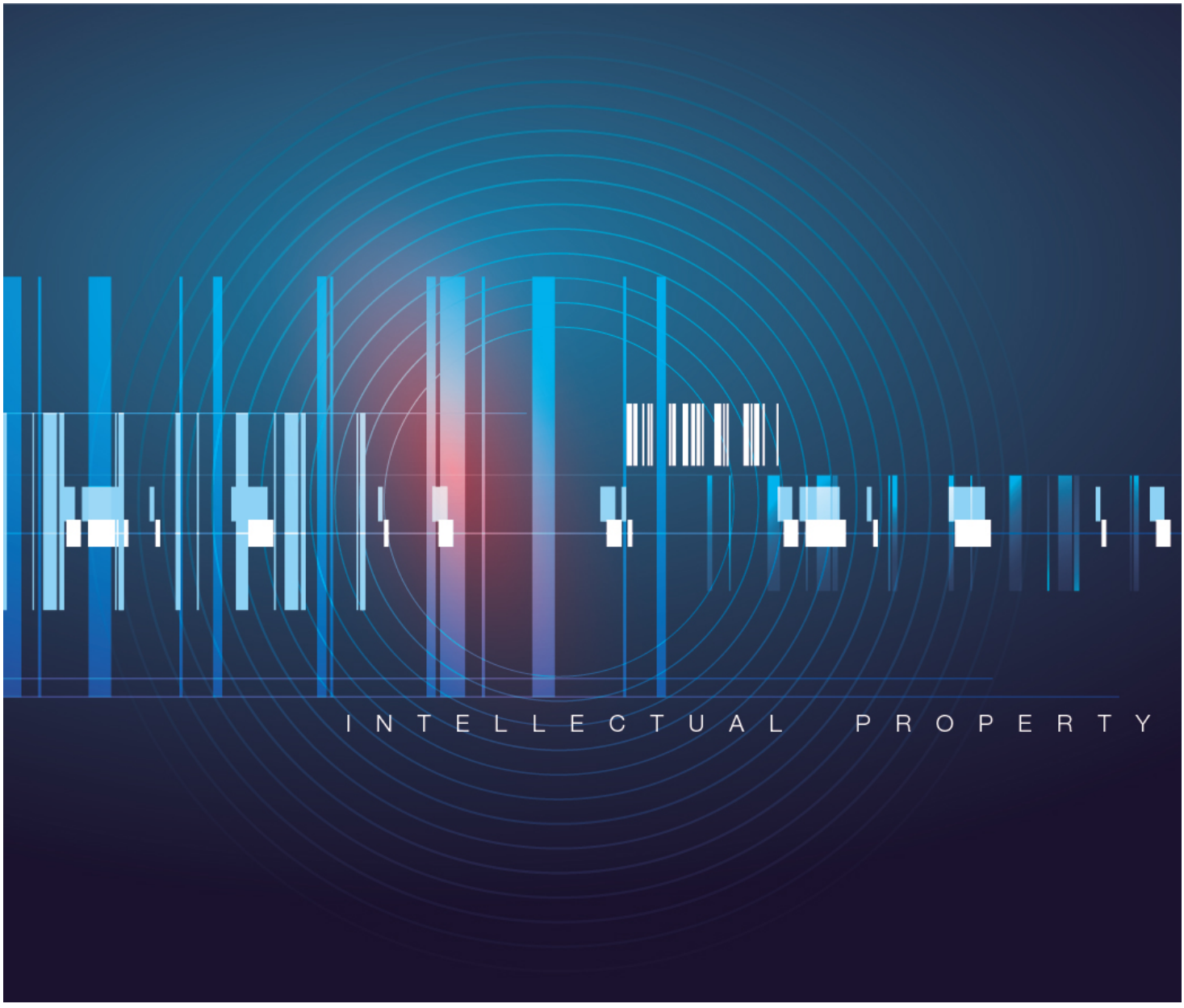
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CONTENTS

Newsletter

News

Top-tier Firm in IP by Legal 500 01

Honored China Business Law Awards Winner 2019 03

The Patent Law Amendment published for comments 04

China passes Foreign Investment Law to enhance IPR protection and ensure free technology transfers 05

The IP Court of the Supreme Court held its first hearing 06

Jaguar Land Rover wins the unfair competition case against Jiangling 07

Articles

China is amending the Patent Law 09

How to increase the amount of damage compensation in Chinese patent infringement litigation 12

Declarations of non-infringement require particular strategy and procedure 15

Piercing the corporate veil in Chinese trademark infringement cases 20

Top-tier Firm in IP by Legal 500



In January 2019, Legal 500 released its annual survey results. CCPIT Patent & Trademark Law Office, once again, was in the rank of Tier 1 of the TOP-TIER FIRM in China in the area of intellectual property.

