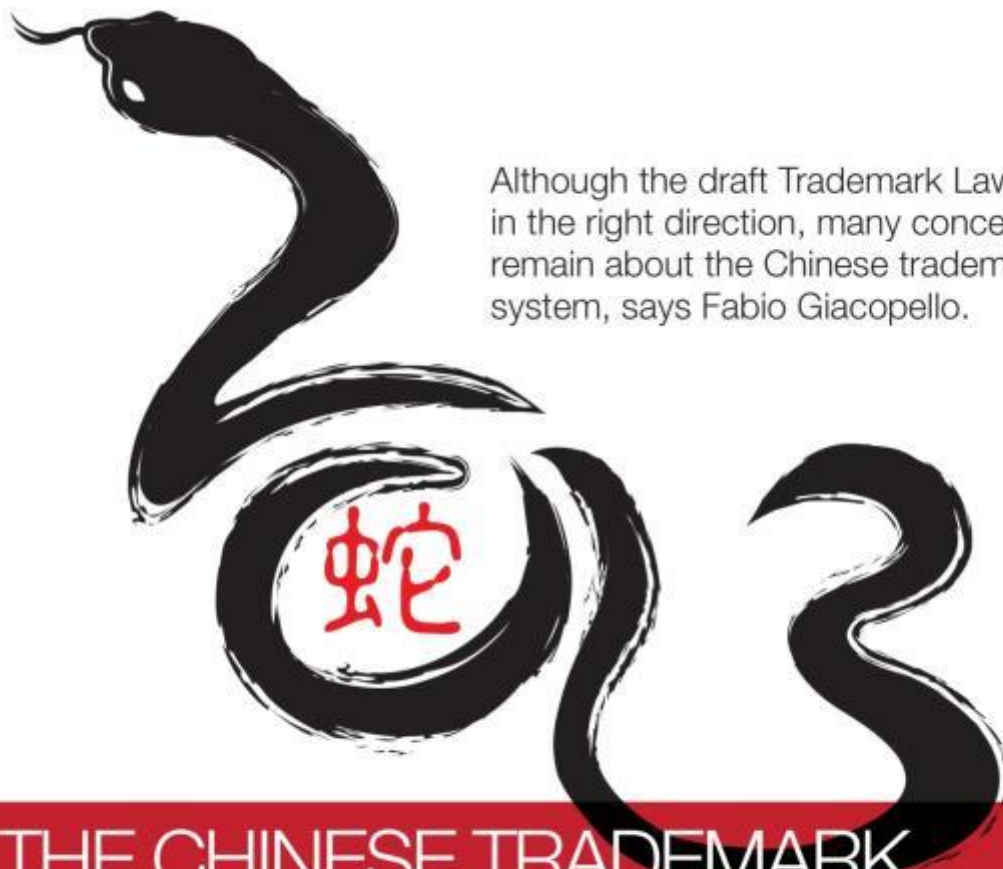
The definition is amended in Draft 2 as "affixing trademarks to commodities, commodity packages or containers, commodity transaction documents, or in advertisements, exhibitions and other commercial activities, **which is for identification of source of commodities/services**". The last sentence is added to the current definition which is to strengthen the function of trademark. Under current law, requirement for trademark use in different actions is different. For instance, OEM use is qualified trademark use in non-use cancellation. If above change is adopted in the final amendments, it is to monitor if this new definition will change current practice especially in non-use cancellation.

Other notable changes include:

- Timeframe for examinations by CTMO and TRAB provided in Draft 2.
- A new type of infringement is added in Draft 2 which is helping others' in trademark infringing activity by intentionally providing convenience. Judicial practice already determined landlord's liability in trademark infringement and indirect infringers from other areas can be pursued liability if this new type is adopted in the final amendments.
- Draft 2 provides that recognized well-known trademark is no longer allowed to use in advertising and otherwise can be subject to administrative fine of RMB100,000.

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Although the draft Trademark Law moves in the right direction, many concerns remain about the Chinese trademark system, says Fabio Giacobello.

THE CHINESE TRADEMARK CONUNDRUM: WILL A NEW LAW SOLVE THE CURRENT PROBLEMS?

In December 2012 a new draft of the Trademark Law was released by the National People's Congress, the Chinese legislative body. Considering that the current Trademark Law has been in force from 2001 and that the draft is the third issued in recent years, the trademark community expected something more. In particular, a stronger will for change in relation to bad faith registration, enforcement and improving quality was expected from the Chinese Trade Mark Office (CTMO) and Trademark Review and Adjudication Board (TRAB).

Going through the main amendments, the following are noteworthy.

Bad faith registrations

Article 9 of the draft introduces a general principle: "The application for registration and

use of a trademark shall be made in good faith." Article 15 contains a new paragraph which prescribes that not only trademarks filed by "agents or representatives" will not be registered, but even trademarks filed by business partners if proved that they "definitely know" of the existence of the trademark.

These provisions should support the already existing ones, namely Article 34 (corresponding to Article 31 in the current law) and Article 4. The former excludes the registration of a trademark that "harms another person's prior rights" or that "has been used by another person and has a certain influence" and the "use of unfair means" is proved. The latter has been construed as requiring a sort of intention to use the mark against so-called 'trademark warehouses'.

Unfortunately, these modifications do not seem enough to curb the dramatic situation of bad faith registrations. Indeed there is no definition of 'good faith' and 'bad faith', which leaves the grounds for interpretation to CTMO/TRAB and the People's Court. Moreover, the wording "definitely knows" used in Article 15 is not promising since it fixes a pretty high threshold. Perhaps "knew or should have known" would be more encouraging.

Enforcement

The new draft contains several modifications to the existing provisions which in general increase economic penalties.

- Administrative fines imposed by the Administration for Industry and Commerce (AIC) upon completion of action are

increased. The new Article 59 states that "where the illegal turnover exceeds 50,000 Yuan (\$8,000), the fine imposed shall be not more than five times of the illegal turnover; (2) where there is no illegal turnover or the illegal turnover is below 50,000 Yuan, the fine imposed shall be not more than 250,000 Yuan (\$40,000)". The current thresholds are three times the illegal turnover and 100,000 Yuan (\$16,000). Moreover, the same Article 59 provides that the AIC shall give a heavier punishment to those who have committed trademark infringement twice or more within five years and to those with other especially serious circumstances.

- **Damages calculation.** The new Article 62 prescribes that the amount of damages shall be calculated as one to three times the loss suffered by the trademark owner or the profit made by the infringer, or the royalty. The statutory damages limit is moved from the current 500,000 Yuan to 1,000,000 Yuan (\$80,000 to \$160,000). It still seems too low, especially when the infringer does not cooperate.

Such changes are welcome, but the modification looks like an adjustment in the light of rampant inflation, more than a strategic decision. Probably these changes (and the others contained in the enforcement paragraph) won't be enough to stop infringers and counterfeiters. Brands will be damaged as usual and Chinese consumers will remain in the hands of these pirates.

Single colour signs and sound marks

The new Article 8 requires for single colour signs that evidence of acquired distinctiveness is provided to the CTMO. It is not clear if this evidence can be provided during the examination procedure or only within the procedure for refusal in front of the TRAB (as happens now for three-dimensional trademarks).

Multi-class filing is allowed

The change seems welcome by the industry since it might reduce the cost for trademark owners. The official fee has not yet been disclosed, and neither is it yet clear what would be the benchmark for attorney fees in relation to trademark filing which involves—among other issues—dealing with the extremely complex sub-classification system.

Elimination of opposition appeals

The right to appeal against an opposition decision is limited to the trademark applicant and not available any more to the opponent. If the opposition is rejected, the trademark will

"THE AIC SHALL GIVE A HEAVIER PUNISHMENT TO THOSE WHO HAVE COMMITTED TRADEMARK INFRINGEMENT TWICE OR MORE WITHIN FIVE YEARS AND TO THOSE WITH OTHER ESPECIALLY SERIOUS CIRCUMSTANCES."

be registered and enforceable. The opponent whose opposition was rejected can initiate a cancellation action.

Deadlines for appeal

The current deadline of 15 days to appeal a decision from CTMO is extended to 30 days. The modification is welcomed by practitioners.

Examination opinion letter

According to the new Article 29, when the CTMO believes that examination should be supplemented with clarification or further documentation, an opinion letter will be issued. The applicant must reply within 30 days. The lack of reply will not cause withdrawal or rejection.

Concerns

Although the draft moves in the right direction, many concerns remain about the Chinese trademark system.

- **Too many trademarks registered with the CTMO.** The number of filings received by CTMO in 2012 was 1,502,540 and the number of registered trademarks was 919,951. The accumulated number of validly registered trademarks, according to the CTMO annual report issued on March 22, 2012, was 5,510,100. This situation could be linked to the fact that by not giving much legal value to the use of trademarks but only to filing/registration, even an entrepreneur with a local business needs to file and register a trademark with the Beijing Trademark Office.
- **Too low burden of use.** It is difficult to obtain the cancellation of a trademark due to its non-

use. While the People's Court has proved a fair judge in this regard, the CTMO and TRAB hold a 'pro-trademark' approach. It only requires a small amount of evidence of use to save the trademark from cancellation, with the effect that only no evidence of use will result in non-use cancellation.

- **Too strict recognition of well-known trademarks.** Due to the fact that in the past several companies have misused the recognition of well-known trademark provision, officers from the trademark office and judges have been very cautious in granting such status.
- **Too many bad faith applications/registrations.** Strict interpretation of the existing insufficient provisions from the CTMO and courts has greatly contributed to the development of a flourishing industry.
- **Too many fake products.** Chinese consumers are frightened by fake and low quality products. The streets of China and the rest of the world are inundated by goods originating from China which have unfortunately escaped scrutiny of the AIC and customs.
- **Decisions from the CTMO and TRAB are too simple.** The legal reasoning cannot be understood and assessed. ■

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Fabio Giacopello was winner of the ILO—Client Choice Award 2013, Trademark Category: China, is a recommended lawyer by *Legal 500* and mentioned by *MIP's IP Handbook*. He is a member of the anti-counterfeiting committee of INTA (China sub-committee), arbitrator at SHIAC (formerly called CIETAC Shanghai) and cooperates with institutions giving lectures about the Chinese and European IP systems.

ALL CHANGE: A BIG YEAR FOR IP LEGISLATION

The regulatory environment of IP in China is undergoing great improvement—a welcome change, according to Eric Su and Zhang Xu.

Following the deepening of theoretical research about IP and the accumulation of related practical experience, the Chinese government, the legislative body and industry are looking forward to the amendment and completion of IP laws. By the end of 2012, the drafts of amendments to several laws had been published and the related reviews and comments by the public have been collected. This article gives a brief introduction to the laws and regulations to be modified.

Among the laws to be possibly modified is the Trademark Law, which was last reviewed 12 years ago. The draft of the amendment has been submitted to the standing committee of the National People's Congress to be examined and passed for the first time. The amendments aim to adapt and be consistent with the continuous changes in the practice of IP in China. For instance, in the draft, sounds and single colours will be allowed to be registered.

Text reading "The application and use of a trademark shall be made in good faith" is introduced to discourage the phenomenon of

trademark squatting. The opposition procedure is modified to shorten the whole process of trademark registration, approval and dispute. The statutory damage threshold is raised from RMB500,000 (\$80,000) to RMB1,000,000 (\$160,000) to increase the cost for the infringers.

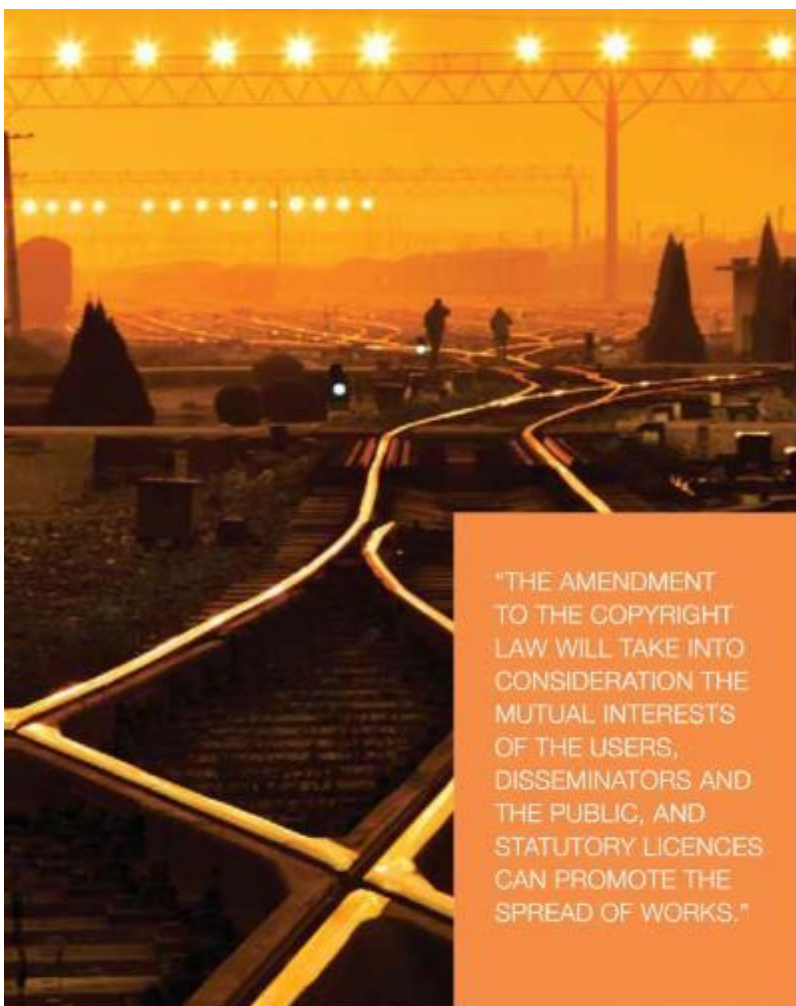
With reference to patent law, the State IP Office issued the Draft Amendment to the Patent Law of the PRC in August 2012. This amendment, together with the amendment to the Copyright Law and the third amendment to the Trademark Law, demonstrates the upsurge of specific legislation for IP in present China. The amendments this time mainly focus on strengthening administrative enforcement for patent and judicial protection, which can be summarised as follows.

First, they enhance the power of the patent administrative department to punish patent infringements which are suspected of disturbing the market order. Of course, now it needs to determine such patent infringements more explicitly. Second, the patent administrative

department is now authorised to determine the compensation for patent infringements.

In the current patent law, the patent administrative department can mediate on the amount of compensation claimed by the party, but cannot directly order the infringer to pay the damages. To solve this problem, the new draft states that during a patent infringement dispute, the patent administrative department can order the defendant to pay damages. This regulation is aimed at promptly protecting the legal rights and interests of patentees, avoiding vexatious suits, and coordinating with the 'three-in-one' trial (three trials combined into one) which is being trialled in some People's Courts.

Third, there are new obligations to coordinate with the patent administrative department about persons who are investigated for patent infringement. In other words, the patent administrative department can give a warning or submit a request for giving an administrative penalty when the infringer refuses or blocks the investigation.



"THE AMENDMENT TO THE COPYRIGHT LAW WILL TAKE INTO CONSIDERATION THE MUTUAL INTERESTS OF THE USERS, DISSEMINATORS AND THE PUBLIC, AND STATUTORY LICENCES CAN PROMOTE THE SPREAD OF WORKS."

Another core of the amendment to the Patent Law is to strengthen judicial protection. It is notable that the draft introduces a system of punitive damages against deliberate patent infringements. Depending on the circumstances, scope and damages incurred by an infringement, the patent administrative departments or the people's courts can determine compensation at up to three times the calculable damages or the profits from the infringement.

Borrowed from legislation in the US and other countries, this system of punitive damages is intended to enlarge the awareness of and toughen measures against infringements, and to encourage patentees to exercise their rights. The introduction of this system is meaningful, but we are waiting for other laws and regulations such as the implementing regulations of the Patent Law to give more specific definitions. For example, the definition of deliberate patent infringements, generally speaking, based on the purpose of punitive damages, should be limited to especially malign infringing behaviours.

On copyright, by the end of 2012 the National Copyright Administration of the PRC (NCAC)

had almost completed the draft of the fourth amendment to the Copyright Law and is now preparing to submit it to be examined and passed. In the draft, the scope of works has been enlarged: "works of applied art" will be protected by the law; the legal amount of compensation will be raised from RMB500,000 to RMB1,000,000; and a system of punitive damages will be introduced.

This amendment has caused controversy. For example, owners of rights protest against the new scope of mandatory licences, which they allege are too wide. However, legislative experts believe that the amendment to the Copyright Law will take into consideration the mutual interests of the users, disseminators and the public, and statutory licences can promote the spread of works, which would be favourable to the public.

Another example is that in order to discipline Internet service providers (ISPs), the 'safe harbour' principle and 'red flag' principle will be written into the law.

However, the draft fourth amendment to China's copyright law, which states that "ISPs who provide

CHINA DEVELOPMENTS

pure technical services are not liable to examine the content" weakens the right-defending effect when copyright holders face infringement committed by the network company. This regulation also hardly protects the fundamental interests of copyright holders because infringing Internet users are usually hard to identify.

In conclusion, the amendments mentioned above summarise the new problems and trends generally appearing in recent years, which enhance the protection of IP, and encourage brand development, technological innovation and creativity. Certainly, relevant implementing regulations need to be promulgated and combined with the practice to make the new amended laws more applicable. ■

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Zhang Xu specialises in IP strategy and problem solution by providing in-depth legal opinion and risk assessment, he is involved in handling trademark infringement, anti-counterfeiting, anti-trust and unfair competition matters. Zhang Xu's practice in China covers IP rights and other legal matters.

2014

HFG ARTICLES



PRE-FALL 2014

ELIZABETH AND JAMES AND GILES WERE IN THE SPOTLIGHT AS PRE-FALL NEARS ITS END. PAGE 3



MORE TROUBLE FOR SEARS

THE EMBATTLED RETAILER'S HOLIDAY COMP'S FELL 7.4 PERCENT. PAGE 2



PITTI ACTION

BUSINESS WAS BOOMING AT THE TRADE FAIR IN FLORENCE. PAGE 9

WWD

FRIDAY, JANUARY 10, 2014 \$3.00 WOMEN'S WEAR DAILY

Bottled Water

Bulgari is harnessing the power of the sea for its newest men's fragrance, Aqua Amara, a citrus successor to the original Aqua Pour Homme, which was launched in 2004. In the U.S., the fragrance will be carried in about 2,000 department and specialty store doors. Globally, it could do as much as \$34 million at retail in its first year on counter. For more, see page 4.