Dedicated in providing the most updated information about the global legal market for in-house legal for years, Legal 500 has its readers in over 100 countries and areas. The research, conducted on a global scale, is based on feedbacks from 250,000 clients worldwide, interviews with lawyers and legal consultants and the opinions of researchers. CCPIT Patent & Trademark Law Office, finally stood out and was recognized as a TOP-TIER FIRM in China in the area of Intellectual Property. According to Legal 500, "the team from CCPIT Patent & Trademark Law Office handled a number of high-value matters, including for a major pharmaceutical company, and for household names from the oil and gas and the consumer electronics industries."

Honored China Business Law Awards Winner 2019

The editorial team of China Business Law Journal presents the law firms that stand out with their performance in the year of 2019 on March 12, 2019.

The China Business Law Journal team has received votes and recommendations from corporate counsels, senior managers and legal professionals from around the world. To determine the winning firms, the team has evaluated each of their landmark deals, cases and other notable achievements in the past year, in addition to carefully considering the recommendations and comments they received. The awards are designed to showcase the diversity of talent in the legal services market, while offering assistance to in-house readers as they consider and select their external legal advisers.

CCPIT Patent and Trademark Law Office is honored China Business Law Awards Winner in the area of intellectual property (patent) . The Awards show that our excellent service is widely recognized by our clients .



The Patent Law Amendment published for comments

PATENT

The draft amendments to the Patent Law of the People's Republic of China (hereinafter referred to as the draft) were published for comments from the public on the National People's Congress website on January 4, 2019. The draft proposes mainly three aspects of changes, (i) measures for enhanced patent protection; (ii) promotion of exploitation and application of patent, and (iii) more user-friendly proceedings. Some highlights of the draft include:

The draft increases damages for infringement of patent rights. For willful patent infringement with serious circumstances, the damages may be one to five times of the calculated damages. The court may award statutory damages of from RMB 100,000 to RMB 5,000,000 in light of particular factors. The draft gives the Intellectual Property Offices more power to handle patent infringement disputes upon request of the patent owner or an interested party. The draft puts more onus of proof on the accused infringer in determining damages. The draft clarifies the joint liabilities of the Internet service provider if it doesn't delete, block or disconnect the link to the infringing products based on an effective judgment, ruling, mediation agreement timely. According to the draft, the term of design patent is extended from ten years to fifteen years. The term of pharmaceutical patent will also be extended by five years at most but the effective patent term for such innovative pharmaceuticals on the market shall not exceed fourteen years.

China passes Foreign Investment Law to enhance IPR protection and ensure free technology transfers



On March 15, 2019, the National People's Congress adopted the Foreign Investment Law. Becoming effective on January 1, 2020, the Law will replace China's three current separate foreign investment laws enacted in the early years of China's reform and opening, including Chinese-Foreign Equity Joint Ventures Law, Wholly Foreign-Owned Enterprises Law and Chinese-Foreign Contractual Joint Ventures Law.

The Foreign Investment Law provides that protection of intellectual property rights and free technology transfers are core elements for investment protection. According to Article 22 of the Law, the State shall protect the intellectual property rights of foreign investors and foreign-funded enterprises, protect the legitimate rights and interests of holders of intellectual property rights and the relevant right holders, and shall pursue legal responsibilities according to law against infringing behaviors; the State shall encourage technology cooperation on the basis of free will and business rules, technology cooperation conditions shall be determined by all investment parties upon fair and equal negotiation, and no administrative organ or functionary working therein shall force the transfer of technologies by administrative means. Article 23 of the Law further provides that, the administrative organs or functionaries working therein shall keep the trade secrets of foreign investors and foreign-funded enterprises obtained in carrying out their duties and shall not disclose or unlawfully provide to others.

The above provisions send out a positive signal, i.e. China's government respects foreign investors' intellectual property rights and will lawfully protect the intellectual property rights of foreign investors and foreign-funded enterprises by taking solid and effective measures, so that their investment will become business return effectively. The Law encourage technology cooperation based on voluntariness and commercial norms. The conditions for technology cooperation shall be negotiated and agreed upon by the investment parties; and forced technology transfer through administrative measures is prohibited. Those functionaries in the administrative organs having chances of accessing foreign investors' trade secrets including technology secrets and business secrets shall abide by the laws and not infringe upon those secrets. All these measures show that Chinese government is willing to creative a legal environment for foreign investment, so as to encourage foreign investment, guarantee its safety and return.



The IP Court of the Supreme Court held its first hearing

On March 27, 2019, the newly established IP Court of the Supreme People's Court of China held its first oral hearing of an appeal case over an invention patent. The IP Court of the Supreme Court was established on Jan. 1, 2019, in Beijing, mainly as a second instance court to decide IP cases appealed from jurisdictions throughout the country. A five-member collegial panel heard the case.

The appeal was instituted by Xiamen Lukasi Car Accessories Co. Ltd. and Xiamen Fuke Car Accessories Co. Ltd., two Chinese car accessories companies. In the first instance, the Shanghai IP Court held that they infringed the patent of a French company Valeo Systemes D'essuyage, relating to windshield wiper.

After the hearing, the panel ruled that the acts of the appellants constituted infringement and upheld the Shanghai IP Court's decision.

Jaguar Land Rover wins the unfair competition case against Jiangling



Jaguar Jiangling

On March 13, 2019, the Court of Chaoyang District of Beijing decided that Jiangling Holdings Limited (hereinafter referred to as Jiangling) should immediately stop all the acts of unfair competition including manufacture, display, pre-sale, sale of its automobiles named “Land Wind X7”, and pay compensation to Jaguar Land Rover Company Limited (hereinafter referred to as Jaguar Land Rover).



In February 2009, Jaguar Land Rover launched the Range Rover Evoque, which entered Chinese market in November 2011. The Range Rover Evoque had gained great success in China. The Range Rover Evoque, however, is not protected by design patent, since it was displayed more than 6 months before the effective filing date in China.

Land Wind X7 of Jiangling, which was unveiled at the International Motor Exhibition (Guangzhou) in November 2014, aroused wide attention for its highly similar design to the Range Rover Evoque. In 2016, Jaguar Land Rover sued Jiangling for unfair competition in the Court of Chaoyang District of Beijing.

The Chaoyang Court found, through long-term, sustained and extensive promotion, the Range Rover Evoque became well known in the market and by the relevant public. The claimed “five unique decorative features” are decorative from the view of the whole automobile or its parts and belong to decoration in shape and construction of the goods. After promotion and sales, the unique design of the Ranger Rover Evoque functions to identify the source of goods and is able to enable the public to connect itself with the automobile maker.

The Court held that the unique design of the Range Rover Evoque belongs to the "decoration with certain influence" protected by Article 6 (1) of the Anti-Unfair Competition Law of 2017. The appearance of the Land Wind X7 produced by Jiangling is of no substantial difference from the Range Rover Evoque and has used the claimed “five unique decorative features” of the later, and that the resemblance between the two is susceptible of causing widespread consumer confusion.

The Chaoyang Court therefore made a decision siding with Jaguar Land Rover and ordering Jiangling to immediately stop all the acts of unfair competition and pay certain compensation.



China is Amending the Patent Law

By Chuanhong Long

China's top legislature, Standing Committee of the National People's Congress (SCNPC), had a first reading on the Draft Amendment of the China Patent Law at the end of December 2018. This amendment would be the fourth amendment of the China Patent Law since it came into force in April 1985. The Draft Amendment was proposed by the State Intellectual Property Office at the end of 2015 and approved by the State Council in December 2018 after long discussion.

SCNPC invited public comments on the Draft Amendment on Jan. 4, 2019. FICPI has submitted its comments to SCNPC expressing its concerns to some of the proposals.

After collecting public opinions on the Draft Amendment, the SCNPC will have a second or even third reading on the Draft Amendment (possibly with further amendments) in a few months. Usually, the Draft Amendment will be approved by the SCNPC after



the second or third reading.
The major contents of the Draft Amendment are introduced as follows.

1.Strengthening the patent protection against infringement

One of the major objectives of the fourth amendment of the Patent Law is to strengthen the patent protection against infringement. In order to achieve this objective, the following measures were proposed in the Draft Amendment.

(i) Introducing punitive damages for serious willful infringement for the willful infringement of patent rights: if the circumstances are serious, the amount of compensation may be determined within one to five times the amount calculated according to the losses suffered by the patentee, the benefit obtained by the infringer or the multiple of the patent licensing fee.

(ii) Increasing the amount of statutory damages: in case it is difficult to calculate the amount of compensation due to patent infringement, the amount of compensation that the court may determine at its discretion increases from 10,000 Yuan RMB to 1 million Yuan RMB (about US$ 1,500 to US$ 147,000) as stipulated in the current Patent Law to 100,000 Yuan RMB to 5 million Yuan RMB (about US$14,700 to US$ 735,000) in the Draft Amendment.

(iii) Ordering the defendant to provide evidence that can prove the damages: in order to determine the amount of compensation, when the patentee has done his best to provide evidence but the accounting books and materials relating to the infringement are mainly in the possession of the infringer, the court may order the infringer to provide the accounting books and materials relating to the infringement. Where the infringer fails to provide or provides false accounting books or materials, the court may determine the amount of compensation by reference to the claims of the patentee and the evidence as submitted.

(iv) Enlarging the authorities of the IP administration: when handling the patent infringement dispute cases, the IP administration may make inquiries of the relevant persons, investigate into the matters, conduct on-spot inspection, examine and make copy of the contract, invoices, accounting books and other materials, and inspect the alleged infringing products. According to the current patent law, the IP administration only has such authorities when handling the cases relating to the passing off of the patent right.