PHOTO BY JOHN AQUINO, STYLING BY SHANNON BEN

THE LONG LIZ WIND-DOWN

McComb Era Ends, Kate Spade Steps Out

By LISA LOCKWOOD

NEW YORK — William L. McComb, chairman and chief executive officer of Fifth & Pacific Cos., is stepping down after seven years at the helm. He will be succeeded by Craig Leavitt, coo of Kate Spade. F&P will undergo a name change to Kate Spade & Co., to reflect the company's monobrand focus.

It's been a controversial tenure for McComb, who oversaw the transformation of the company, which was previously known as Liz Claiborne Inc. When McComb took over in November 2006, Claiborne had about 40 brands and \$4.99 billion in sales. After a portfolio review, McComb quickly put 16 of the company's brands on the block — including Ellen Tracy, Dana Buchman and Sigrid Olsen — and reoriented the firm around four "power brands," which were Kate Spade, Juicy Couture, Lucky Brand jeans and Mexx. The firm, which last year generated about \$1.3 billion in revenues and has a market capitalization of \$3.96 billion, also sold its namesake Liz Claiborne brand to J.C. Penney Co. Inc., which had the license, and has since sold Mexx.

"All told, I was a wartime CEO," said McComb, in a telephone interview Thursday. "Any of us that led our companies through that very rough time in the world... We had our own travails that had nothing to do with the external market. You put those two together, and to hold a board together and to hold all the constituents like the banks and even the investment community, it's not easy. Did we make mistakes? Sure, but there were also things we had to do."

Following the sale of Juicy Couture and the completion of the Lucky Brand jeans deal this year, the company will be left with just one brand: Kate Spade, which generated \$742 million in sales last year.

In establishing the company, George Carrara, currently executive vice president, chief operating officer and chief financial officer of F&P, will be

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Dsquared2 Wins Key China Trademark Case

By LUISA ZARGANI

MILAN — Dsquared2 won its battle for China.

The brand secured the rights to distribute its collections in the country as a court in Hangzhou ruled it is "legitimately allowed" to do so — despite the fact that another company has trademarked the Dsquared label (without the 2 figure) and is selling counterfeit products under that moniker.

The ruling is vital to the brand's prospects in the gigantic consumer market and an important signal that Western brands can successfully argue their cases in the still-evolving Chinese legal system.

Dsquared2 was initially denied permission to trademark the brand in China in 2009 because the Nuobe group had registered the label three months earlier.

"We are facing a serial usurper," Roberto Franco, chief financial officer of Dsquared2, told WWD. "This verdict marks an epochal turnaround because it says that Dsquared's lettering and format is legitimate in China even if there is another brand registered under the same name."

According to Franco, Nuobe has registered in China more than 200 brands, including such names as C'N'C, Dior Homme and Iceberg. "After we had gone through all the possible administrative levels, in 2011 we decided to sue Nuobe for registration in bad faith and unfair competition and turned to the court of Hangzhou, which is known for its more modern views on intellectual property in China," said Franco.

The executive said Nuobe has opened stores copying the brand's products and lettering and the original

SEE PAGE 8

Foreign Beauty Brands Scale Back in China

By CASEY HALL
and MOLLY PRIOR

PROMISE AND REALITY don't always equate.

The China beauty market is maturing at a rapid pace, causing growing pains for multinational beauty firms. Companies increasingly find themselves competing against local brands and navigating a rapidly evolving retail channel where specialty chains and online retailers are gaining serious ground. South Korean brands, in particular, are gaining in popularity and putting pressure on Western beauty companies.

A number of foreign firms are finding it difficult to compete in China, prompting some to temper their enthusiasm for a market once considered the land of unending promise. Last week, Revlon Inc. said it would exit China altogether, and on Wednesday L'Oréal confirmed that it will stop selling its Garnier brand in the country.

Their actions are now raising questions about the state of China's beauty market for international players and what it takes to succeed there over the long term.

"The Chinese beauty market has matured, and the competition is stiff," said Paco Underhill, founding president of Envirosell, who has helped firms enter the market. "It's very important to pay attention. Companies have to focus on what the ground conditions are."

A common mistake that some foreign brands have made, said Underhill, is to sell the same products and assortment and expect the Chinese consumer to find it relevant. The key, he said, is to "focus on local market research and be sensitive to local beauty issues." For instance, he noted that Asian consumers' interest in skin lightening products has spawned ultraviolet product segmentation, such as items for underarm skin lightening.

Underhill said the surge of South Korean brands, naming in particular AmorePacific, is turning up the competition in China, and many of them are fronted by Korean pop stars and soap opera actresses.

"You cannot underestimate the impact of Korean pop music and soap operas across Asia,

they are a very powerful force, particularly on women," he said.

Though the \$22.8 billion Chinese cosmetics market doubled between 2008 and 2012, according to a report by Pung Group, a number of multinational beauty brands have indicated they are feeling the pinch in China, prompting beauty companies to view their prospects there through a different lens.

Both L'Oréal and the Estée Lauder Cos. Inc. continue to see ample opportunity in China. Fabrizio Freda, Lauder's president and chief executive officer, made Asia a key priority early in his tenure, which began in 2009. He is now laser focused on the development of China's tier-two, three and four cities, and likens the development of those areas to

in the Sixties. "There is potential for an enormous amount of people to be urbanized over the next five years," Freda told WWD's Beauty line in August, adding that one day consumption in tier-three cities will be "huge."

L'Oréal, for its part, has decided to pull its Garnier brand from China in a move that the company said will "enable its Consumer Products Division to accelerate its conquest of the Chinese beauty market."

Garnier accounted for just 1 percent of L'Oréal China's total sales of \$2 billion in 2012.

L'Oréal will focus its efforts on its two leading brands, L'Oréal Paris, the number-one beauty brand, and Maybelline New York, number-one makeup brand in China, said a company spokesperson.

Other beauty firms are taking a more cautious view on the market, as well. Procter & Gamble Co. recently indicated that its Chinese skin-care market share was declining, and Avon Products Inc. continues to struggle in China as it moves from a direct-selling sales model to retail boutiques. In its most recently reported quarter ended Sept. 30, Avon's total revenues in Asia-Pacific declined 22 percent to \$167.4 million, or 19 percent in constant currency. This was a result of the number of representatives decreasing across the region, and of Avon's exit from South Korea

and Vietnam, as well as a poor performance in China, where revenue slid 67 percent.

ConsumerEdge Research analyst Javier Escalante said that there are three factors creating pressure on multinational brands: Chinese customers are showing a strong preference for local brands and continually switching to new brands creating a great deal of brand rotation; online shopping is gaining steam — 20 percent of all cosmetics sales already take place on the Web — and specialty retail chains, which tend to showcase local brands, are gaining in importance. He noted that the growth of the online and specialty channels, where bold product claims abound across mass and luxury lines, could undermine brands' ability to control the shopping experience. But China remains an important market, driving more than 40 percent of the world's growth of premium skin care, said Escalante.

"The Chinese beauty market has matured, and the competition is stiff. It's very important to pay attention. Companies have to focus on what the ground conditions are."

— PACO UNDERHILL, ENVIROSELL

Many China-based analysts believe, in the case of Revlon at least, the failure to gain traction in the world's third-largest cosmetics market has less to do with a general slowdown in China than problems with the New York-based company's marketing, product and retail strategies in the country.

The growth may not be as explosive as seen in recent years, but the skin-care and makeup segments in China have increased in the past 12 months, 9.4 percent and 8.5 percent respectively from a year ago, according to Kantar Worldpanel China data. "The cosmetics market is very fragmented here, so you have to compete aggressively for consumers in this market. In Revlon's case, we see a serious lack of investment in this area compared with other international brands," said Jason Yu, general manager of Kantar Worldpanel China.

Another major issue is Revlon's lack of reach in such a fragmented market — of China's 100 cities with more than one mil-

lion inhabitants, Revlon could be found in only 50 Mainland China centers.

Yu, for one, believes the problem of reach has a lot to do with a lack of variation across retail channels, particularly a poor online presence in the world's largest online beauty market.

"In China, you need a more diversified mix of channels. Revlon was in the department stores in top-tier cities, but there was a lack of diversification in channel strategy. More online and specialist cosmetics stores should have been brought into that mix," he said. "I know they have an e-commerce store on Tmall, but it's about outperforming your competitors in all the channels. If you look at L'Oréal they have a full-out presence across all of the channels."



Revlon is exiting China.

cosmetics category is healthily growing, but it's a very competitive landscape and I don't see how you can break out without a huge investment or distinctive positioning."

Mintel's chief China market strategist Paul French is unequivocal in his assessment of Revlon's performance in China, saying the company's major failings were its unfocused positioning and product offerings in a country where international brands have done better at the premium end of the market and a wide palette selection is not as important in a society much less multicultural than many of its Western counterparts.

"Part of Revlon's problem is that the products they are looking to push worldwide are not products that are going to be very popular in China," he said. "Bringing over Olivia Wilde to China, who no one knows, to promote an age-defying product, is very weird to me."

Far from being another indicator that the Chinese beauty market is becoming more difficult for international brands to navigate, French sees L'Oréal's decision to discontinue Garnier in the market as exactly the kind of specific, high-end positioning that has seen L'Oréal become the dominant international player in China.

"L'Oréal is going to do fantastically in the high end. Garnier is really like a Revlon-type product. Elsewhere in the world, it's a supermarket brand and it's not going to sit well in the high end, so it makes sense for L'Oréal to dump Garnier and concentrate on where there is money to be made," he said.

Despite Revlon's decision to leave China at this point, analysts such as Yu aren't convinced this is the end of the line for the cosmetics giant in such an important market.

"I think their move now is about stopping the bleeding, calling for a time-out and then maybe coming back with a different mix of marketing, product and retail channel strategies," he said, pointing out that other international brands have taken a time out from China before making a comeback.

"Multinational companies tend to be smarter the second time around," he added.

— WITH CONTRIBUTIONS FROM JENNIFER WEIL

Dsquared2 Secures Crucial China Ruling

(Continued from page one)

Dsquared2 layout, including the wooden elements and lamps with antlers evocative of Dean and Dan Caten, the Canadian twins who founded the company in 1995.

"They even add the Caten names on the labels," said Franco. "The limit was that the trademark office was merely looking at the registrations. This sentence now shows that a brand's notoriety can help identify a company that is acting in a disingenuous way."

Franco also credited Mario Boselli, head of the Italian Chamber of Fashion, for creating a link between the Italian and Chinese embassies, "activating the

diplomatic channels, and allowing us to discuss this at a European level, working with the ministry of commerce in China in promoting new laws on intellectual property." The Hangzhou court's decision allows Dsquared2 to keep the brand's stores open and continue its retail expansion in China, which has been slowed down by the legal battle, said Franco.

There are now five stores in China, including two in Shanghai, one in Beijing, one in Nanjing and one in Hangzhou. In 2014, the company plans to open boutiques in Chongqing and Chengdu.

"Now we have new material to return to the trademark office. This is the first

time that a Chinese court issues such a verdict," said Franco, adding that the Nuobe group has appealed the sentence. "We are going to resist."

Franco also said that Dsquared2 has been counting "on a very important support from the malls that know the true story and have supported us even if the brand's situation was not clear. This has allowed us to choose the best locations and partners." Asked if the brand has been entangled in other legal controversies, Franco said it has faced "similar issues" in South Korea and Thailand that were quickly resolved, "in less than 12 months."



Dean and Dan Caten

Dsquared2 China appeal set for 2014

10-01-2014



Dylan Armajani / Shutterstock.com

An appeal against a favourable Chinese trademark decision for fashion brand Dsquared2 should be heard in the next six months, the company has confirmed.

Fabio Giacobello, partner at Chinese law firm HFG, who represents the [Italian company](#), told *WIPR*

that he expects the appeal, filed by Chinese company Dsquared, to be heard before June 2014.

In September last year the Hangzhou Intermediate People's Court ruled that Dsquared2 was not infringing an existing trademark (covering apparel) for "Dsquared".

Dsquared2 has one registered trademark in China but its scope is limited to raincoats in class 25. Other specifications have been rejected so far.

The case arose after the Beijing First Intermediate People's Court, in 2011, rejected Dsquared2's trademark application (in the remaining class 25 specifications) because of Dsquared's registration.

Dsquared2 is trying to invalidate the Chinese company's mark, which has since been used by Dsquared to sell apparel goods, but the proceedings are pending at the Beijing trademark office.

The Hangzhou court ruled that there would be no confusion between the two brands and therefore no infringement on Dsquared2's behalf, leaving the company to sell goods other than raincoats in China.

"It is now safer to commercialise our trademark," Giacobello told *WIPR*.

He said that for many years brands have been "squatted or pre-empted" in China, and that this is perhaps the first time a company has won a ruling of non-infringement against an existing Chinese trademark owner.

"I think this is the first case like this in China – I can't be 100 percent – but this approach is surely rare."

He added: "What I have learned about China is that things don't happen by chance: there's always something behind the scenes. This is not a crazy decision; it was probably discussed between several judges.

"Hopefully it will be confirmed on appeal," he said.

Dsquared2 was founded by twin brothers Dean and Dan Caten.

8 gennaio 2014

Dsquared2 vince la battaglia cinese per la tutela del marchio. Il logo dell'azienda era stato usurpato da un concorrente locale

di Laura Cavestri

Milano -Dsquared2 vince il primo round in Cina contro l'usurpazione del proprio marchio. L'azienda di moda italiana – fondata nel 1996 dagli stilisti gemelli (canadesi di origine italiana) Dean e Dan Caten – si è vista, infatti, riconoscere, da un tribunale di Hangzhou (con sentenza di primo grado), il diritto a commercializzare in Cina i propri capi di abbigliamento con lo stesso marchio utilizzato nel resto del mondo. Cosa sinora impossibile perché il marchio, alcuni anni fa, era stato già registrato nel Paese, presso l'Ufficio brevetti, ma da un cittadino cinese (una società dello Zhejiang). In pratica, "usurato" da un estraneo – di solito un operatore che poi vende prodotti contraffatti – e che, in questo modo, sbarrava la strada alle aziende straniere "legittime titolari" (in Italia e in Europa, non solo nella moda, il fenomeno è ben noto) di poter registrare i propri brand, perché già utilizzati da soggetti locali.

La legge cinese, tradizionalmente, non si preoccupa di chiarire chi è davvero titolare di un diritto all'utilizzo di un marchio, chi lo ha utilizzato per primo e su questo ha guadagnato la propria reputazione, ma solo chi lo ha registrato per primo all'Ufficio nazionale dei brevetti. Con il paradosso, per i grandi brand internazionali, di trovarsi loro accusati di violazione di marchio.

Nel caso specifico, la Corte cinese, analizzando i due loghi e le 8 lettere latine in cui sono scritti, in base alla Legge Marchi cinese, riconosce la loro scarsa somiglianza (le lettere ci sono tutte ma il logo degli stilisti ha caratteri quasi "rettangolari" mentre i caratteri usati dall'azienda cinese sono piuttosto allungati e quasi "appuntiti"). In questo modo, la Corte di Hangzhou stabilisce che l'effetto visivo, anche a un consumatore cinese che non conosca l'inglese, «è sufficientemente diverso e la possibilità di confondere i due loghi assai scarsa».

«In pratica – ha spiegato Fabio Giacobello, legale di Hfg Law Firm che ha difeso Dsquared2 nel contenzioso – secondo i giudici di Hangzhou non c'è rischio di confusione tra i due marchi, che potranno coesistere. Dunque, non c'è violazione. Questo consentirà alla casa di moda italiana di utilizzare la propria etichetta originale per vendere i propri capi in Cina». La sentenza, ha aggiunto Giacobello, «non si rifà ancora alla nuova Legge Marchi approvata in Cina ad agosto 2013 e che sarà in vigore da maggio 2014. Tuttavia, la sentenza sembra segnare un cambio di passo». Nel 2011, infatti, il Tribunale di Pechino aveva già rigettato un ricorso di Dsquared2 proprio sulla base dell'unica motivazione secondo cui un marchio analogo era già stato registrato. La Corte di Hangzhou, invece, ha fatto un passo avanti. La controparte ha già presentato ricorso. La sentenza di appello dovrebbe arrivare a metà del 2014.

«Questa sentenza – commenta Cesare Galli, docente di Diritto industriale all'Università di Parma - di fatto limita il rischio che in Cina i prodotti con marchio originale vengano bloccati su richiesta del soggetto cinese che lo ha registrato abusivamente, a meno che i segni non siano proprio identici, nel qual caso però dovrebbe essere più facile provare la malafede del soggetto cinese. Si tratta però di un'arma a doppio taglio,

perché se si ritiene che bastino minime differenze a evitare la contraffazione, il marchio originale e quello molto simile del titolare cinese potranno convivere e inevitabilmente verranno confusi o comunque determineranno un agganciamento parassitario: questo invece è proprio ciò che il diritto dei marchi ha il compito di evitare, come anche in Cina sta cominciando a venire affermato sempre più di frequente. E' questa, più che quella indicata da questa sentenza, la strada da seguire, e lo sarà ancora di più a partire dal prossimo 1° maggio, quando entrerà in vigore la riforma della legge marchi cinese».

8 gennaio 2014

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UN launches anti-counterfeiting drive

14-01-2014



A United Nations office has launched a new campaign aimed at raising awareness of the dangers of counterfeit goods and their links to crime.

The campaign, *Counterfeit: 'Don't buy into organised crime'*, has been launched by the United Nations Office on Drugs and Crime (UNODC).

Its message is to "look behind" the production of counterfeit goods and to make consumers

understand the ramifications of the trade, which it says amounts to \$250 billion per year.

The campaign will begin today, January 14, with a public announcement and video which will be broadcast in the heart of New York City, Times Square.

It will then be shown on several international television stations.

"In comparison to other crimes such as drug trafficking, the production and distribution of counterfeit goods present a low-risk/high-profit opportunity for criminals," said Yury Fedotov, UNODC's executive director on the day of the campaign's launch.

In a press release, the UNODC describes counterfeiting as a crime which touches "virtually everyone in one way or another" and that counterfeit goods, whether drugs or consumer products, can pose a serious risk to health and safety.

"Consumers are at risk from unsafe and ineffective products and faulty counterfeit goods can lead to injury and, in some cases, death," it said, adding that vehicle tyres, brake pads and airbags, aeroplane parts and baby formula were among the different items which have been counterfeited.

Fabio Giacobello, partner at Chinese law firm HFG in Shanghai, said that as an IP practitioner he "warmly welcomed" the initiative.

"IP disputes that relate to fighting counterfeit smuggling are among the less pleasant to deal with. Indeed we are forced to face criminals and often we have not enough tools to do so," Giacobello told *WIPR*.

The campaign also highlights risks attached to buying counterfeit medicines and drugs, adding that the sale of fraudulent medicines from East Asia to South East Asia and Africa amounts to \$5 billion per year.

"At the very least, fraudulent medicines have been found to contain no active ingredients, while at their worst they can contain unknown and potentially harmful chemicals," it said.

The UNODC also highlights a link between the counterfeiting trade and organised crime.

"From exploited labour being used to produce counterfeits, through to the harmful and potentially

deadly dangers attached to these goods ... counterfeiting is a crime that affects us all," it said.

Fedotov added: "Counterfeiting feeds money laundering activities and encourages corruption. There is also evidence of some involvement or overlap with drug trafficking and other serious crimes."

Giacopello added: "Another point to mention would be the role of China in this business of counterfeits smuggling. China is a big player, producer and exporter, probably having a relevant market share in this \$250 billion business."

However, Giacopello added that he expected the new Chinese leadership, which took over in 2012, to do more than past leaders to tackle the issue.

The UNODC has encouraged the public to view the video and use communications including social media, mailing lists and webpages to share it.

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How to protect packaging under Chinese law

While passing off is on the rise in China, legal instruments are available to guard against it. A coordinated strategy should use different IP laws to provide comprehensive protection

The way that products are packaged plays an increasingly important role in today's marketing landscape. A walk down the aisles of any retail store confirms this: original shapes, special colour combinations, bright logos and inventive labels all illustrate the importance that marketers place on the aesthetic appeal of packaging. The aim is to create a strong visual impact to attract potential buyers and lure them away from competing products.

As a consequence, packaging has become a valuable asset for brand owners, both because of the role it plays in product recognition and because of the creativity and substantial financial investment required to develop a unique and distinctive container that will help promote market recognition.

The rise of passing off

Passing off is becoming more common around the world and China is no exception. With a growing middle class and more affluent consumers willing to pay for quality and product integrity, Chinese consumers have developed stronger brand awareness, resulting in increased brand loyalty. At the same time, more and more products – both foreign and local – are entering the market, resulting in more and more purchasing options. The way that companies package their goods can play a crucial part in the purchasing process and in some sectors has become critical to success.

As a result, however, packaging is increasingly being copied by Chinese competitors in a wide variety of sectors, from food and beverages to cosmetics and oil lubricants. This phenomenon is apparent in the growth of blatant copies where brand owners' rights are clearly infringed, as well as in less obvious forms of copying, where original products are subtly called to mind in a way that still takes unfair advantage of the distinctive character of the original packaging and the reputation of the original goods.

In the West, some sectors are all too familiar with the phenomenon of passing off. Owners of strong and successful brands in the food and beverage sector, for example, have long had to deal with subtle forms of copying by low-cost retailers, which

commercialise competing products under their own brands, but with packaging that clearly refers to the original product. By doing this, retailers indirectly communicate comparability with the original product and free ride on the original goods' reputation to benefit from their power of attraction.

The same thing is now happening in China, forcing brand owners to respond if they do not want to lose market share to poor copies of their products wrapped in clever copies of their packaging.

The good news is that packaging can be protected in China. However, this requires careful planning and the implementation of a well-thought-out strategy. This article examines what the Chinese legal landscape has to offer in this regard. As we shall see, a coordinated strategy incorporating a combination of different IP laws can result in comprehensive protection through the creation of a bundle of IP rights that Chinese courts are increasingly willing to enforce.

Coordinated strategy to create bundles of rights

A variety of laws can be used to protect packaging: the Trademark Law, the Patent Law, the Copyright Law and the Anti-unfair Competition Law can all play a part, each serving different goals. Trademarks protect the origin of the packaged goods, design patents the external aspect of packaging and copyright the interests of the authors in their works, while both invention patents and utility models can be used to protect a container's technical features. Finally, the Anti-unfair Competition Law can be invoked to protect the overall appearance when packaging is clearly perceived by consumers as identifying a product's origin.

It is therefore crucial that rights holders understand what elements of packaging can be protected and how to achieve this. Some features need timely registration, while others require continuous use, intense promotion and substantial investment.

Protecting packaging through trademark law

A registered trademark is the first form of protection that comes to mind when considering packaging protection. The most common marks – such as logos and brands in Latin or Chinese characters – can be registered under the Trademark Law. In addition, rights holders can apply to register non-traditional marks such as slogans, three-dimensional (3D) signs (eg, the shape of packaging) and colour combinations (although not single colours, as confirmed by the new Trademark Law of August 30 2013 – even though this was expected by many). Combinations of some of these elements can also be registered.

Trademark law thus offers a broad scope of protection, since almost any sign capable of distinguishing the goods of one provider

from those of others can be registered and protection granted to the most distinctive elements of packaging. The protection afforded by trademark law can be perpetual (the initial 10-year term can be renewed indefinitely for further 10-year periods), and no conditions of novelty and creativity need be met (as is the case for design patents).

However, distinctiveness may be difficult to prove for non-traditional marks and such applications are examined very strictly by the Chinese Trademark Office. Proving that these signs are capable of serving as an indicator of origin – either inherently or through extensive and long-term use (acquired distinctiveness) – remains a challenge. Hence, registration has been granted only to a select few 3D marks. The same applies for colour combination marks, where applicants must usually prove acquired distinctiveness with evidence of extensive and long-term use.

Even though these signs remain difficult to register, recent court decisions suggest a growing willingness to protect packaging-related trademarks, including 3D marks covering the shapes of bottles of alcoholic beverages. On October 8 2013 the Fuzhou Intermediate People's Court decided in *Hennessy v A-shali* that trademark rights in the shape of the Hennessy VSOP Cognac bottle had been infringed by a local import company. The court held – on the basis of the 3D trademark application materials (although the notoriety of the HENNESSY and corresponding XUAN NI SHI word marks helped in that regard) – that Hennessy had widely used, advertised and promoted its 3D bottle mark, and that due to the high similarity of the shapes at stake, Hennessy's mark had been infringed.

Regarding colour (combination) trademarks, John Deere successfully enforced its yellow and green trademark, which was registered for agricultural machines, against Chinese competitors selling harvesters with green bodies and yellow rims. In its decision of December 24 2013 the Beijing Number 2 Intermediate People's Court found that infringement had taken place, referring to the trademark application materials, which illustrated the colour combination arrangement that the defendants had reproduced on their own machines (green for the machine body and yellow for the rims). Damages were awarded (around €55,000), although the decision is now under appeal. It remains to be seen whether the higher court will confirm the infringement.

Registering and enforcing less conventional signs is thus possible and can be critical to protect packaging in China. However, it remains a difficult exercise, which largely depends on the renown of the signs and related products at stake. Therefore, rights holders should carefully document the use of their trademarks in China and collect information pertaining to market share, sales volumes, the importance and scale of marketing and promotional campaigns and any other facts that might help establish the renown of their brands. This can considerably improve their chances of successfully

registering and enforcing such marks and benefiting from their investments, as well as from the substantial growth of brand awareness in the Chinese market.

Protecting packaging through patent law

Chinese patent law recognises three types of patent, all of which can be used to protect packaging.

Invention patents and utility models

These can be used to protect the technical features of packaging. For example, a new and inventive cap for a salt container incorporating a special spout could be protected, provided that the patentability requirements are met (ie, novelty, inventiveness and industrial applicability).

Design patents

These can be used to protect the visual characteristics of packaging, such as shapes or other visible attributes (eg, patterns or colours) or a combination thereof. To enjoy protection in China, designs must be new compared to previous designs (ie, not identical) and meet the creativity requirement (ie, they must be substantially different from prior designs or a combination of features of prior designs). Registration is relatively inexpensive and straightforward (there is no substantive examination of patentability, unless the examiner has good reason to believe that the design lacks novelty), and can be completed within six to 12 months. Once granted, the term of protection is 10 years from the filing date (its European counterpart, the Community design, enjoys protection for up to 25 years).

Chinese law prohibits the registration of two-dimensional (2D) design patents that mainly serve as indicators of origin. However, a pattern that helps consumers to distinguish the goods while also having a strong ornamental effect is patentable. Therefore, packaging containing trademarks can be registered as a design patent, provided that it cannot be considered to be mainly an indicator of origin.

The novelty of designs must be absolute, and the use or publication of a design anywhere in the world will destroy its patentability in China. As a consequence, it is imperative to plan ahead and take this into account from the beginning of the filing strategy. This is underlined by the absence of a grace period in the Chinese design patent regime (China has only a limited six-month grace period for statutory defined non-prejudicial disclosures), and differs from the registered Community design regime, where an application can be validly filed within a 12-month period starting from the first marketing of the product.

As such, 2D (patterns) and 3D (shapes, or shapes and patterns) elements of packaging may thus be protected by Chinese design patents. In a March 25 2013 decision, *Beauty Cosmetics v Mr Niu*, the Shanghai Number 2 Intermediate Court found that containers of facial masks were similar to a patented design owned by Beauty Cosmetics. After assessing the overall visual effects of the packaging at stake, the court decided that the front view of the packaging (ie, that presented to potential consumers) bore a high similarity to that of the design patented package and fell within its scope. The court concluded that the design patent had been infringed and granted injunctive relief and (limited) damages.

This case confirms that Chinese design patents can be a useful addition to trademarks when it comes to protecting packaging. Since protection for 3D trademarks can be difficult to obtain, a workable strategy can register the 3D packaging shape as a design patent (which is easy, quick and cheap) first in order to obtain exclusive rights for 10 years, during which trademark distinctiveness can

“While the cost of securing protection may discourage smaller players, results can be achieved in China for limited expense”

be acquired. If successful, this allows the rights holder to obtain exclusive rights from the start, followed by potential perpetual protection once trademark rights take over upon the expiration of the design right.

Protecting packaging through copyright law

Copyright is an interesting tool for protecting exclusive rights in packaging. The object of protection is broad and can cover several features, such as drawings, photographs, original shapes, logos, labels, ornamental features or works of applied art or fine art (ie, 2 or 3D visual works that communicate a certain aesthetic effect). The term of protection is lengthy (generally 50 years from the date of creation), confusion need not be demonstrated to prove infringement and protection is automatic and not limited by territory. Indeed, as China is a signatory to the Berne Convention, any original feature of packaging will be protected upon its creation, even if it is created outside China.

China has established a voluntary registration mechanism through the National Copyright Administration, which grants *prima facie* evidence of ownership and the date of creation. A registration certificate is required by courts or administrative agencies if they are asked to enforce copyright, so registration is recommended and proactivity is a prerequisite.

Copyright protection for packaging delivers results, as evidenced by a January 18 2011 decision of the Nanning Qingxiu District People's Court. The court decided that the copyright covering moon cake packaging owned by Wise-plan Co Ltd – a company specialising in the creation of food packaging – was infringed by Wharton Restaurant Co Ltd (to which Wise-plan had sent some samples). Wharton had commercialised moon cakes wrapped in similar containers and was sued for copyright infringement. After carefully analysing both the similarities and differences, the court found that many similar elements were present in the packaging of both products, and that the few differences were minor and not discernable to a normal observer. Hence, the packaging was considered substantially similar and Wise-plan's copyright was found to have been infringed. Injunctive relief and monetary damages were awarded.

Protecting packaging through the Anti-unfair Competition Law

The Chinese regulations on unfair competition define 'packaging' as "an auxiliary object or a container for a commodity making the commodity easy to identify, carried about, stored and transported". The fact that the identification function is specified is significant.

The Anti-unfair Competition Law can be invoked to protect the appearance of the packaging taken as a whole (trade dress). Article 5.2 expressly forbids the use of packaging that is identical or similar to the packaging of a well-known product, if the similarity will create confusion or cause consumers to mistake the source or make a wrongful association with the well-known product.

According to the Supreme People's Court in Case 16/2010, protection will be granted only when proof is given that the packaging's appearance has distinctive features, a reputation of its own and acquired distinctiveness through market use with evidence of secondary meaning. The packaging must thus be clearly perceived as identifying the source of the product (mere reputation of the product is insufficient), and trade dress protection will be available only after intensive use, extensive advertising and market success.

In its December 15 2011 decision in *Sunstone v Shengde* – which involved two local pharmaceutical companies using similar boxes to commercialise a specific children's medicine – the Guizhou Higher People's Court held that Shengde's imitation of the original box



In 2013 the Fuzhou Intermediate People's Court decided in *Hennessy v A-shali* that trademark rights in the shape of the Hennessy VSOP Cognac bottle had been infringed by a local import company

constituted an act of unfair competition and violated Article 5.2 of the Anti-unfair Competition Law. The court held that the original product was famous and that Sunstone's box was unique due to its distinguishing characteristics (ie, yellow background, a well-known word mark, a representation of six dolls in Chinese traditional clothing and a distinctive selection and combination of all these elements). Confusion would arise when consumers encountered both boxes because of their configurations, arrangements, colour

schemes and similar distinctive features. Hence, the defendant's box violated Article 5.2.

Another provision of the law can play a role in protecting packaging when the confusion requirement is difficult to prove. Article 2 prohibits activities by business operators that damage others' legal rights and interests, disturb the socio-economic order and violate the law's provisions. In view of the intrinsic value of packaging and the substantial financial investment required to develop unique and distinctive packaging – as well as to advertise sufficiently for the packaging to enjoy market recognition – it may be argued that copying the overall appearance of packaging violates the principle embodied in Article 2 if the copier unfairly takes advantage of such investments. Though not easy to prove, the general principle embodied in this provision may therefore be invoked.

Long-term, multi-step strategies

While different laws can be used in combination to create a bundle of rights that can effectively protect the way that goods are packaged in China, careful planning and a sound understanding of the Chinese legal landscape are crucial. The specific grounds to invoke will depend on what feature is copied (eg, the shape of the packaging, overall appearance, unique composition, label, logo, word mark or technical feature) – all have different requirements to secure protection and establish infringement.

The definition of such a strategy requires involving a variety of talents and will include the legal team, as well as the marketing

and creative teams responsible for designing the packaging. Rebranding might be necessary to adapt to the local market, but a packaging redesign might also be required to meet the Chinese protection criteria (eg, adding specific logos or distinctive features, or redesigning the shape to meet the design patentability requirements).

It is recommended that all documents related to the creation of the packaging be kept for evidence purposes (eg, the design agreement, the designer's explanation of the creative process, initial sketches, draft versions and other records), as well as evidence of first use or disclosure (eg, printing agreement, first advertisement or first invoice). In addition, during the whole Chinese lifecycle of the product, detailed records should be kept of advertising, sales volumes, market share and use of the related IP rights, as evidence of reputation may be critical to secure registration and enforcement (generally, this helps in all enforcement efforts).

Of course, many challenges remain, including the sophistication of copied packaging. While the cost of securing protection may discourage smaller players, results can be achieved in China for limited expense. Registering the most distinctive trademarks, recording copyright in part or in the overall packaging and registering a new container shape as a design patent can all lead to positive outcomes for a reasonable price. Such a portfolio can then be supplemented later, if this is deemed worthwhile from a business perspective. [USA](#)

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La Cina è servita

Colloquio con Nicola Aporti, avvocato italiano da anni a Shanghai e autore di un'interessante traduzione delle complesse norme vigenti sugli alimenti: un compendio utile a chi vuole affrontare il grande mercato asiatico

Due interessanti diapositive fotografano bene alcuni piani dello sfaccettato e cangiante prisma cinese. La prima è contenuta nel dodicesimo Piano quinquennale, varato nel 2011, che pone l'accento finalmente sui consumi interni, finora messi in secondo piano rispetto agli investimenti diretti esteri, al risparmio nazionale e alle esportazioni. Un desiderata governativo destinato a cambiare la storia economica del Celeste impero, indirizzando la nazione e i suoi cittadini verso un sentiero di



Nicola Aporti

★ Il Celeste Impero in pillole

Superficie	9.596.961 km2, 32 volte l'Italia, 3 volte l'India
Superficie arabile	14,86%
Foreste	22,2%
Popolazione	1,344 miliardi di persone 22 province, 5 regioni autonome, 4 municipalità

Fonte: Intesa Sanpaolo Servizio studi e ricerche

crescita equilibrato e sostenibile e una maggiore prosperità diffusa, per l'effetto calmieratore sul Pil che la spesa per consumi ha rispetto ad altre componenti.

La seconda riguarda la necessità impellente di migliorare la sicurezza alimentare, storica causa di malattie e morti a tutte le latitudini del grande stato asiatico per le centinaia di scandali e truffe intorno agli alimenti prodotti e venduti nel Paese. Tanto impellente che tra i settori incentivati dal Piano elaborato dal Consiglio di Stato (il governo cinese) ci sono le tecnologie per migliorare le produzioni agricole e le tecnologie di produzione degli alimenti.

Il film che si produce mettendo in movimento queste due diapo-

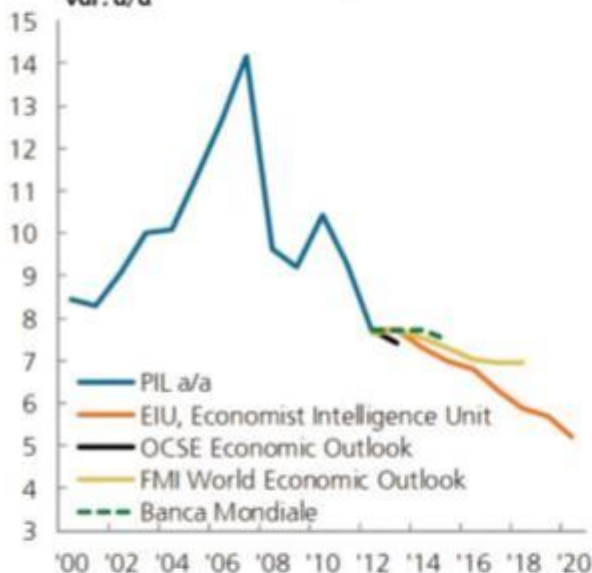
sitive dovrebbe essere di grande interesse per le imprese alimentari italiane, e non solo. Ma il mercato cinese, agognato un po' da tutti, resta uno dei più complessi per chi vuole esportare, tanto più nel food & beverage, che resta un settore molto protetto a vantaggio delle società interne. Il cibo italiano, però, gode di grande considerazione e questo dovrebbe spingere le nostre imprese a superare le oggettive difficoltà per conquistare un mercato atteso in grandissimo sviluppo, magari anche con una presenza produttiva in loco come ha fatto, per esempio, Grandi salumifici italiani per superare i divieti di import di insaccati. Di alcuni aspetti legati a queste problematiche, Food ne ha

parlato con Nicola Aporti, avvocato presso lo studio legale cinese Hfg (uffici a Shanghai, Pechino, Guangzhou) e autore del libro *Guida alla normativa dell'industria alimentare in Cina*, edito da Food Editore in collaborazione con Finservice, uno dei primissimi testi italiani che cerca di far luce nel complesso sistema normativo cinese in materia agroalimentare. "Per le aziende alimentari italiane esiste un potenziale non sfruttato molto elevato - spiega Aporti -. Il cibo made in Italy è percepito come molto sicuro e questo ne accresce l'appel in un Paese dove la situazione della sicurezza alimentare in alcune province è addirittura catastrofica. Questo è il motivo per cui da qualche anno a questa parte il Congresso del popolo ha iniziato a legiferare in materia, con l'obiettivo di migliorarne gli standard. Il corpus normativo che ne è nato è ormai paragonabile a quello europeo per complessità e va approfondito molto per non incappare in errori o mancanze capaci di vanificare qualsiasi sforzo commerciale". Da un lato, quindi, c'è una richiesta potenziale non soddisfatta,



Export

Cina: crescita del PIL e previsioni



Fonte: Thomson - Reuters Datastream - ordinata: variazioni % crescita PIL / anno: anni

dall'altro gli standard di sicurezza e informazione si sono alzati, rendendo meno semplice l'approccio al mercato. Ma per le imprese italiane non dovrebbe essere questo il principale problema.