(v) Adding the Internet Service Provider's (ISP) obligation to stop patent infringement: the ISP shall be obligated to take necessary steps, such as deleting, blocking or disconnecting the link of the infringing products, upon the request of the patentee on the basis of the effective judgment, order or conciliation statement issued by the court or the decision made by the IP administration. If the ISP fails to take necessary measures in time after receiving the notice, it shall bear joint liability for the extended portion of damages with the internet user who infringes the patent right.

(vi) Extending the statute of limitation on an action against patent infringement: the statute of limitation on an action against patent infringement is extended from two years in

the current patent law to three years in the Draft Amendment, counted from the date on which the patentee knows about or should have known about the patent infringement.

2. Extending the patent term of design and innovative drugs

(i) Extending the patent term of design from 10 years to 15 years to prepare for joining the Hague Agreement.

(ii) Providing patent term extension for innovative drugs: in order to compensate for the time taken for review and approval of innovative drugs for marketing, the State Council may decide to extend the duration of the patent right for the invention of the innovative drugs for which marketing approval applications are filed in China and abroad simultaneously, for a period of no more than five years, and the total effective duration of the patent right shall not exceed fourteen years from the marketing of the innovative drugs.

3. Perfecting the patent granting system

(i) Adding the domestic priority for design application: if, within six months from the date the applicant first files an application for design in China, he files another application for design in China for the same subject matter, the applicant may enjoy the right of priority.

(ii) Giving the applicant more time to submit certified copy of the priority document: the applicant who requests the right of priority can submit, within 16 months from the date of filing the first application for a patent for invention or utility model, certified copy of the patent application documents filed for the first time. According to the current patent law, the time limit to submit certified copy of the priority document is within three months from the filing of patent application in China.

4. Promoting the exploitation and utilization of patent

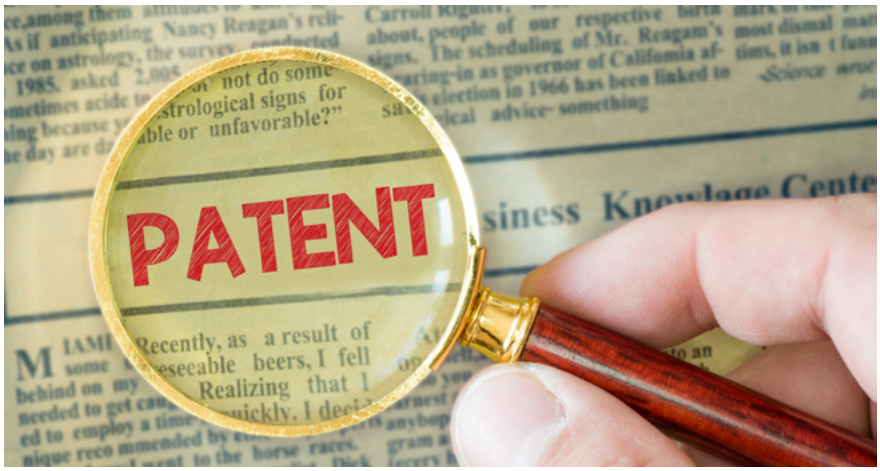
(i) Clarifying the patentee's right to dispose the patent right: for an employment invention-creation, the entity may dispose the right to apply for patents and the patent rights according to law and adopt property incentives, such as equity, option, dividend, etc. to enable inventors or designers to reasonably share the profits brought by the invention-creation, and promote the implementation and application of relevant invention-creations.

(ii) Establishing the open license system: the patentee can make a statement of open license to the China Intellectual Property Administration (CNIPA), i.e. the patentee is willing to give license to anyone at a defined royalty for his patent. But, before the withdrawal of the statement of the open license, the patentee shall not grant exclusive or sole license to others.

5. Adding restrictions to the patentee when enforcing the patent right

The application for patent and exercise of the patent right shall follow the principle of good faith, and shall not harm the public interest, unfairly exclude or limit competition.

Although the above Draft Amendment may be further amended before it is finally approved by the SCNPC, the direction of the amendment to the patent law is very clear, i.e. to further strengthen the patent protection in China.





How to increase the amount of damage compensation in Chinese patent infringement litigation for a patent right holder

By Guoxu Yang, Ji Liu

Once a patent right is infringed in China, the patent right holder or an interested party may seek remedies, such as injunctions (preliminary injunction and permanent injunction) and compensatory damages through filing a patent infringement lawsuit against the alleged infringer(s). Compensatory damages, according to Article 65 of the Chinese Patent Law, are determined in the following order: 1) actual losses the patent right holder suffered due to infringement; 2) the illegal gains of the infringer from infringement; and 3) reasonable multiples of the licensing fee.