"Bisogna tenere presente che la Cina, come molte altre grandi economie emergenti, ha ancora un atteggiamento protezionistico verso alcuni settori produttivi e l'alimentare è uno di questi. I controlli sulle imprese straniere possono essere più stringenti e non è inconsueto scoprire che dietro a tanta rigidità si nascondano poi richieste di denaro per favorire attestazioni di conformità o lasciapassare, qualora ci siano anche problemi di modesta entità. Per questo motivo bisogna essere molto precisi nel seguire le varie prescrizioni e molto decisi nel difendere in sede legale le proprie ragioni, se se ne hanno e se non si vuol cadere nella rete di qualche amministratore corrotto. Con le amministrazioni è comunque ne-

cessario avere un dialogo molto franco e aperto". La corruzione resta ancora una piaga importante delle amministrazioni cinesi, ancora in coda alle classifiche stilate dalle organizzazioni internazionali.

La pratica delle richieste di denaro, però, non si ferma solo agli amministratori corrotti: "Il sistema cinese, mutuando quello anglosassone, prevede il cosiddetto 'danno punitivo' per i prodotti che abbiano vizi commerciali o sanitari, per cui si può ottenere come compensazione fino a dieci volte il prezzo pagato. Esistono schiere di cosiddetti professional consumer che vanno a caccia di prodotti con etichette, imballaggi, formulazioni, slogan e promesse non conformi a ciò che è venduto e alle norme cinesi. Quando li trovano riescono a stoccare anche grosse quantità di prodotto che talvolta utilizzano per 'minacciare' le imprese di una causa, che si può evitare

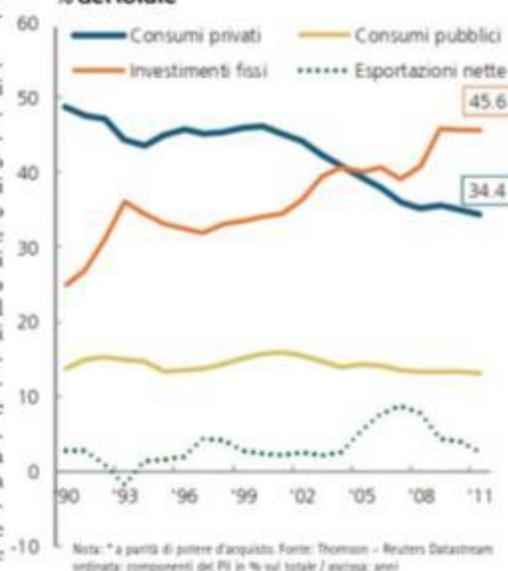
pagando loro una somma sotto-banco. In un caso un'azienda che aveva effettivamente sbagliato un coupon allegato al prodotto ha preferito autodenunciarsi in una provincia dove la multa era di entità più lieve che non cadere nella sanzione di un danno punitivo di cui non era chiara l'entità complessiva". Un vero e proprio ricatto, che può diventare un'estorsione e che dà il senso di quanto occorra essere puntuali nell'approccio a questo mercato.

Indispensabile registrare marchi e brevetti

La protezione di marchi e brevetti e il monitoraggio delle contraffazioni sono altri due nodi fondamentali da sciogliere per avvicinare il mercato cinese: "È indispensabile registrare i marchi sia

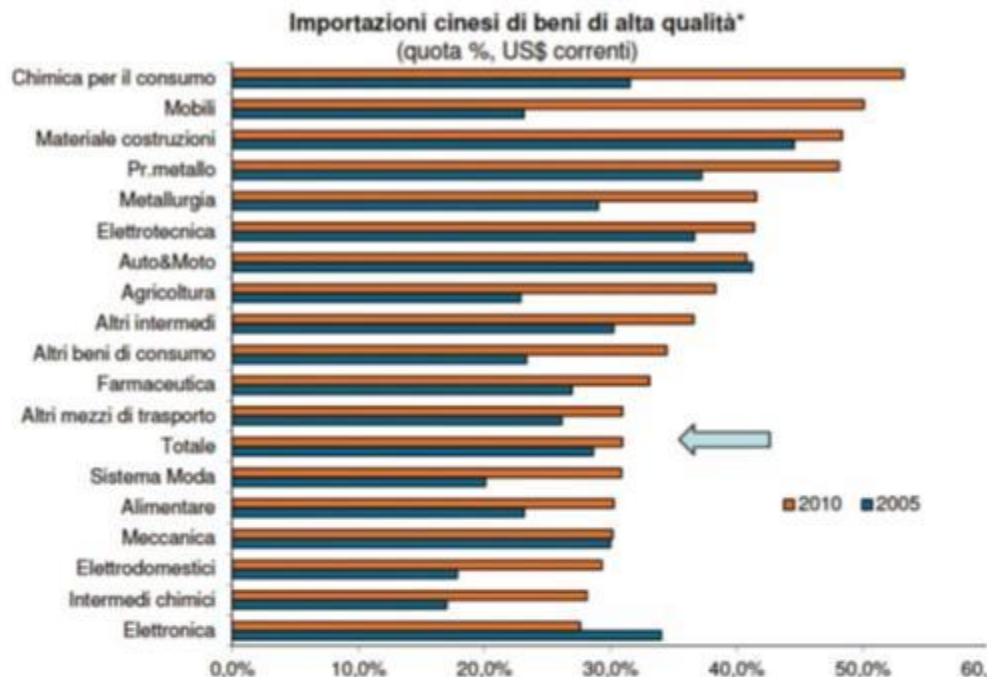
Nonostante il periodo di turbolenza generata da problemi nel settore finanziario del cosiddetto "shadow banking" le attese per la crescita del Pil cinese sono ancora buone e pari al 7% nel 2014. Il governo, col piano quinquennale si auspica però che inizi a crescere la quota generata da consumi interni

Cina: composizione del PIL % del totale



Nota: * a parità di potere d'acquisto. Fonte: Thomson - Reuters Datastream
ordinata: componenti del Pil in % sul totale / anno: anni

Export



* Esclusi beni energetici e servizi. Fonte: Intesa Sanpaolo su dati BACI

in italiano sia in cinese, scegliendo un'intelligente traslitterazione, già prima di arrivare sul mercato per non avere la pessima sorpresa di trovare qualche produttore che lo ha fatto prima, se non lo stesso distributore, infedele, cui ci si affida per lo sviluppo delle vendite. In questo caso è poi, di fatto, impossibile recuperarlo perché il sistema protegge il primo che deposita il marchio e non l'effettivo proprietario. Anche se si tratta di un presunto 'marchio notorio', perché l'onere della prova ricade sull'azienda proprietaria ed è difficile provare l'effettiva notorietà del brand. Ferrero ha vinto una causa contro un contraffattore del suo Rocher dopo una battaglia decennale (è stata una causa celebre per un prodotto di successo occidentale, ndr) non perché ha provato la contraffazione del marchio, bensì la concorrenza sleale dell'azienda cinese. Il monitoraggio dev'essere

costante e internet, dove passano molte transazioni commerciali, è un mezzo efficace per tenere sotto controllo i furbi".

Ci sono settori particolarmente appetiti? "Il latte in polvere, oggetto di moltissimi scandali (si ricorderà il latte alla melamina

Pur non essendo uno dei primi settori, le importazioni cinesi di alimentari di qualità rappresentano il 30% circa del totale con un trend in crescita e ottime opportunità. La quota italiana è ancora bassa sul totale, ma il cibo italiano gode di ottima considerazione

che nel 2008 causò la morte di sei bambini e l'intossicazione di altri 300mila, ndr) rappresenta un business colossale, così come tutti gli healthy food che però hanno norme molto rigide di approvazione dei claim funzionali e salutistici (talvolta bypassati, ndr). Altro settore molto rigido è quello degli additivi, per i quali le norme sono diventate stringenti". I controlli funzionano? "I problemi sono nati dal cattivo funzionamento dei controlli sanitari, ma la legislazione degli ultimi anni sta cercando di porre rimedio. Esiste un problema di corruzione che si interseca a quello dei controlli, con effetti non sempre chiari".



NON-
INFRINGEMENT
DECLARATIONS

A case study in declarations of non-infringement

Fabio Giacopello and **Eric Su** of **HFG** recount a recent case that tested non-infringement declarations before the courts, and offer advice on when and how to apply for them

Over the past two years, we have been involved in a very interesting trade mark squatting case through which we have tested the non-infringement declaration in front of Chinese courts. The names of the parties involved will not be disclosed, even though they have appeared in other articles.

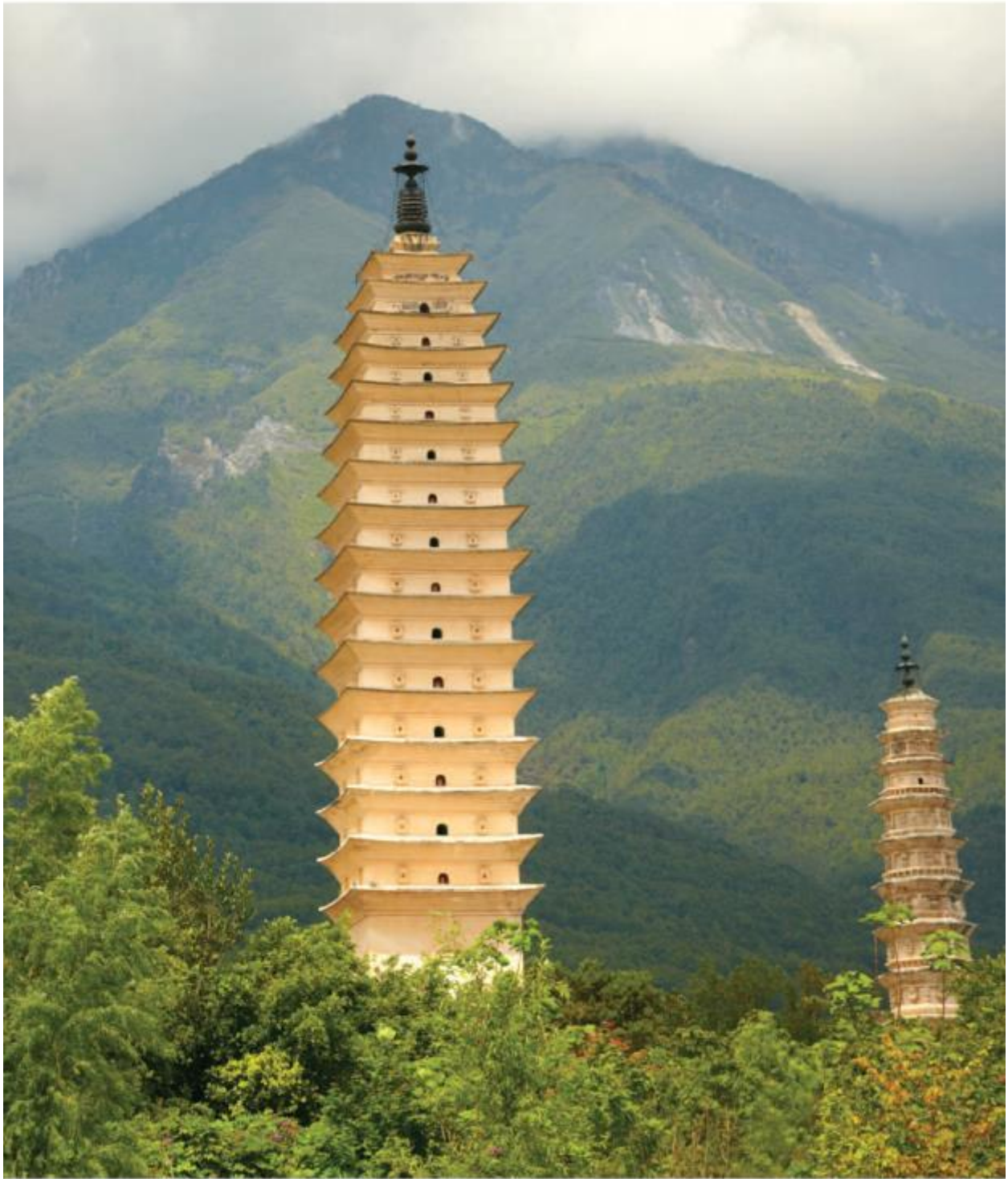
In early 2011, we were entrusted by a European company to provide advice in a typical squatting case. A trade mark used abroad on fashion products turned out to have been preemptively registered in China by an individual in class 25 (clothing and shoes). The expansion of the fashion brand into Chinese territory was likely to be compromised because of the trade mark issue, yet the trade of goods was not suspended.

The preemptive trade mark application was filed in 2005 and the registration, after the opposition and the opposition appeal being dismissed, was approved in 2007. The cancellation launched later on was again rejected by the Trademark Review and Adjudication Board because of failure in proving the bad faith or the high reputation of the foreign brand. Moreover, purchasing the

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NON-INFRINGEMENT
DECLARATIONS



CHINA IP FOCUS 2014

NON-INFRINGEMENT DECLARATIONS

A fight seemed to be inevitable

trade mark from the infringer was not an option. A fight seemed to be inevitable.

After a meticulous evidence collection, a new bad faith cancellation was initiated with new factual evidence to be shown to the Court, as well as a non-use cancellation based on the fact that the mark at issue was not in use.

While the above cases were still pending, in August 2011, a few retailers of the foreign brand received cease and desist letters from the preemptor of the trade mark. In response to the letter above which threatened the retailers, on behalf of the foreign entity owning the mark in other classes and in other countries, we initiated a non-infringement litigation. The litigation was filed with Hangzhou Intermediate People's Court, under whose jurisdiction the retailers were located.

We claimed that our trade mark, despite not being registered in the relevant class, was registered in many other classes and many other countries. Moreover, we claimed that our trade mark had become famous prior to the filing date and before the granting date of the squatter's mark. We stated that in assessing the reputation, the consumer profile should be taken into account and the brand's international reputation was emphasised in our claim.

The squatter, after having received the notification of the pending litigation, filed a complaint with the Beijing Administration for Industry and Commerce (AIC) and requested an action based on its registered trade mark against one of the retailers appointed by the foreign entity (our client). AIC – surprisingly – accepted the case, executed the raid action, and in the end issued an exemplary punishment decision (millions of renminbi).

Before this case, we were among those complaining about the weakness of the IP enforcement system in China. The decision issued from the AIC was an exemplar, a kind of decision that



Fabio Giacobello

Fabio Giacobello has been a partner at HFG from September 2010. In 2015, Fabio was awarded the ILO Client Choice Award and nominated arbitrator at Shanghai International Arbitration Centre. He is also a member of the anti counterfeiting committee at INTA (China sub-committee).

Fabio has substantive experience in IP litigation and anti-counterfeiting in Europe and in China. His experience ranges from chemical patent litigation to luxury goods trade mark enforcement. Fabio has achieved brilliant results in commercial and corporate transactions on behalf of international companies and in arbitration. At HFG, Fabio is responsible for international business development, price committees, training teams and others within HFG, and he often cooperates with education institutions and associations by giving lectures on the Chinese and European IP systems. Fabio obtained his Master's degree in law in 1997 in Italy, and he passed the bar examination and was admitted to the Italian Bar Association in 1999/2000.

is worth reading for people working in anti-counterfeiting. Unfortunately it would have been more reasonable if the AIC had stayed the case, since the substantive right at issue was challenged in front of the China Trade Mark Office, and there was already a judicial non-infringement declaration pending on the same issue. However, regrettably, they failed to do so.

We explained to Beijing AIC on several occasions about the two pending cancellations and the prior litigation in which we claimed for non-infringement. We also stressed that a prior judicial case on the same fact should have precedence; and that the AIC should not take any decision before the ruling of the court. Unfortunately, Beijing AIC decided not to suspend the case.

On the contrary, the AIC in Shanghai, Hangzhou and Nanjing, which were simultaneously requested to take an action by the preemptor, did not process the case in consideration of the pending litigation. Confronted with the aggressive behaviour of Beijing AIC, we were forced to promote an administrative litigation against AIC itself (the seizure list and the punishment decisions) and finally obtained the suspension of the execution of the AIC decision from the People's Court.

After the trial of the case, Hangzhou Court finally reached a decision. The judges did not take our opinion that the mark should be protected even if unregistered, since it is well known.

The Court believed that the trade mark was in use in China, but not in a way that could be entitled to the status of well-known mark. The judges still found and declared that, considering the distinctiveness, reputation, bad faith, peculiarities of the consumer (well aware of details), and other factors, there should be certain dissimilarities in the two trade marks. Therefore, it was unlikely to cause confusion and thus no infringement was found. A non-infringement declaration against the squatter was obtained.

When to initiate a non-infringement declaration

According to Chinese law, to initiate a non-infringement declaration, the following three con-

NON-INFRINGEMENT DECLARATIONS

ditions should be met: (i) the rights owner has sent a warning letter to the alleged infringer, but the latter denies the infringement; (ii) the rights owner does not initiate any legal action against the plaintiff without any reasonable excuse. This means that the owner merely requests the plaintiff to stop infringement, but nothing else. Whether or not the infringement will be decided is uncertain; and, (iii) the negative action of the rights owner has caused damages to the plaintiff, because the plaintiff may not keep producing or selling the allegedly infringing product, or providing the allegedly infringing service.

In practice, it is not necessary that the warning letter is sent directly to the party that will initiate the litigation. It is necessary that, according to the infringement claim contained in the letter, the plaintiff has a legitimate interest to react, for example being the producer of the product.

A letter which merely informs of the existence of certain IP rights, but does not explicitly claim an infringement to such right, should not be deemed as sufficient to warrant a reply.

A cease and desist letter received in a foreign country can warrant the case to be initiated in China if the wording of the letter implies that China is among the countries in which the rights are violated.

Non-infringement declarations

There is no specific law or regulation about non-infringement declarations. In 2002, the IP Chamber of the Supreme People's Court, issued an official reply in the case of *Suzhou Longbao Bio-engineering v Suzhou Langlifu Company* confirming the existence in the Chinese judicial system of non-infringement declarations in the files of patents. According to the official reply, the case at issue fulfilled the requirements of article 108 of the Civil Procedure Law of the PRC. The plaintiff had a direct interest in this case, the defendant was clearly indicated, there were specific claims and facts, and the court also had jurisdiction and the cause attributes to the acceptable civil lawsuit of the People's Court. Further, the reply suggested that a non-infringement declaration dispute could be a cause of action. Then in 2008, the Regulations on the Cause of Civil Action confirmed a non-in-



Eric Su

Partner and attorney at law, Eric Su obtained his bachelor degree at North University of China, majoring in chemical engineering and technology, and later got his LL.M degree at East China University of Politics and Law. Eric passed the bar examination in 2006 and later was admitted by the China Judicial Department for legal practice. Eric joined HFG in 2008 and was promoted to partner in 2011. Eric is talented in handling various IP disputes relating to trade mark infringement, anti-counterfeiting, anti-unfair competition, domain names and internet disputes, civil litigation and criminal prosecution, and also trade mark opposition. He is also experienced in handling food safety and product quality cases.

fringement declaration as the 152nd cause of action.

Procedure: forum shopping

Non-infringement declarations adapt to the usual civil procedure. It is interesting to make a few comments on the jurisdiction profile; there are two doctrines to be applied, yet not much consensus is reached on this issue. Some scholars think that the non-infringement declaration should be deemed an infringement claim, and should comply with article 29 of the Civil Procedure Law. Therefore, according to this article, "a lawsuit brought on a tortious act shall be under the jurisdiction of the people's court of the place where the tort is committed or where the defendant has his domicile". If this thesis is accepted, the location of the plaintiff, the alleged infringer, is a valid venue to initiate the case.

Others believe that such lawsuit should be deemed a suit of declaration, and should comply with article 22 of the Civil Procedure law, which states that the lawsuit "should be under the jurisdiction of the people's court of the place where the defendant has his domicile".

Typical cases

In relation to patents, there are typical cases in which a non-infringement declaration is often initiated upon the receipt of a cease and desist letter. Such cases include:

- The prior user's right to continue within the limit of its use. According to article 69.2 of the Patent Law, "anyone who has made the identical product or used the identical process or has made necessary preparations for making such a product or using such a process prior to the date of filing continues making such a product or using such a process only within the original scope";
- The prior user claiming a prior art defence. Article 62 of the Patent Law states that "in the

The plaintiff in non-infringement cases usually has a psychological advantage

NON-INFRINGEMENT DECLARATIONS

Non-infringement is a risky strategy, and it is an approach taken when the alleged infringer has very strong grounds

patent infringement dispute, where the suspected infringer has the evidence to prove the technology or design exploited by himself belongs to prior art or prior design, it cannot constitute patent infringement”.

- The alleged infringer claiming invalidity of the patent. It is the practice of People's Courts not to stay infringement litigation in relation to a patent for invention in view of pending invalidation procedures in front of SIPO. Therefore, upon receipt of a cease and desist letter, and having challenged the invalidity of the patent in front of SIPO, which according to Chinese law is the only possible venue for such action, to secure that the rights owner does not initiate on his initiative an infringement litigation, it is possible to move an non-infringement litigation. Otherwise the infringement claim brought by the rights owner will be decided despite the pending procedure for invalidation.
- The alleged infringer claims to be authorised. This is the case of a licence granted and then terminated when a contract dispute exists.

In relation to trade marks, we have already mentioned the case of preempted trade marks. The new Trade Mark Law will introduce the prior right use, and so it might also become typical for

trade marks. In general, non-infringement declarations might be initiated in the case of fair use of trade marks and lack of confusion.

Similarly, a non-infringement declaration can be initiated against an alleged violation of unfair competition rules, copyright or contract law.

Relationship with other procedures

If the alleged infringer initiates the non-infringement declaration before the rights owner has approached the competent administrative authority, the procedure should be suspended to wait for the civil case to be decided before proceeding further. Moreover, it is more likely that more respect will be paid to civil rights from courts, and higher quality of decision may be expected than those from administrative authorities.

On the contrary, if the rights owner has approached the administrative authority before the alleged infringer initiates the litigation, the alleged infringer will be unable to initiate the non-infringement litigation.

Advantages and disadvantages

Generally speaking, a non-infringement is a risky strategy, and it is an approach taken when the alleged infringer has very strong grounds. The alleged infringer suffers the uncertainty, and thus tends to go to court beforehand. Judges are aware of this, and the plaintiff in non-infringement cases usually has a psychological advantage (“you wouldn’t be mad enough to go to court if you were wrong”). Moreover, the plaintiff can choose the court among several possible competent venues, so as to avoid inconvenient ones.

There are several clear disadvantages as well. For example, sometimes litigations or actions do not follow cease and desist letters; therefore, you would have initiated a suit that would have never been initiated by the rights owner.



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LIGHT AT THE END OF THE TUNNEL: TRADEMARK REFORM IN CHINA

The latest draft of China's proposed trademark law promises significant changes. Fabio Giacobello and Bian Jun investigate.

On June 26, 2013, the National People's Congress undertook the second reading of a draft of the Trademark Law. The draft replaces the previous one published for comments in December 2012 (see *WIPR Annual* 2013, pp.18-19) and promulgation is expected soon with very limited amendments. Unlike the previous one, this draft demonstrates more willingness to change.

Well-known trademarks

Article 14 states: "Producers and business operators shall not affix the words 'well-known trademark' to commodities, commodity packages or containers or use the words in advertisements, exhibitions and other commercial activities." This provision is surprising and indeed has become notorious. The new provision is clearly intended to curb the malpractice of companies that use the achieved legal status as a sort of promotion tool: "Buy my pen, my trademark is well-known."

Consumers can be misled. Local governments compete with each other claiming to have the largest number of well-known trademarks granted and offer financial support to companies obtaining such recognition. This new provision brings well-known status back to basics, as a tool to obtain cross-class protection in trademark disputes and the basic requirement for the activation of Article 6bis of the Paris Convention. Moreover, it is likely that the threshold for obtaining well-known status will become lower. Indeed, it was initially set at a very high threshold in order to limit the distortion mentioned above.

Bad faith registrations

The draft maintains a few amendments introduced by the previous one.

According to Article 9: "The application for registration, and use, of trademark shall be conducted in accordance with the principle of good faith." The principle was not previously contained in any provision of the Trademark Law.

Under Article 15 trademarks filed by "agents and representatives", as well as by "business partners" will not be registered if it is proved that they definitely knew of the existence of the trademark. This widens the scope, even if the definition "definitely knew" seems to fix a high threshold.

Article 58 introduces the right of pre-use under which a prior user, who has not filed for registration of the trademark, is entitled to continue use within the original use range, but may be required to add appropriate distinguishing marks.

Mandatory timeframes

For the first time the new draft fixes clear and mandatory timeframes for the China Trademark Office (CTMO) and the Trademark Review and Adjudication Board (TRAB): nine months for trademark examination and opposition (both extendable for a further nine months), six months for appeal on rejection and cancellations (extendable for a further six and nine months, respectively).





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CHINA TRADEMARKS

Statutory damages

Article 64 of the new draft raises the maximum threshold to 2 million RMB (\$324,000). The current limit is 500,000 RMB (\$81,000) and the previous draft raised it to 1 million RMB (\$162,000). The new modification is definitely welcome.

Punitive damages

Article 64 of the new draft confirms the introduction by the previous draft of punitive damages, calculated as one to three times the damage compensation, in case of malicious infringement.

Administrative fines

Article 61 of the new draft confirms the increase in fines fixed by the previous draft.

Non-retroactiveness

Article 36 of the draft provides for non-retroactiveness of annulment decisions. The current implementing regulations to trademark law provide similarly (Article 29).

Assignment

Article 42 of the draft provides that in case of transfer of a trademark the transferor shall assign all the similar trademarks. The practice of the CTMO was already applying such a principle, which is now introduced by legal provision.

Oppositions

Several changes occur in relation to oppositions in Article 35.

Qualification of opponent: Only a "person holding prior rights or of interest" may file an opposition.

Opposition appeal: The asymmetric elimination of the opponent's right to apply for review is confirmed. If CTMO rejects the opposition the trademark will be granted and enforceable. The opponent, if dissatisfied with the decision from CTMO, can file a cancellation with TRAB. The opposed party dissatisfied with the CTMO's decision is entitled to file a review against the opposition decision.

Legal grounds: The presence of a list of legal grounds is confirmed, namely: "Paragraph 2 and Paragraph 3 of Article 13, Article 15, Paragraph 1 of Article 16, Article 30, Article 31, or Article 32 ... Article 10, Article 11, or Article 12." It is not clarified whether the list is exhaustive.

Deadlines for appeal

Article 44 of the draft states that an appeal against a rejection shall be filed within 15 days from receipt of the notice by which CTMO communicates the refusal. The previous draft

extended the deadline to 30 days, but this extension is cancelled in the new draft.

Non-traditional trademarks

Article 8 of the new draft confirms the possibility to register sound trademarks. It cancels the provision in the previous draft which allowed the registration of single colour trademarks. This kind of monopoly will be discouraged. There are no provisions in the draft relating to smell, holograms, and motion trademarks.

Electronic filing

Article 22 of the new draft confirms the possibility of electronic filing for trademarks.

Multiclass application

Article 22 of the new draft confirms the possibility to file an application for trademark registration including multiple classes.

Trademark renewal

Article 40 of the new draft extends the possibility to renew a trademark until one year after the expiration of the validity period. The previous draft did not intervene on this issue. Under the current law the deadline for renewal is six months after the expiration. ■

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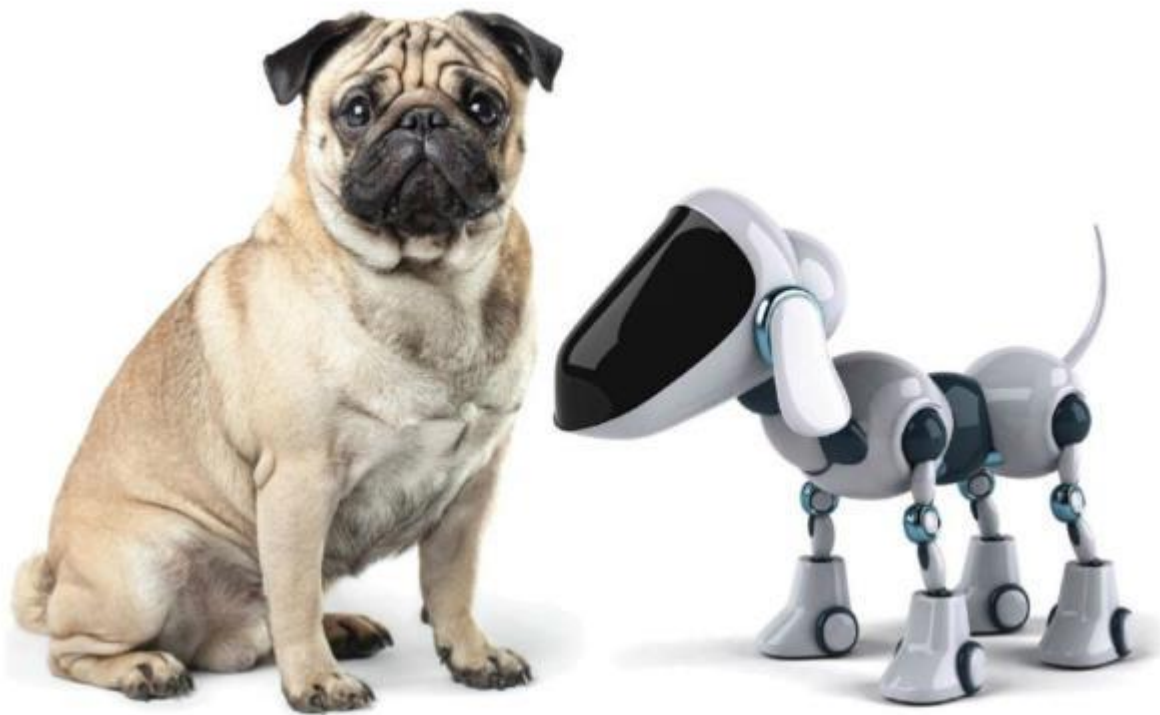
Fabio Giacopello has been a member of HFG since 2010 and was winner of the International Law Office Client Choice Award 2013, trademark category: China. He is a recommended lawyer by *Legal 500* and is mentioned in MIP's *IP Handbook*. Giacopello is a member of the anti-counterfeiting committee of INTA (China sub-committee) and cooperates with institutions for giving lectures about the Chinese and European IP systems.

Bian Jun is a patent attorney with more than 20 years' experience. He is the holder of an MBA from the University of Chicago Booth School.

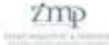
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WORLD INTELLECTUAL PROPERTY REVIEW

2014



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Amendments to the Chinese Trademark Law will affect the role of customs officials in preventing piracy of original equipment trademarks, say Nikita Xue and Xu Zhang.

STOPPING INFRINGING GOODS AT THE BORDER: A DOUBLE-EDGED SWORD?

Since 1994, the China customs authority has been vigilant in its commitment to enforcing intellectual property rights. Statistics show that, by 2010, its efforts to seize infringing goods had led to approximately 120,000 cases, with a seizure value of RMB2.4 billion (\$386 million). More recently, in 2011 and 2012, the amount of infringing merchandise detained by customs totalled around RMB190 million, mainly consisting of goods due for export.

Among the seizures, goods in breach of trademark rights have accounted for the vast majority. In this respect, border protection has contributed greatly towards combating transnational infringement. What remains unclear is whether such protection should extend solely to manufactured goods made in China for export. There have been many conflicting opinions on this issue.

The controversy exists because the current Trademark Law is silent on whether the manufacture of trademarked goods should be

deemed 'infringement'. Opinions have varied among courts in different local jurisdictions. In the *Nike* and *RBI* cases, and in administrative litigation *Hong Xin Trading Co. Ltd v Guangzhou Customs*, the Guangdong and Zhejiang courts held that, without the consent of the registered trademark holder or other proprietor, applying a mark identical or confusingly similar to a domestically registered trademark shall constitute infringement under Article 52.1 of the Trademark Law.

Shanghai People's Court, by contrast, ruled in the *Julida* case that the products involved, which were intended for export to the US, were not likely to cause confusion or be mistaken by the general consuming public on Chinese soil. In the *Crocodile Garment* case, Shandong High Court maintained that production by an original equipment manufacturer (OEM), is not considered trademark 'use'. Worse still, Beijing High Court stated in *Interpretation of Relevant Issues on Trying Trademark Civil Dispute Cases*, "... if a manufacturer, unaware that the goods violate exclusive registered trademark rights, is able to specify the client and supply trademark right certification, that manufacturer is not liable for remedies or damages on account of such conduct for a violation of any right".

These differing judgments and regulations mentioned above could have catastrophic impacts on some rights holders, as the infringer could export around the world after registering a mark identical or similar to a famous brand in jurisdictions with less-developed trademark registration schemes.

Despite brand owners' continuous and ongoing efforts, the legislature has not stated explicitly in China's new Trademark Law whether the manufacture of original equipment constitutes trademark 'use'. The underlying reason is that such manufacturing for export has played an important role in China's economy, particularly in creating jobs.

If the conflicts between OEMs and domestically-registered Chinese marks are termed to be infringement as a whole, original equipment manufacturing will be at high risk. Years of legal practice have seen a growing trend towards courts deeming original equipment manufacturing to be non-infringement. In fact, small and medium-sized proprietors from abroad will not find it acceptable either, if such conflicts are together classified as trademark infringement.

Despite suffering from squatting and losing the right to use relevant trademarks in the Chinese market, they have full rights to original equipment manufacturing in China of goods destined for

"THE INFRINGER COULD EXPORT AROUND THE WORLD AFTER REGISTERING A MARK IDENTICAL OR SIMILAR TO A FAMOUS BRAND IN JURISDICTIONS WITH LESS-DEVELOPED TRADEMARK REGISTRATION SCHEMES."

their home countries or other parts of the globe. As it is, original equipment manufacturing is seen as infringement without distinction: foreign rights holders have to reconsider and redeploy their global supply chain strategy.

Legislative change

Given mounting worries and disputes, industry players and IP rights holders are longing for a definitive answer from the law. The amended Trademark Law, as scheduled to take effect on May 1, 2014, defines "trademark use" in Article 48: "The use of a trademark as stipulated in this Law refers to the affixation of a registered mark to goods, packages or containers, as well as transaction documents or the use of trademarks in advertisements, exhibitions, and for other commercial activities, in order to identify the source of the goods."

Such a provision can serve as the legislative basis for determining whether original equipment manufacturing amounts to bad faith infringement. In the context of the Trademark Law, the use of a trademark is connected with commodity distribution and circulation. In that sense, original equipment manufacture does not constitute trademark 'use' because the products or services do not enter or are not offered in the Chinese marketplace.

Pursuant to Article 59: "Where an identical or similar trademark has been used in connection with the same goods or similar goods by others before the registrant's application, the exclusive right holder of said registered trademark shall have no right to prohibit other people from using the aforesaid trademark from continuous use of such trademark within the original scope, but may request its users to add proper marks for distinction." Such a provision appears to be a solution for small and medium-sized rights holders affected by squatting.

In response to increasing worries from some proprietors, especially large multinational corporations, the Supreme People's Court is now working diligently to provide more precise and consistent guidance in the judicial interpretation of the new China Trademark Law for court trial and customs enforcement. ■

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Xu Zhang is a founding partner at HFG. He can be contacted at: xzhang@hfgip.com



Nikita Xue practises to help multinational corporations acquire trademark, patent and copyright registrations in China, handling contentious dispute matters involving trademark and patent infringement, unfair competition, anti-counterfeiting, and well-known trademark recognition. She is member of the *Pro Bono* committee of INTA.