In the case where the above options 1 to 3 could not be clearly calculated, statutory damages, currently Rmb100,000 to Rmb1 million (about US$1,500 to US$150,000) may be applied upon the request of the plaintiff. However, according to some research, the amounts of damage compensation granted to the plaintiff by the Chinese courts in patent infringement cases were far less than expected and generally very low. A statistic shows that the average damages compensation for patent infringement was merely Rmb80,000 (US$12,000) several years ago. The situation in general has not changed significantly since then, although huge damages have been awarded in a few particular cases.

One of the main reasons for low damages awards may be the burden of proof rule in China, where the burden of proof is borne by claimant. China does not have the discovery procedure which is well-established in some counties, such as in the United States. It is usually very difficult for the plaintiff to obtain evidence for damage compensation calculations in China. Therefore, it is also very hard for the court to support the plaintiff's expected damages.

However, there are, indeed, some successful cases in which high damages were granted to the plaintiff. According to these cases and our experience, the following measures may be considered for the plaintiff in order to increase the damage compensation as much as possible:

Collect evidence as much as possible for the damage claim

In a patent infringement lawsuit, to prove the plaintiff's actual losses due to infringement is usually difficult as the plaintiff's profit change may not be directly related to the defendant's infringement, or the relationship is not so obvious to prove. Therefore, it is generally not easy to prove the plaintiff's actual losses.

In comparison, it may be more feasible to prove the defendant's illegal gains from infringement. For example, information such as commercial advertisements in relation to the production, sales volume, and the scope of the defendant's own products can be collected as evidence for damage compensation. The average profit rate may be obtained through third-party competitors, etc.

In order to lower the difficulty of collecting evidence, the Chinese Supreme People's Court introduced a rule referred to as the "obstruction of proof" rule. Under this rule, for evidence such as those in relation to the amount, sales and profits, etc., of the alleged infringing products which are in the hands of the defendant, if the court requests the defendant to provide the evidence and the defendant refuses to provide, the court may adopt the evidence provided by the plaintiff, including the preliminary evidence provided by the plaintiff. In the case Jiuyang v. Shanghai Shuaijia for patent infringement, the first instance court ordered Shanghai Shuaijia to surrender the account book reflecting the making and selling of the alleged infringing products, but Shanghai

Shuaijia refused. The court then supported Jiuyang's claim of Rmb3 million (US$450,000) based upon the evidence provided by Jiuyang. Therefore, it is very important for the plaintiff to actively collect evidence for the damage claim.

Apply for court investigation or evidence preservation

In cases where the right holder has exhausted all the means of collecting evidence, or if the evidence is difficult to obtain due to objective reasons, the plaintiff may request the court to investigate and obtain the evidence. For example, in the patent infringement dispute case Watchdata v. Hengbao, the evidence of the amount of products sold by the defendant Hengbao to a number of banks was obtained and confirmed by the court through court investigation upon the request of Hengbao. In this case, the court also applied the obstruction of proof rule because the defendant refused to provide the sales evidence of its products. The court ultimately found the defendant illegally profitted Rmd49 million.

In addition, in the earlier utility model patent infringement dispute case Chint v. Schneider, the plaintiff Chint requested the court undertake evidence preservation measures and to seal the defendant's sales invoice and list. The court-commissioned auditor concluded that the defendant, from August 2, 2004, to July 31, 2006, had achieved sales of the infringing products of Rmb883,670,662.03. According to the audit conclusion, the court of first instance fully supported the plaintiff's damage claim of Rmb334,869,872.

Claim damage compensation based on licensing fee

In China's patent infringement litigation, if the losses suffered by the patent right holder due to the infringement or the illegal gains of the infringer due to the infringement is difficult to be calculated, the court may reasonably determine the amount of compensation by reference to one to three times the licensing fee of the patent in question. Therefore, the patent right holder should pay special attention to the signing of the license agreement, specify the rate and calculation method of the licensing fee, and preferably complete the recordation procedure in the Patent Office for the license agreement, as well as preserve the transaction record of the license fees. In the case Iwncomm v. Sony Mobile (China), in relation to the WAPI standard patent dispute, the plaintiff Iwncomm used the patent license agreements in question as the basis for the damage claim, and won a total of Rmb9,103,367 for the damage compensation in Beijing IP Court, an award which was confirmed by the Beijing High Court.

According to latest news, the newly drafted amendments to the Chinese Patent Law have been submitted to the Standing Committee of the National People's Congress for deliberation, hopefully to be passed in the year 2019. According to the draft, the statutory compensation for patent infringement will be increased from a maximum of Rmb1 million to Rmb5 million, and one to five times punitive damages for willful infringement might be introduced. Although the "quintuple damage" proposal has caused some controversy, it is almost everyone's consensus to at least write triple damage into the law so as to deter malicious and intentional infringement and protect innovations more effectively in China. The amount of compensation for patent infringement lawsuits in China is expected to increase significantly and may enhance the protection of the interests of patent owners and stimulate innovation. By properly taking the above evidence collection measures for damage compensation, the damages awarded by the courts may be higher – or even much higher – than the statutory damage compensation.