Xu Zhang specialises in IP strategy and problem solution by providing in-depth legal opinion and risk assessment. He is involved in handling trademark infringement, anti-counterfeiting, anti-trust and unfair competition matters. Xu's practice in China covers IP rights and other legal matters.



Nicola Aporti
Hfg, Shanghai

Cina, attenzione ai claim

LA NORMATIVA CHE REGOLA LA PUBBLICITÀ NEL PAESE DEL DRAGONE È SOTTOPOSTA A PARAMETRI MOLTO STRINGENTI, CHE POSSONO COSTARE SANZIONI SALATE. ECCO CHE COSA BISOGNA SAPERE

A fronte di un mercato in enorme crescita, la pubblicità di prodotti alimentari in Cina è soggetta a specifici limiti legali. Innanzitutto, la pubblicità deve essere:

- veritiera e senza informazioni ingannevoli in relazione a qualità, composizione, uso, durata, origine, ecc;
- riconoscibile (per esempio non bisogna assumere il format di notiziario/documentario).

• oggettiva: ogni dato o statistica utilizzati devono essere precisi e ne deve essere indicata la fonte. Espressioni che affermano un primato in termini assoluti – come 'il migliore', 'la tecnologia più avanzata', sono severamente vietate – nonostante nella pratica siano molto utilizzate.

Le autorità competenti (Aic) interpretano a propria discrezione se un'espressione 'enfatica' viola o no questo divieto. L'attento uso dei termini cinesi è fondamentale per evitare di cadere in tranello: se per esempio 'il leader' è vietato, 'società leader' (sottinteso: insieme ad altre) in teoria sfugge al divieto. Anche riferimenti alla quota di mercato detenuta sono vietati ('il più venduto', 'il preferito dai consumatori').

Raccomandazioni da parte di autorità o associazioni competenti per la sicurezza alimentare o la tutela dei consumatori sono vietate. Analogamente, non possono essere utilizzate immagini raffiguranti medici/organizzazioni sanitarie (per esempio una persona che indossa un camice bianco).

Approvazioni esplicite da parte di altri enti o celebrità ('raccomandato da', 'scelto da') sono vietate, ma sono ammesse se implicite. Tuttavia, questi endorsers espongono la propria responsabilità qualora la pubblicità venga dichiarata ingannevole. Per citare un esempio, Yao Ming, celebrità del basket, è stato citato da un consumatore indotto ad acquistare un integratore alimentare da una pubblicità – a suo avviso ingannevole – in cui compariva il personaggio.

Alcuni specifici prodotti alimentari soggiacciono a limiti particolari:

- la pubblicità di prodotti alimentari per neonati non può contenere immagini di donne che allattano né di neonati, e non può alludere al fatto che tali prodotti possano sostituire il latte materno;
- la pubblicità di bevande alcoliche non può mo-

strare l'atto del bere, alludere al fatto che aiutino ad alleviare lo stress, o ad aumentare la forza fisica; alludere al fatto che il successo (personale, lavorativo o sportivo) possa dipendere dal consumo di tali bevande. Inoltre, la pubblicità di bevande alcoliche può essere trasmessa sui media (tv, radio, stampa) entro precisi limiti di orario e di frequenza.

La pubblicità degli health food deve essere preliminarmente approvata dall'autorità (Cfda) e non può far riferimento generico a scoperte scientifiche o risultati di test di laboratorio. La descrizione dell'integratore come 'metodo tradizionale', 'necessario per una vita normale', o claim negativi di effetti tossici o di dipendenza sono pure vietati. Qualunque informazione errata sull'etichetta o sulla confezione rischia di essere qualificata come pubblicità ingannevole: per esempio un problema di traduzione in cinese degli ingredienti oppure campagne promozionali (con premi/coupon) che non indicano l'esatta probabilità di vincere.

Occhio ai claims negativi, specie per gli additivi, per i quali lo 'zero' deve essere assoluto. Gli errori costano caro: la legge prevede per pubblicità ingannevole sanzioni sino a cinque volte il costo della confezione, per ogni confezione non conforme, oltre all'obbligo di rettificare il prodotto (ossia, cancellare con il pennarello le parole vietate su tutte le confezioni in vendita), oppure – nei casi (più rari) di concorrenza sleale, sanzioni fino a 200.000 yuan Renminbi (quasi 24mila euro) replicabile per ogni negozio (in tutta la Cina...) in cui il prodotto è venduto.

La pubblicità degli health food dev'essere approvata dall'autorità e non può far riferimento generico a scoperte scientifiche



Trademark horrors in China: the Dsquared2 case

30-09-2014

Bad faith use and copying are elements of a trademark dispute involving a fashion label, as Fabio Giacopello explains.

In August 2014, the Zhejiang High People's Court published its second instance decision in a case between Dsquared2™ SA and Bier Bulasi Ltd. The decision stated that Dsquared2, a company established and owned by Dean and Dan Caten, should cease infringing the trademark 'Dsquared' no. 3849642 owned by Bier Bulasi (pictured below).

In April 2014, while the judges were drafting their decision, Dsquared2 was celebrated as a special guest at the most important fashion event in China, Shanghai Fashion Week.



In the jungle of the trademark system in China, where IP owners fight for survival against squatters and counterfeiters, such a decision would not be surprising but for the fact that it totally overturns the first instance decision which had—on the contrary—declared that Dsquared2 did not infringe Bier Bulasi's trademark.

The trademark 'Dsquared' (TM '642) was filed with the Chinese Trade Mark Office on December 17, 2003 by an individual named Zhao Ban Hua and registered on February 14, 2007. The mark was subject to several assignments until it reached Zhejiang Nuohe Garment Co Ltd. Bier Bulasi was the owner of TM '642 at the time of filing the case. Opposition, non-use cancellation and bad faith cancellation, filed by Dsquared2 against TM '642 at the current stage have not succeeded in eliminating the trademark from the register.

DSQUARED
Trademark no. 3849642

Nuohe is not free of dark shadows. Besides the suspect Dsquared line of business, Nuohe has interests in distribution of other fashion brands such as Ice Iceberg and CNC. Once again, distribution is apparently not authorised by the internationally reputed owners and shielded by dubious trademark adjudications.

Reading the first instance decision, it is clear that TM'642 was not used before 2011 and since then has been used by Nuohe in exactly the same form as the trademark owned by Dsquared2 (the same logo). Besides using the same logo as the trademark registered abroad by Dsquared2, Nuohe also uses several elements which are characteristic and link to Dsquared2: the twin designers' names, the year in which they were born (1964), the Canadian flag, and the entire store decoration.



Dsquared2 store in the Shanghai IFC Mall, authorised by Dsquared2



Hangzhou Dsquared2 store operated by Nuohe, authorised by Bier Bulasi

Dean and Dan Caten

In 1964, twin brothers Dean and Dan Caten were born in Canada. In the early 1980s they moved to New York, where they studied and initiated their career in the fashion industry. In 1991, they moved to Europe, first to Italy and later the UK. In 1994 they launched the first Dsquared2 collection in Milan, which soon became famous. Dsquared2 is now present in many countries around the world and worn by actors and musicians such as Lenny Kravitz, Justin Timberlake, Ricky Martin, Nelly Furtado, and Robbie Williams.

The trademark 'Dsquared2' (pictured below) was first filed in China on March 19, 2004 via Madrid with the number 3968186 (TM '186). The application was rejected for all goods of Class 25, except for raincoats, due to the prior presence of TM '642. The trademarks 'D2', 'D2 Dsquared2', 'Dsquared2' are filed and registered in many classes (such as 3, 9, 18, 25, 35, etc) in China and many other countries around the world.

D²

DSQUARED²

Trademark no. 3968186

Background

In late 2011, Bier Bulasi sent several warning letters to stores selling Dsquared2 goods originating from the Italian Dsquared2, requiring them to stop using the trademark in China.

In early 2012, as a reaction to the warning letter sent to retailers, Dsquared2 launched civil litigation against Bier Bulasi with the Hangzhou Intermediate People's Court seeking a declaration of non-infringement. Moreover, Dsquared2 initiated a second litigation seeking recognition of unfair competition because of the use of several elements that copy the identity and reputation of Dsquared2 (the name of the designers, the Canadian flag, the year 1964, the decoration of the stores, the position of the label on the front zip of jeans, etc).

The first instance decision

The court recognised that from a visual perspective TM '186 is similar to Bier Bulasi's registered trademark TM '642. They share the same letters in the same order and that is enough. The court concluded that there is no risk of confusion and therefore infringement in light of the following considerations:

- Bier Bulasi's TM '642 consists of letters with a special font. There is difference of overall visual effect between the two trademarks;
- The basic function of a trademark is to distinguish products or services from different sources. Bier Bulasi did not use the trademark exactly as registered, and was acting to create confusion with others; and
- Dsquared2 had used TM '186 in China since 2004 and did not intend to seek association with Bier Bulasi's trademark.

Unfortunately the court did not accept the claim based on unfair competition based on the reasoning that the (copied) elements are not particular names/shapes of famous goods (Article 5.2 of the Anti-Unfair Competition Law) as they do not reach and pass the minimum reputation threshold to be protected as not registered distinctive elements.

The second instance decision

The appeal court agreed that from a visual perspective there is similarity between the two signs and concluded that there is a risk of confusion and infringement for the following reasons:

- 'Dsquared' is not a regular English word, but a creation. Therefore Bier Bulasi's trademark enjoys high distinctiveness;
- Although there is some difference in the logo, the overall impression is that the two trademarks are similar; and
- The court holds no opinion on how a registered trademark is actually used in the market, the exclusive right grants the owner the right to exclude others from using the registered trademark on the approved goods.

Our comments

- TM '186 should have been registered and owned by Dsquared2 which had created, launched, used and made it famous first abroad and then in China. TM '642 should have been cancelled;
- The Zhejiang High People's Court has not recognised the relevance of the fact that in 2003—the date of filing of TM '642—TM '186 was already famous, even if predominantly outside of China. By allowing a company to secure the right only in China, the trademark law allowed unjust separation and created a monopoly wrongly allocated; and
- The Zhejiang High People's Court has not recognised the relevance of bad faith in using the mark as the first instance judge, or the fact that the risk of confusion is mainly caused by imitation of several elements perpetuated by the prior registrant.

Note: The author leads the team of attorneys that represents Dsquared2 in this case.

Fabio Giacobello is a partner of HFG. He can be contacted at: giacobello@hfgip.com

CASE STUDY

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In the jungle of the trademark system in China, where IP owners fight for survival against squatters and counterfeiters, such a decision would not be surprising but for the fact that it totally overturns the first instance decision which had—on the contrary—declared that Dsquared2 did not infringe Bier Bulasi's trademark.

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Reading the first instance decision, it is clear that TM '642 was not used before 2011 and since then has been used by Nuohe in exactly the same form as the trademark owned by Dsquared2 (the same logo). Besides using the same logo as the trademark registered abroad by Dsquared2, Nuohe also uses several elements which are characteristic and link to Dsquared2: the twin designers' names, the year in which they were born (1964), the Canadian flag, and the entire store decoration.

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"BESIDES USING THE SAME LOGO AS THE TRADEMARK REGISTERED ABROAD BY DSQUARED2, NUOHE ALSO USES SEVERAL ELEMENTS WHICH ARE CHARACTERISTIC AND LINK TO DSQUARED2."

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The second instance decision

The appeal court agreed that from a visual perspective there is similarity between the two



Top: The Caten brothers appearing at Shanghai Fashion Week
Middle: Dsquared2 store in the Shanghai IFC Mall, authorised by Dsquared2
Bottom: Hangzhou Dsquared2 store operated by Nuohe, authorised by Bier Bulasi

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CASE STUDY

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Admitted to the Italian Bar, **Fabio Giacomello** has substantive experience in IP litigation and anti-counterfeiting in Europe and in IP enforcement in China. He is a member of the anti-counterfeiting committee at INTA; an arbitrator at the SHIAC; recommended lawyer by Legal500 and MBP; winner of ILO Client Choice Award 2013 trademark category; notable practitioner by Chambers and Partners; leading IP lawyer 2013 in the ACQ Global Awards in China; IP star by MIP for trademark and patents in China in 2014; and expert of the China IP rights SME helpdesk.

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**The hot season of
apricots and almonds
in China**

HFG Law Firm & Intellectual Property Practice
Nicola Aporti and Peter Huang

China
 September 9 2013

On August, 2013, a consumer filed a complaint for misleading advertising with Dong Xin AIC (Zhejiang province) against Hangzhou-based roasted nut and dry-food producer Yaotaitai.

According to the complaint, Yaotaitai improperly labels some of its products as "apricot kernel" (杏仁) instead of "almond" (扁桃仁).

The procedure is pending now and AIC solicited comments from Yaotaitai.

In 2013, many other complaints concerning almonds have been filed against food operators (producers as well as distributors) by consumers.

Food producers, stores and supermarkets selling products improperly labeled may face the following:

1. Refunding to consumers twice the product price (art. 49-50, Consumer Protection Act). Besides, AIC, based on the circumstances, shall issue a warning, confiscate unlawful earnings, or impose a fine up to five times the value of the unlawful earnings; and/or
2. Fines up to 200,000 RMB for false or misleading advertising (Art. 24, Unfair Competition Law).

In practice, more and more so-called "professional consumers" chase non-compliant products, which they often purchase in massive quantities in order to collect higher punitive damages. Claims are aimed not only at producers, but also at retailers/supermarkets frequently chosen as "easy" targets.



Author page »

Background

All food products sold in China need to be labeled in Chinese. This requires – for imported food – the name of the product to be translated into Chinese. Moreover, food name is often printed also on the food packaging.

Since decades, food operators have translated "American big almond" as "美国大杏仁", and "almond" as "杏仁". However, consumers' associations recently brought to the authorities' attention that these translations are not correct, as "杏仁" more properly means "apricot" or "apricot kernel". Beside the difference in appearance, almonds also lack some of the effects attributed to apricot kernels (such as cure for cough).

In this scenario, on 21st November 2012 the *Specialized Committee for Roasted Seeds and Nuts of China National Food Industry Association* publicly announced that "American big almond" shall be translated as "扁桃仁" or "巴旦木". This was followed, on 1st April 2013, by entry into force of PRC industrial standards *Food term for Nuts and Seeds* (SB/T10670-2012) and *Cooked almond (BaDanMu) nuclear and kernel* (SB/T10673-2012).

Soon after, on 18th June 2013 a Chinese consumer won its appeal against Shenzhen Market Supervision Administration – which had previously refused to accept his complaint for wrongful translation of "almond".

After such decision, both food producers and distributors have been put under great pressure by consumers or consumer associations.

Consequence

Food producers and distributors need not to panic.

Leveraging on their common interests (re-labeling a big stock of food products requires months, which badly affect both producers and distributors) they need first of all to jointly work out emergency plans aimed at fixing the problem in a reasonable short period of time. Both legal and technical issues shall be carefully addressed.

Then, timely communication with local authority is crucial: even if the law in theory grants no grace period to amend translations on labels and packaging, authorities can have a pragmatic approach and can give operators the time to implement their emergency plan when presented with a workable plan and a clear legal frame.

This hot season for apricot and almonds shall be addressed as a common problem by food producers and distributors – mainly when mass scale products are involved. Fighting with each other equals playing the professional consumers' game, and – in the end – damages both.

Tags China, Product Regulation & Liability, HFG Law Firm & Intellectual Property Practice

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[Register](#)**Food Safety Law****HFG Law Firm & Intellectual Property Practice****HFG****China**

December 5 2013

The PRC Food Safety Law is undergoing a revision that should result in an amendment by next year.

On October 29, 2013, State Council Legislative Affairs Office published a draft Food Safety Law Revision 2013, which is now pending for public comments.

According to the current draft, the main revisions appear to be:

Unification of operation licenses

Food Distribution License (currently issued by TSB), Food production license (issued by AIC), and Catering Service License (issued by FDA) may be unified under the "Food production & marketing license". The competence shall be to the CFDA.

Stricter regulation of Infants and Children Food

Raw material, product formula, labels of food products intended for infants and children shall be recorded to the administration department. Outsourced production (OEM processing, repackaging) is forbidden for these kinds of food.

Liability of E-commerce operators

Online service providers for commerce food products (i.e. e-platform) will also need to obtain food production & marketing license. Moreover, they will have to enhance the level of control over the food operators, as the new draft provides for their joint liability in case of infringement of consumers' rights.

Joint Liability for the false ads

Advertisement creators and producers shall bear joint liability with food operators in case of false/illegal advertisement.

Higher compensation

For violation of food safety standards, the consumers can claim higher punitive damages: up to either 10 times of the price of the food or 3 times of the loss. In any case the punitive damages cannot be lower than 1000RMB.

Health food

Draft Administrative Measures on the Health Food published on Sep 29, 2013 is also in the public-comment phase. Food in health-food formulations such as tablets, capsules, oral solutions, electuaries and pills will be regulated by health-food regulatory (not by the QS production license) if its intake is subject to fix or maximum quantities.

Tags China, Product Regulation & Liability, HFG Law Firm & Intellectual Property Practice

If you are interested in submitting an article to Lexology, please contact Andrew Teague at ateague@lexology.com.

**Revision of PRC Company Law:
a new regime for registered capital?**

by Nicola Aporti

Year 2013 ended with what may be a very important reform in the PRC corporate law.

On December 28, 2013 twelve amendments to the PRC Company Law have been officially approved¹. The so-revised PRC Company Law will enter into effect as of March 1, 2014.

The amendments mainly focus on the registered capital of limited liability companies – including also one-person limited liability companies and joint-stock limited liability companies.

No more statutory thresholds

Under its current version, PRC Company Law (art. 26) requires that any limited liability company shall have a minimum registered capital of at least 30,000 RMB, unless a higher amount is required by specific laws and regulations.

The revised law deletes this requirement: in other words, investors are free to decide the amount of the registered capital into their companies, as there shall be no more minimum registered capital for limited liability companies.

Minimum thresholds required by specific laws/regulations for specific industries (e.g.: banks, insurance, logistics, etc..) will not be concerned by the revision of PRC Company law, and therefore will still apply.

Registered capital no more condition for approval

Under the revised law (art. 23), the amount of registered capital ceases being a condition for the establishment of the company.

In practice, this should mean that – except when minimum thresholds are required by specific laws/regulations (e.g.: banks, insurance, logistics, etc..) – the authority – during the approval process for the set-up of the company – shall not question the amount of registered capital as determined by the investors.