Declarations of non-infringement require particular strategy and procedure

By Bin Zhang, Lei Fu



In the Chinese judicial system, declarations of non-infringement of intellectual property rights began around 17 years ago. On July 12, 2002, the Supreme Court issued a reply to Jiangsu High Court. In the reply, the Supreme Court confirmed that declarations of non-infringement of patent rights could be used as a cause of action in the case Suzhou Longbao Bioengineering Industrial Company v. Suzhou Langlifu Health Products Co., Ltd., the first non-infringement declaration case in the IP field.

Declarations of non-infringement of IP rights are generally regarded as connected to IP infringement. As a result, non-infringement declaration litigation has similar features to IP infringement litigation, but also has its own characteristics in terms of cause of action, the basic requirements for initiating, jurisdiction and claims.

Cause of action

Non-infringement declarations of patent rights, trademark exclusive rights and copyright were included in the Provisions on the Cause of Action of Civil Cases issued by the Supreme Court in 2008 as fourth-level causes of action. In the 2011 amendment of the provisions, disputes over confirmation of non-infringement of intellectual property rights were added as a third-level cause of action under "disputes over IP rights and infringement". At present, non-infringement declarations of new plant variety rights, integrated circuit lay-out designs and computer software copyright are also included as fourth-level causes of action in the 2018 amendment of the Provisions on the Cause of Action of Civil Cases.

IP-related non-infringement declarations not listed as a cause of action, for example declarations of non-infringement of business secrets, can still be accepted by the courts, as long as they fulfil the requirements for acceptance of a civil case set forth in the Civil Procedure Law. The specific cause of action can be decided according to the IP right involved in the non-infringement declaration.

Basic requirements for initiating a non-infringement declaration

The purpose of non-infringement declaration litigation is to prevent IP owners from improperly utilizing their IP rights, which would put third parties' rights and interests under threat. Certain requirements must be met before initiating a non-infringement declaration. Article 18 of the Interpretation of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Patent Infringement Dispute Cases (Article 18 of Judicial Interpretation No. 2009-21) clearly sets forth requirements for initiating non-infringement declarations of patent



rights. The Supreme Court pointed out in a civil ruling that Article 18 could also be applied to other IP-related non-infringement declaration litigation. Therefore, the basic requirements for initiating a non-infringement declaration can be summarized as follows:

1) The right owner gives a warning of IP infringement to the alleged infringer.

2) The party warned or an interested party of the party warned sends a written reply to the right owner, requesting it to withdraw the warning or initiate litigation.

3) The right owner neither withdraws the warning nor files a litigation within a reasonable period.

4) The party warned or an interested party of the party warned can file a litigation with the court requesting a declaration of non-infringement of IP rights.

Scope of warning

In view of the above requirements, a qualified warning is crucial for the alleged infringer to initiate a non-infringement declaration. Whether the document from the IP owner or the action taken by the IP owner can be regarded as a warning is a key issue in non-infringement declarations. A warning is not limited to a warning letter, it also includes public announcements, complaints filed with local administrations and notification of detention of goods issued by customs, which could put the alleged infringer's rights and interests in an uncertain status. To better explain the scope of warning, we would like to analyze some rulings and judgments issued by the different levels of the PRC courts.

A public announcement which does not have a specific target could be regarded as a warning to a specific party, who could then initiate a non-infringement declaration litigation within a certain time period after the announcement has been published. In the Supreme Court's civil ruling (2016) Zui Gao Fa Min Shen No. 351, the Supreme Court explained that a public announcement issued by the lawyer of the trademark owner would influence a plaintiff who uses the mark on its products, thus would certainly lead to the question of whether the plaintiff's use constitutes trademark infringement or not and put the plaintiff's right under uncertainty. Therefore, the plaintiff could initiate non-infringement declaration litigation if the IP owner fails to take further legal action after publishing the announcement.

In legal practice, besides directly sending a warning letter to the alleged infringer or publishing an announcement that might have influence on the alleged infringer, the IP owner could initiate an administrative complaint with the competent administrative authority, alleging third party IP infringement. A complaint filed with the administrative authority in bad faith could also be regarded as a warning under certain circumstances.