Cash contribution no more mandatory

Cash contribution accounting for at least 30% of the registered capital (art. 27.3) will not be mandatory anymore.

In theory, this opens the doors for full in-kind contribution – mainly through IP (trademarks, know-how, patents), domain names, equipment, land use rights. Perspectives for high-technology companies – and particularly start-ups – may become interesting.

Quicker set-up procedure

Under the revised Company Law (art. 7), only the registered capital shall appear on the company business license, while the paid-in capital will not be reported anymore.

At the same time, after every injection of registered capital, capital verification report will not be requested anymore. This will simplify the set-up procedure as well as companies' operation – as company funds will be available for use a couple of weeks before than it happens now.

Impact on foreign investors still uncertain

Whether such a reform really marks the end of an era, it remains to be seen.

¹ The amendment are provided by the *Decision about amending "Marine Environmental Protection Law of the People's Republic of China" and other seven laws*, which has been passed by the 6th meeting of the 12th session of the Standing Committee of the National People's Congress.

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In theory, the new Company Law allows investors to set up companies with a registered capital as low as 1 RMB, or to capitalize without any amount of cash. In some municipalities in Guangdong province the reform has been already tried on a pilot-project basis.

This revision arrives shortly after the much-feted Shanghai Free Trade Zone's reform – which include, amongst other, a highly simplified and straightforward approval procedure for foreign investments (unless listed in the so-called "negative list") and RMB convertibility.

Is China's corporate system really becoming more similar to Hong Kong's?

At least from foreign investors' perspective, things should not be taken for granted as most of the current limitations to foreign investors remain untouched.

1- FIE's financing still limited

FIEs capacity to be financed is still legally limited by the registered capital/total investment ratio: basically, the lower the registered capital, the narrower is the FIE's borrowing gap (i.e. the amount of loans from the parent company or overseas banks).

Moreover, on-shore loans by PRC banks are in practice rarely accessible – in significant measure – to FIEs.

Until these legal limitations remains, and until Chinese banks' policy will not become more supportive of FIEs, foreign investors in practice will not be able to take advantage of the registered capital reform.

2- Implementation by local authorities

Approval of thin-capitalized FIEs is a little of a Copernican revolution for China as we know it.

MOC and AIC's officers in China for decades have approved only FIEs with a solid registered capital. In fact, authorities have always seen FIEs registered capital as a tangible guarantee. Because of its nature of pure work capital, FIEs' registered capital has had its importance in the approval process as it (i) guarantees sustainability of the investment – i.e. it covers all costs until break-even – and (ii) reduces the risk of insolvent companies. This is basically why even for small trading companies² authorities in China still require a higher capital contribution.

After Company Law's revision, how keen will become these same officers to approve thin-capitalized foreign investments? Based on our experience, it is likely that – for a relatively long time – authorities (especially out of first-tier cities) will still require the registered capital to cover the costs until the expected break-even.

Moreover, it shall not be ignored that local authorities and officers in many PRC investment zones receive yearly performance evaluation based also on the volume of investments attracted; as FIEs' registered capital accounts for a big slice of their budget, they may not be so motivated to quickly implement the law.

Legal consistency

Finally, specific regulation³ for foreign-invested enterprises (WFOE and JV) have not been amended accordingly. As of today, IP capital contribution for WFOEs is still capped at maximum 20%; moreover, both WFOEs and JVs are still required to carry out capital verification reports after every capital injection⁴.

² Under normal conditions, trading companies are approved by authorities in Shanghai provided they have a minimum registered capital of around 100,000 Euros.

³ Mainly: WFOE Law and Implementing Regulations; EJV Law and Implementing Regulations; CJV Law and Implementing Regulations

⁴ Art. 32 of WFOE law, art. 29 of EJV law



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Organic labeling on import food

HFG Law Firm & Intellectual Property Practice

China

August 17 2014

HFG

Shanghai's supermarkets teem with "patched" imported-products. New goods were found with "homemade" adjustments on its package aiming to render them compliant with the Chinese rules. Advertising on food packaging in China is subject to stringent regulations [see [Food products advertising in China](#) and [Impact of mislabeling on food products sales](#)]. In this case, products from US are labeled as "organic". Although such labeling is compliant with US regulation, this is not the case for PRC regulations.

Most likely for this reason, the word ORGANIC on their packaging was covered with a patch, in order to prevent potential sanctions or complaints by customers. Needless to say, those patches often look suspicious to consumers and do not enhance the products' appeal.

Click [here](#) and [here](#) to view image.

According to *Administrative Measures for Organic Product Certification* in force in China since 2013, no "organic" claim – even in the [English language](#) – can be reported on the package, unless the proper certificate has been granted by the relevant authorities (CQCC). More and more AIC throughout China appear to enforce this provision. This is the reason whereby more and more foreign brands apply for organic certification with CQCC: it is the case, for example, of this brand from Italy – Alice Nero. By obtaining the CQCC organic status, it can legally brand its pasta as organic – both in Chinese (有机) and in English.

Click [here](#) to view image.

According to the Ministry of Agriculture data, organic food market in China is growing 30-50% and is more and more interesting for food companies, as PRC consumers prove keen on spending premium prices for organic products.

Tags China, Litigation, Product Regulation & Liability, HFG Law Firm & Intellectual Property Practice

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It's time to prepare tailor-made packaging for food products imported to China

HFG Law Firm & Intellectual Property Practice
Nicola Aporti

China
July 30 2014

HFG

Click [here](#) to view image.

This exact package of cereal was sold this week on the shelf of an import-food supermarket in Shanghai: patched everywhere with white stickers, to cover claims and advertisements, which are not compliant with PRC law.

In this case we have an imported product from the US. The packaging used is the same for the US domestic market, and therefore it bears claims in English that we assume compliant with US regulation. However, some of those are not – or may not be – compliant with PRC law.



Author page »

For instance:

1. Claim "WITH WHOLEGRAIN FIRST INGREDIENT". Under PRC GB 7718-2011, if a label stresses the main presence of one ingredient, it must specify its percentage (not the case here);
2. Claim "CAN HELP LOWER CHOLESTEROL". This functional claim is allowed under GB 16740-97 only for health food, which however shall undergo specific approval and certification from CFDA (not the case here);
3. Nutrition label compliant with US standards. Those are very different – as for lay-out and content – from those required under PRC GB 28050-2011.

Administration for Industry and Commerce is responsible to inspect food products labeling, and even if they normally focus on Chinese labels, they may also question labels which are written in a foreign language if they deem that these can be understood by Chinese customers.

Whenever AIC deems a food product non-compliant with PRC regulation, it can apply sanctions, normally relying on *PRC Advertising Law*: in this case the sanction is up to 5 times the cost of the packaging of the non-compliant food product, per every non-compliant product found in that same retail store. The good thing is that such sanction cannot be repeated in other stores. The bad thing is that AIC also order rectification of the non-compliant product, which means that either each product should be recalled, or non-compliant claims shall be erased (normally with a marker).

In the – less frequent – cases in which a non-compliant labeling is deemed breaching Anti Unfair Competition Law, the sanction is up to 200,000 RMB. This is one payment and not calculated per package, however can be repeated in every store in every city in China. The consequences from this can be devastating...

Not to mention that under Food Safety Law, consumers can receive punitive damages up to 10 times the price they spent for non-compliant food products. More and more, so-called professional consumers target mislabeled food products, and buy those in massive quantities to claim for very high punitive damages. Supreme Court recently issued an interpretation supporting the consumer's claim even if they willingly buy mislabeled product (*bad-faith purchase*).

Coming back to our case above, we believe that here the importer or the retailer voluntarily covered those claims to avoid incurring any sanctions. However, the way they implemented this (gluing white stickers to hide the claim) may not be 100% safe: what if a so-called *professional consumer* peels the sticker off, and reports the mislabeling?

Not to mention the loss of appeal: a patched product is most certainly less "sexy" for a consumer. If this was a parallel-imported product (we do not know in this case), based on (few) precedents there might be grounds for requesting a court to stop the parallel-importer, as the non-compliance with PRC standards of this specific product may damage the brand's reputation.

In any case, food companies who are targeting a big market share in China should start thinking about having their packaging tailor made for China.

Tags China, Media & Entertainment, Product Regulation & Liability, HFG Law Firm & Intellectual Property Practice

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How to protect packaging under Chinese law

HFG Law Firm & Intellectual Property Practice

China

June 16 2014

HFG

While passing off is on the rise in China, legal instruments are available to guard against it. A coordinated strategy should use different IP laws to provide comprehensive protection

The way that products are packaged plays an increasingly important role in today's marketing landscape. A walk down the aisles of any retail store confirms this: original shapes, special colour combinations, bright logos and inventive labels all illustrate the importance that marketers place on the aesthetic appeal of packaging. The aim is to create a strong visual impact to attract potential buyers and lure them away from competing products.

As a consequence, packaging has become a valuable asset for brand owners, both because of the role it plays in product recognition and because of the creativity and substantial financial investment required to develop a unique and distinctive container that will help promote market recognition.

The rise of passing off

Passing off is becoming more common around the world and China is no exception. With a growing middle class and more affluent consumers willing to pay for quality and product integrity, Chinese consumers have developed stronger brand awareness, resulting in increased brand loyalty. At the same time, more and more products – both foreign and local – are entering the market, resulting in more and more purchasing options. The way that companies package their goods can play a crucial part in the purchasing process and in some sectors has become critical to success.

As a result, however, packaging is increasingly being copied by Chinese competitors in a wide variety of sectors, from food and beverages to cosmetics and oil lubricants. This phenomenon is apparent in the growth of blatant copies where brand owners' rights are clearly infringed, as well as in less obvious forms of copying, where original products are subtly called to mind in a way that still takes unfair advantage of the distinctive character of the original packaging and the reputation of the original goods.

In the West, some sectors are all too familiar with the phenomenon of passing off. Owners of strong and successful brands in the food and beverage sector, for example, have long had to deal with subtle forms of copying by low-cost retailers, which commercialise competing products under their own brands, but with packaging that clearly refers to the original product. By doing this, retailers indirectly communicate comparability with the original product and free ride on the original goods' reputation to benefit from their power of attraction.

The same thing is now happening in China, forcing brand owners to respond if they do not want to lose market share to poor copies of their products wrapped in clever copies of their packaging.

The good news is that packaging can be protected in China. However, this requires careful planning and the implementation of a well-thought-out strategy. This article examines what the Chinese legal landscape has to offer in this regard. As we shall see, a coordinated strategy incorporating a combination of different IP laws can result in comprehensive protection through the creation of a bundle of IP rights that Chinese courts are increasingly willing to enforce.

Coordinated strategy to create bundles of rights

A variety of laws can be used to protect packaging: the Trademark Law, the Patent Law, the Copyright Law and the Anti-unfair Competition Law can all play a part, each serving different goals. Trademarks protect the origin of the packaged goods, design patents the external aspect of packaging and copyright the interests of the authors in their works, while both invention patents and utility models can be used to protect a container's technical features. Finally, the Anti-unfair Competition Law can be invoked to protect the overall appearance when packaging is clearly perceived by consumers as identifying a product's origin.

It is therefore crucial that rights holders understand what elements of packaging can be protected and how to achieve this. Some features need timely registration, while others require continuous use, intense promotion and substantial investment.

Protecting packaging through trademark law

A registered trademark is the first form of protection that comes to mind when considering packaging protection. The most common marks – such as logos and brands in Latin or Chinese characters – can be registered under the Trademark Law. In addition, rights holders can apply to register non-traditional marks such as slogans, three-dimensional (3D) signs (eg, the shape of packaging) and colour combinations (although not single colours, as confirmed by the new Trademark Law of August 30 2013 – even though this was expected by many). Combinations of some of these elements can also be registered.

Trademark law thus offers a broad scope of protection, since almost any sign capable of distinguishing the goods of one provider from those of others can be registered and protection granted to the most distinctive elements of packaging. The protection afforded by trademark law can be perpetual (the initial 10-year term can be renewed indefinitely for further 10-year periods), and no conditions of novelty and creativity need be met (as is the case for design patents).

However, distinctiveness may be difficult to prove for non-traditional marks and such applications are examined very strictly by the Chinese Trademark Office. Proving that these signs are capable of serving as an indicator of origin – either inherently or through extensive and long-term use (acquired distinctiveness) – remains a challenge. Hence, registration has been granted only to a select few 3D marks. The same applies for colour combination marks, where applicants must usually prove acquired distinctiveness with evidence of extensive and long-term use.

Even though these signs remain difficult to register, recent court decisions suggest a growing willingness to protect packaging-related trademarks, including 3D marks covering the shapes of bottles of alcoholic beverages. On October 8 2013 the Fuzhou Intermediate People's Court decided in *Hennessy v A-shali* that trademark rights in the shape of the Hennessy VSOP Cognac bottle had been infringed by a local import company. The court held – on the basis of the 3D trademark application materials (although the notoriety of the HENNESSY and corresponding XUAN NI SHI word marks helped in that regard) – that Hennessy had widely used, advertised and promoted its 3D bottle mark, and that due to the high similarity of the shapes at stake, Hennessy's mark had been infringed.

Regarding colour (combination) trademarks, John Deere successfully enforced its yellow and green trademark, which was registered for agricultural machines, against Chinese competitors selling harvesters with green bodies and yellow rims. In its decision of December 24 2013 the Beijing Number 2 Intermediate People's Court found that infringement had taken place, referring to the trademark application materials, which illustrated the colour combination arrangement that the defendants had reproduced on their own machines (green for the machine body and yellow for the rims). Damages were awarded (around €55,000), although the decision is now under appeal. It remains to be seen whether the higher court will confirm the infringement.

Registering and enforcing less conventional signs is thus possible and can be critical to protect packaging in China. However, it remains a difficult exercise, which largely depends on the renown of the signs and related products at stake. Therefore, rights holders should carefully document the use of their trademarks in China and collect information pertaining to market share, sales volumes, the importance and scale of marketing and promotional campaigns and any other facts that might help establish the renown of their brands. This can considerably improve their chances of successfully registering and enforcing such marks and benefiting from their investments, as well as from the substantial growth of brand awareness in the Chinese market.

Protecting packaging through patent law

Chinese patent law recognises three types of patent, all of which can be used to protect packaging.

Invention patents and utility models

These can be used to protect the technical features of packaging. For example, a new and inventive cap for a salt container incorporating a special spout could be protected, provided that the patentability requirements are met (ie, novelty, inventiveness and industrial applicability).

Design patents

These can be used to protect the visual characteristics of packaging, such as shapes or other visible attributes (eg, patterns or colours) or a combination thereof. To enjoy protection in China, designs must be new compared to previous designs (ie, not identical) and meet the creativity requirement (ie, they must be substantially different from prior designs or a combination of features of prior designs). Registration is relatively inexpensive and straightforward (there is no substantive examination of patentability, unless the examiner has good reason to believe that the design lacks novelty), and can be completed within six to 12 months. Once granted, the term of protection is 10 years from the filing date (its European counterpart, the Community design, enjoys protection for up to 25 years).

Chinese law prohibits the registration of two-dimensional (2D) design patents that mainly serve as indicators of origin. However, a pattern that helps consumers to distinguish the goods while also having a strong ornamental effect is patentable. Therefore, packaging containing trademarks can be registered as a design patent, provided that it cannot be considered to be mainly an indicator of origin.

The novelty of designs must be absolute, and the use or publication of a design anywhere in the world will destroy its patentability in China. As a consequence, it is imperative to plan ahead and take this into account from the beginning of the filing strategy. This is underlined by the absence of a grace period in the Chinese design patent regime (China has only a limited six-month grace period for statutory defined non-prejudicial disclosures), and differs from the registered Community design regime, where an application can be validly filed within a 12-month period starting from the first marketing of the product.

As such, 2D (patterns) and 3D (shapes, or shapes and patterns) elements of packaging may thus be protected by Chinese design patents. In a March 25 2013 decision, *Beauty Cosmetics v Mr Niu*, the Shanghai Number 2 Intermediate Court found that containers of facial masks were similar to a patented design owned by Beauty Cosmetics. After assessing the overall visual effects of the packaging at stake, the court decided that the front view of the packaging (ie, that presented to potential consumers) bore a high similarity to that of the design patented package and fell within its scope. The court concluded that the design patent had been infringed and granted injunctive relief and (limited) damages.

This case confirms that Chinese design patents can be a useful addition to trademarks when it comes to protecting packaging. Since protection for 3D trademarks can be difficult to obtain, a workable strategy can register the 3D packaging shape as a design patent (which is easy, quick and cheap) first in order to obtain exclusive rights for 10 years, during which trademark distinctiveness can be acquired. If successful, this allows the rights holder to obtain exclusive rights from the start, followed by potential perpetual protection once trademark rights take over upon the expiration of the design right.

Protecting packaging through copyright law

Copyright is an interesting tool for protecting exclusive rights in packaging. The object of protection is broad and can cover several features, such

as drawings, photographs, original shapes, logos, labels, ornamental features or works of applied art or fine art (ie, 2 or 3D visual works that communicate a certain aesthetic effect). The term of protection is lengthy (generally 50 years from the date of creation), confusion need not be demonstrated to prove infringement and protection is automatic and not limited by territory. Indeed, as China is a signatory to the Berne Convention, any original feature of packaging will be protected upon its creation, even if it is created outside China.

China has established a voluntary registration mechanism through the National Copyright Administration, which grants *prima facie* evidence of ownership and the date of creation. A registration certificate is required by courts or administrative agencies if they are asked to enforce copyright, so registration is recommended and proactivity is a prerequisite.

Copyright protection for packaging delivers results, as evidenced by a January 18 2011 decision of the Nanning Qingxiu District People's Court. The court decided that the copyright covering moon cake packaging owned by Wise-plan Co Ltd – a company specialising in the creation of food packaging – was infringed by Wharton Restaurant Co Ltd (to which Wise-plan had sent some samples). Wharton had commercialised moon cakes wrapped in similar containers and was sued for copyright infringement. After carefully analysing both the similarities and differences, the court found that many similar elements were present in the packaging of both products, and that the few differences were minor and not discernable to a normal observer. Hence, the packaging was considered substantially similar and Wise-plan's copyright was found to have been infringed. Injunctive relief and monetary damages were awarded.

Protecting packaging through the Anti-unfair Competition Law

The Chinese regulations on unfair competition define 'packaging' as 'an auxiliary object or a container for a commodity making the commodity easy to identify, carried about, stored and transported'. The fact that the identification function is specified is significant.

The Anti-unfair Competition Law can be invoked to protect the appearance of the packaging taken as a whole (trade dress). Article 5.2 expressly forbids the use of packaging that is identical or similar to the packaging of a well-known product, if the similarity will create confusion or cause consumers to mistake the source or make a wrongful association with the well-known product.

According to the Supreme People's Court in Case 16/2010, protection will be granted only when proof is given that the packaging's appearance has distinctive features, a reputation of its own and acquired distinctiveness through market use with evidence of secondary meaning. The packaging must thus be clearly perceived as identifying the source of the product (mere reputation of the product is insufficient), and trade dress protection will be available only after intensive use, extensive advertising and market success.

In its December 15 2011 decision in *Sunstone v Shengde* – which involved two local pharmaceutical companies using similar boxes to commercialise a specific children's medicine – the Guizhou Higher People's Court held that Shengde's imitation of the original box constituted an act of unfair competition and violated Article 5.2 of the Anti-unfair Competition Law. The court held that the original product was famous and that Sunstone's box was unique due to its distinguishing characteristics (ie, yellow background, a well-known word mark, a representation of six dolls in Chinese traditional clothing and a distinctive selection and combination of all these elements). Confusion would arise when consumers encountered both boxes because of their configurations, arrangements, colour schemes and similar distinctive features. Hence, the defendant's box violated Article 5.2.

Another provision of the law can play a role in protecting packaging when the confusion requirement is difficult to prove. Article 2 prohibits activities by business operators that damage others' legal rights and interests, disturb the socio-economic order and violate the law's provisions. In view of the intrinsic value of packaging and the substantial financial investment required to develop unique and distinctive packaging – as well as to advertise sufficiently for the packaging to enjoy market recognition – it may be argued that copying the overall appearance of packaging violates the principle embodied in Article 2 if the copier unfairly takes advantage of such investments. Though not easy to prove, the general principle embodied in this provision may therefore be invoked.

Long-term, multi-step strategies

While different laws can be used in combination to create a bundle of rights that can effectively protect the way that goods are packaged in China, careful planning and a sound understanding of the Chinese legal landscape are crucial. The specific grounds to invoke will depend on what feature is copied (eg, the shape of the packaging, overall appearance, unique composition, label, logo, word mark or technical feature) – all have different requirements to secure protection and establish infringement.

The definition of such a strategy requires involving a variety of talents and will include the legal team, as well as the marketing and creative teams responsible for designing the packaging. Rebranding might be necessary to adapt to the local market, but a packaging redesign might also be required to meet the Chinese protection criteria (eg, adding specific logos or distinctive features, or redesigning the shape to meet the design patentability requirements).

It is recommended that all documents related to the creation of the packaging be kept for evidence purposes (eg, the design agreement, the designer's explanation of the creative process, initial sketches, draft versions and other records), as well as evidence of first use or disclosure (eg, printing agreement, first advertisement or first invoice). In addition, during the whole Chinese lifecycle of the product, detailed records should be kept of advertising, sales volumes, market share and use of the related IP rights, as evidence of reputation may be critical to secure registration and enforcement (generally, this helps in all enforcement efforts).

Of course, many challenges remain, including the sophistication of copied packaging. While the cost of securing protection may discourage smaller players, results can be achieved in China for limited expense. Registering the most distinctive trademarks, recording copyright in part or in the overall packaging and registering a new container shape as a design patent can all lead to positive outcomes for a reasonable price. Such a portfolio can then be supplemented later, if this is deemed worthwhile from a business perspective. **WTR**

This article first appeared in World Trademark Review. For further information please visit www.worldtrademarkreview.com

Valentin de la Cour

HEALTH FOOD, NOVEL FOOD, FOOD FOR SPECIAL DIETARY USE

Health food advertising is subject to a specific regulation²⁵ and procedure, as applicants (i.e. health food companies) need to have all advertising content pre-approved by the local office of the CFDA. Application documents include the certificates and approval for the production or import of the health food, as well as the standards, labels and packaging. The approval lasts for one year.

Functions claims are allowed only²⁶ – on a very strict basis – for those products which have been successfully registered as “*Health Food*” (保健食品) with the CFDA. It is an extremely long and costly procedure, as it involves – depending on the specific claim – tests on animals or humans. Even for approved health food, only the specific claims are allowed (same exact wording as provided by the regulations and approved by CFDA). It is strictly forbidden for health food any reference or mention to therapeutic claims/effect. However, according to an official release by CFDA on 7 June 2013, around 90% of health food advertisements on television and newspaper appears to have breached this provision.

Health food advertising shall avoid using the following²⁷:

- expressions such as “*science or research discovers that ..*”, “*experiments or data prove that..*” and similar, as long as they cannot be confirmed/verified;
- claims that the health food product is a traditional method/recipe;
- referral to “*safety*”, “*no toxic side effects*”, “*no addictive*” etc;
- claims that the health food products is necessary for a normal life.

It is explicitly forbidden comparative advertising between health food and other health foods or drugs²⁸.

Health products advertising shall always display the notice “*this product cannot replace drugs*”; on TV advertising, this notice shall appear for the whole duration of the advertising²⁹.

Advertising of health food, novel food and special dietary use food shall display the approval registration number³⁰ for that specific product.

MISLABELING

Mistakes or inaccuracies on the label lead – in several cases – can expose to legal liabilities. Sometimes it can be the wrong translation into Chinese of a food ingredient – such as the famous case of almonds, which have been translated (and labelled) into Chinese as 杏仁 (apricot kernel) until a consumer objected that the correct translation should have been “扁桃仁” or “巴旦木”.

Other times it can be a fake/wrong indication of product's or ingredient's origin³¹, as well as promotion campaigns (with prizes or vouchers) omitting to indicate the exact ratio of “winning” products³² are also considered as commercial fraud to the consumers.

²⁵ Mainly, Implementing regulations for examination of health food advertising of 2005

²⁶ General Standard for Health Food GB 16740-1997

²⁷ Implementing regulations for examination of health food advertising, art. 8

²⁸ Food Advertising Implementing Regulations, art. 12

²⁹ Implementing regulations for examination of health food advertising, art. 11

³⁰ Those kinds of food products need prior approval/registration with CFDA

³¹ For instance, in a case in 2013 in Shandong province, an ice-cream franchisor was found guilty of fake advertising as he claimed to sell ice-cream made with 100% Italian products (while actually all ingredients were produced locally)

³² Authorities require a specific ratio per each specific SKU (cannot provide an average ratio of two or more SKUs)

Labels can undergo the scrutiny by PRC authorities even if they are in foreign languages – as long as they are able to mislead potentially Chinese consumers: it is the case for instance of organic food, which can be labelled as “ORGANIC”, “BIO” or equivalent (in Latin alphabet) only if it complies with PRC standards for organic (“有机”) food and has obtained the relevant PRC certificates in this regard (which are different from European and American ones). Japanese labels – whose *kanji* are same or very similar to Chinese non-simplified ideograms – also incur – to a wider extent – in this risk.

SANCTIONS

Violation of regulations on advertising can trigger several sanctions, depending on the specific case. Advertising Law³³ punishes several misconducts of advertisers as well as advertising agencies/operators – with fines up to five times the amount of the advertising expense.

Food Safety Law – and its famous article 96 – allows consumers to claim from either the producer or the seller (i.e. the retailer) punitive damages up to ten times the price paid in case of purchase of food product not complying with food safety standards³⁴.

Mis-representation (through advertising or other means) of the quality of own goods or service is also punished by Anti-Unfair Competition Law with fines up to 200,000 RMB³⁵.

The Consumer Protection Law also provides grounds for punishment in some cases – e.g. for non-compliant promotions through prizes/awards, which can be considered as fraud to the customer³⁶.

Finally, the (soon-to-be approved) revision of Food Safety Law³⁷ provides that advertising operators – as well as publishers, designers, producers – involved in false food advertising shall bear joint liabilities together with the advertisers (food producers/traders).

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³³ Advertising Law, artt. 37; 39; 40

³⁴ With the *Judicial Interpretation on Issues concerning the Application of Laws relating to Food and Drug Disputes* of 9 December 2013, the Supreme Court has confirmed that such amount is due to the consumer even if the consumer purchases the goods being aware of their non-compliance.

³⁵ Anti-Unfair Competition Law, art. 24

³⁶ Art. 55 of the revised Consumer Protection Law provides penalties up to 300% the paid price (and in any case not less than 500 RMB) in case of fraud to customers.

³⁷ Draft of revised Food Safety Law, art. 76, currently under public-comments phase until 31 July, 2014.

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Register

**Corporations shall
 pay attention to the
 recent judicial trend
 of foods & medicines
 disputes in China**

HFG Law Firm & Intellectual Property Practice
Elena LI

China
 January 20 2014

HFG

On December 9, 2013, the Provisions of the Supreme People's Court on Issues Concerning the Trial of Cases of Foods and Medicines Disputes (hereinafter as is referred to "the Provisions") has been passed at the 1599th Conference of the Court's Judicial Committee, which gives explanation to the solution to the disputes of foods and medicines that are provided in Tort Law, Contract Law, Consumer Protection Law, and Law of Food Safety of the PRC. The Provisions was enacted on December 23, 2013, and will come into force on March 15, 2014.

According to Article 3 of the Provisions, where actions are instituted for disputes arising from the quality of foods or medicines, manufacturers and sellers cannot defend with the reason that purchasers insist to buy the foods and medicines despite knowing they are with problem of quality. The Court shall overrule the defense with that reason. The Provisions gives a clear role of a special group – those people who professionally crack down on counterfeit – in a lawsuit of consumer & protection. The purchaser shall be considered as a consumer, no matter whether he buys the fake products knowingly or not, and enjoys the rights to claim exemplary damages, which lead to the loss of one of the legal backgrounds for "A complaint is brought by the purchaser in bad faith" which the manufacturers and operators used to raise in the past.

Subject to Article 4 of the Provisions, manufacturers and sellers shall be liable to the quality and safety of the gifts. That the consumers have not paid a consideration for the gifts cannot exempt the responsibility that shall be taken by the merchants. But the liability shall be on the premise that the gifts incur actual damages to the customers.

In the perspective of network transactions, Article 9 of the Provisions requests the providers of network transaction platforms to compensate the consumer firstly when consumers suffer damages due to the transaction. This is because the platform providers often ask high entrance fee when merchants enter their platforms, which enable the providers to give a compensation before pursuing the merchants. At the same time, the providers are liable to provide the real name, address and effective contact ways of the manufacturers and sellers of the foods and medicines to the consumers. The platform providers shall take the responsibility if they fail to give the information. If the platform providers know that the manufacturers and sellers of the foods and medicines infringe the legal rights and interests of the consumers, and fail to take any necessary measure, the providers constitute a joint tort.

Additionally, the Market Supervision Management Bureau of Pudong New District has been officially established since January 1, 2014. The bureau is merged from Administration of Industry and Commerce, Quality and Technical Supervision Bureau, and Food and Drug Administration Bureau, so as to break the barrier from separate supervision and management, and to construct a united system of supervision over the whole process from manufacturing to exchanging, and to consuming.

You can find more about the Provisions at:

http://www.court.gov.cn/qwfb/sfjs/201401/20140113_191489.htm

Tags China, Product Regulation & Liability, HFG Law Firm & Intellectual Property Practice

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Can non-competition indemnity be included in the salary?

HFG Law Firm & Intellectual Property Practice
Nicola Aporti and Alan Xu

China
June 10 2014

HFG



Economic compensation is a mandatory element of any non-competition clause.

PRC law¹ requires non-compete compensation to be paid by the former employer to the former employee every month during the non-competition period. This means that, after the former employee stops its employment relationship with the former employer, the former employer shall pay every month – for the whole duration of the non-compete period – the indemnity.

In practice, however, companies often do not implement such post-termination payment system, but still prefer to pay the non-competition indemnity during the employment relationship, relying on clauses such as *"the parties agree that the salary already includes the non-competition indemnity to the Employee"*.

Is such a system enforceable under PRC law?

When disputes arise, former employees usually invoke application of article 23 of the Labor Contract Law to (i) claim that the pre-paid indemnity is merely part of the salary and (ii) challenge the validity of their non-compete obligations on the grounds that no indemnity has actually been paid to them.

Such reasoning however is not accepted by all courts or arbitration commissions.

In Shanghai, for example, courts appear to have a more flexible approach and to value more the Parties' agreement.

In a recent case, currently under appeal before the Intermediate Court n. 1, a labor arbitration commission in Shanghai held the non-competition clause to be valid even if the indemnity had been paid during the employment relationship. Specifically, in this case, the labor contract stated that – out of the total salary – an amount of 500 RMB was paid per month as non-compete indemnity².

In another similar decision, dating back to 2011, the labor arbitrator dismissed the former employee's claim that the non-compete clause was invalid due to its conflict with article 23 of Labor Contract Law and ruled in favor of the former employer, expressly stating that *"the non-compete clause was inserted into the labor contract, which indicated that both parties had autonomously agreed on such non-compete obligation"*.

Even if – for employers – the safest practice remains post-termination payment of non-compete indemnity pursuant to article 23 of the Labor Contract Law, it appears that – at least in Shanghai area – employers have higher chances of winning non-competition litigations even when the non-compete indemnity has been paid in a different way.

The key point is that the amount of the non-compete indemnity shall be clearly determined; otherwise, the employee can successfully claim non-competition clauses as invalid³. Such determination shall result clearly from the employment contract; alternatively, some arbitrator may also allow such determination to be proofed through evidence, such as payment slips to the employee – but this require separate payments for the salary and for the indemnity (i.e. during the employment period every month the company should pay to the employee through separate bank remittances the salary and the non-competition indemnity, and each payment shall show the appropriate justification).

To view all formatting for this article (eg. tables, footnotes), please access the original [here](#).

Tags China, Employment & Labor, Litigation, HFG Law Firm & Intellectual Property Practice

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Register

Being the director of a competitor can be grounds for dismissal for senior manager

HFG Law Firm & Intellectual Property Practice
Nicola Aporti, Neo Lao and Alan Xu

China

July 29 2014

HFG



Author page »

In a recent decision, Shanghai Pudong Intermediate Court confirmed the validity of the dismissal of a foreign general manager by WFOE. This was said to be on the grounds that the manager was also a director of a competitor.

The general manager was fired by company X – as soon as his appointment as director of company Y had been discovered – on November 2013, on the grounds that he had violated the labor contract law, the company by-laws as well as its statutory duties towards the company because of its involvement with the competitor.

The general manager had then sued Company X for unfair dismissal, claiming that (i) he was only a nominal director of Company Y, without real involvement in its business operation, (ii) company X's by-laws forbid employees from entering into labor agreement with - not from being directors of - other companies and (iii) no damage had been caused to Company X.

The general manager had never entered into any non-compete or confidential agreement with its employer.

The Shanghai Pudong Intermediate Court held that the dismissal was fair, mainly based on the following grounds:

- The general manager is not only an employee, but also a key organ in a company;
- special obligations for the general manager arise directly from the Company Law and the Articles of Association, on top of those from his employment contract;
- The Articles of Association of Company X provide that "the general manager and other senior executives of the company shall not simultaneously act as general manager, principal or employee in other economic organizations. The employees (including general manager and other senior executives) shall not conduct commercial competition against the company";
- Company Y has a business scope including production of same products as Company X, therefore shall be deemed as a competitor;
- Being a director of Company Y implies – even just potentially - involvement in key decisions and strategy of such company, therefore can be considered as involvement in a competing business.

Despite the case was very peculiar in many aspects (i.e., the legal representative of the competitor was the general manager's wife; some key-employees had left company X to be hired by the competitor), it is still interesting to consider that – when senior managers are involved – employers can in some cases rely on a broader protection than the mere (and very restrictive) provision of labor Contract Law.

Tags: China, Company & Commercial, Employment & Labor, Litigation, HFG Law Firm & Intellectual Property Practice

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OTHER MEDIA

TV COVERAGE – A Cluster Action against a Counterfeiting Network in China

PSB Cluster Action of IP Protection for U.S. HYPERTHERM Inc.

State Ministry of Public Security has awarded this case as top 10 influential IP criminal cases on September 19, 2014, and has selected it as top 5 IP criminal cases all over China in 2014.

Abstract

In May 2014, authorized by HYPERTHERM, HFG carried out a large number of investigations targeting two factories in Changzhou City, Jiangsu Province. Both factories HFG targeted were manufacturing and selling counterfeiting consumables of plasma cutting equipment with “HYPERTHERM” trademark. As a result of HFG’s extensive investigation, on May 20, 2014, assisted by HFG, Changzhou police succeeded in cracking down on the two target factories, seizing over 10,000 pieces of counterfeit HYPERTHERM consumables of plasma cutting equipment, more than 200,000 pieces of counterfeit HYPERTHERM trademark labels, and over 20 sets of machine tools for counterfeiting.

This case is the first cluster action in Jiangsu Province approved by State Ministry of Public Security through the intranet: comparing with the traditional way of approval in writing. This meant the pace of the cluster action was a lot quicker, and a case that is approved through the intranet also means higher importance in the system of police.

Media Coverage

Link to the report and video from Changzhou local Media:

<http://www.wiyanghu.com/Tv/view/id/33753.html>



HFG COMPANY PROFILE

Founded in 2003 by 10 professionals in the IP sector, HFG counts nowadays 90 professionals distributed in Shanghai, Beijing and Guangzhou and consisting of three entities authorized by Ministry of Justice, recorded with China Trademark Office and licensed under the State of Intellectual Property Office for all patent related practice. Since its foundation HFG has focused its practice in litigation, anti-counterfeiting, trademark filing and administrative disputes, patent filing and prosecution, copyright, and media. On its 10th anniversary HFG strengthened and confirmed its international reputation by being awarded 'Recommended Practice' by Legal 500 since 2010 (No.1 in Shanghai) and by Managing Intellectual Property.

HFG is proud of the highest standard and quality of service rendered with uncompromised understanding of the business interests of clients from all over the world. Collectively the firm commands a profound and diversified knowledge base and represents the clients at various levels before all the state-level agencies and administrative and judicial authorities. Going beyond traditional areas of practice, HFG integrates commercial and corporate law services providing a one stop station to companies whose intangible assets out value the tangibles.

HFG services have a special focus on IT and telecom, petrochemical, wine and liquors, fashion, cosmetics, retail and e-commerce, food and pharma regulatory, licensing and monetization of patented technology. In 2013 HFG conducted around 3000 trademark filings, more than 70 litigations in relation to IPRs, over 1000 anti-counterfeiting actions including, but not limited to, administrative and criminal cases, 6000 trademark administrative disputes, 5 mergers and acquisition cases, and around 400 patent related prosecution cases and disputes.

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