In a litigation concerning a declaration of noninfringement of patent right, the defendant filed an opposition due to patent infringement with the State Food and Drug Administration (SFDA) after the plaintiff filed an application for registration of its new medicine with the SFDA. The SFDA forwarded the defendant's opposition to the plaintiff who replied to the SFDA regarding the



opposition and sent a letter to the defendant, requesting that it withdraw the opposition or initiate a litigation. The defendant did not take any action. As a result, the plaintiff initiated non-infringement declaration litigation. The court confirmed that the defendant's opposition filed with the SFDA could be regarded as a warning as it influenced the business activity of the plaintiff and had a similar effect to a warning letter. Consequently, the plaintiff met the requirements for initiating non-infringement declaration.

In a trademark non-infringement declaration litigation, the plaintiff initiated the non-infringement declaration litigation after the trademark registrant (defendant) filed a complaint with a competent administrative authority, but before the administrative authority made any decision. The court held that the administrative complaint could prove an existing conflict caused by trademark use and the uncertain status of legal rights. Due to the plaintiff's prior use of the mark and the reputation of the mark among consumers obtained through use, the plaintiff needed a non-infringement declaration and its request for declaration of noninfringement of the defendant's trademark right met the requirements and thus could be accepted by the court.

Another kind of warning is customs seizure based on an application filed by the IP owner who has recorded an IP right with customs, and the Notification of Detention of Suspected Infringing Goods issued by customs. The court holds that though the warning is in the form of a notification, it is addressed to the alleged infringer and contains the content that the alleged infringer's goods are suspected of constituting IP infringement, which places the alleged infringer's processing of the goods under uncertainty and has an influence on the alleged infringer's business activities. The alleged infringer has the right to initiate a non-infringement declaration against the party who files the application for detention of the goods with customs, and the litigation can be initiated before customs issues its decision on whether the goods are infringing or not.

Jurisidiction

Non-infringement declarations are initiated by the alleged infringer against an IP owner and are therefore generally considered a kind of IP infringement dispute. As a result, the prevailing opinion is that both the court at the place "where the infringement was constituted" or "where the defendant has its domicile" should have jurisdiction over non-infringement declaration cases, as stipulated in Article 28 of the Civil Procedure Law of the PRC.

Article 24 of the Interpretation of the Supreme People's Court on the Application of the Civil Procedure Law further explains that "where the infringement was constituted" includes the place where the infringement is committed and the place where the consequences of the infringement occur. The plaintiff can choose a competent court to initiate the litigation in accordance with the laws and regulations.

Requests for compensation in non-infringement declarations

Based on current legal practice, we have the opinion that in non-infringement declarations the plaintiff

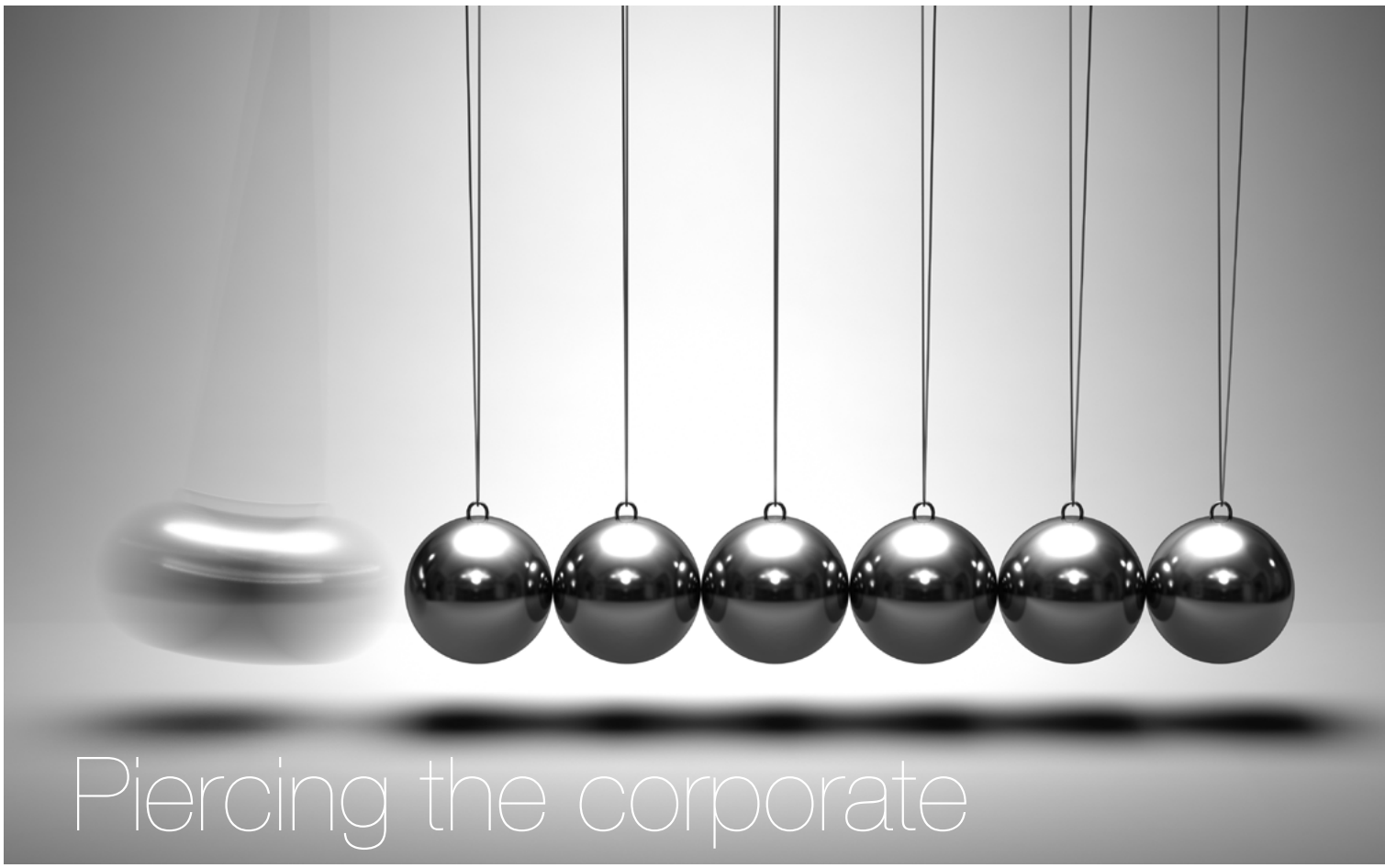
can request compensation from the defendant for damage to business reputation or damage to other legal interests caused by a warning from the defendant.

Non-infringement declarations deal with the issue of whether IP infringement is established or not, while claims for compensation relate to whether the defendant's warning caused damage to the plaintiff's business reputation or constituted unfair competition. Non-infringement declarations and claims for compensation are two different legal principles, which are closely related and are a prerequisite for one another. If the plaintiff's act is declared non-infringing, the warning from the defendant that placed the plaintiff's right under uncertainty will possibly have caused damages to the plaintiff's business reputation or other legal interests. If the court reviews the two issues in the same trial, the plaintiff in the non-infringement declaration action is in a better position to exercise the right to claim for compensation and moreover, it adheres to the principle of fairness and convenience. In fact, there are judicial interpretations on dealing with the two legal issues in one case. For example, Article 13 of the Interpretation of the Supreme People's Court on the Application of Law for Stopping the Infringement of Trademark Exclusive Right and Evidence Preserving before Filing a Lawsuit states that "if an applicant fails to file a lawsuit or files a wrong application, thus causing any loss to the respondent, the respondent may file another lawsuit to the court with jurisdiction so as to claim compensation against the applicant, or claim compensation in the lawsuit filed by the trademark registrant or interested party against the trademark infringement, and the court may handle the matters together".



Circumstances in which to bring an action

When receiving a warning from an IP owner, if the alleged infringer feels that its legal rights and interests are placed under uncertainty as a result of the warning, it can consider initiating non-infringement declaration litigation after analyzing the status of its rights. If there is solid ground, the alleged infringer can proceed with the non-infringement declaration litigation and choose the competent court for the litigation, so that its legal rights and interests can be protected in China.



Piercing the corporate veil in Chinese trademark infringement cases

By Gang Hu

The independence of corporate personalities and the limited liability of shareholders are the two cornerstones of modern companies. Generally, shareholders of a company will be liable to the company to the extent of their capital contributions or shares, whereas a company will be liable for its debts with its whole property. In order to prevent shareholders abusing this limited liability, Paragraph III, Article 20 of the Company Law of the People's Republic of China provides for a legal personality denial system,

whereby "any of the shareholders of a company who evade debts by abusing the independent status of the company as a legal person and the limited liability of shareholders, which results in serious damage to the interests of the creditors of the company, shall bear joint and several liability for the company's debts". In fact, China has taken the lead in establishing this system (the so-called 'piercing the corporate veil' system) in statutory law.

Over the past two years, under the guidance of judicial policies on combating malicious trademark infringement, courts across China have begun to request that the legal representative of a company and the company bear joint and several liability for damages caused by trademark infringement, in accordance with Paragraph III, Article 20 of the Company Law and the Tort Liability Law on joint tort. As a result, several significant cases have emerged.

Siemens v Siemives

Siemens v Xinchang County Siemives Life Electrical Equipment Co, Ltd (2016 Zhejiang Civil Final 699) was concluded by the Zhejiang Higher People's Court on 16 December 2016. Plaintiff Siemens AG has been actively carrying out a wide variety of business activities since its entry into the Chinese market in 1872. Moreover, the SIEMENS brand enjoys high popularity in China. Defendant Siemives was established on 14 April 2014 and has two natural person shareholders: Wu XX (holding 80% of shares) and Zhu XX (holding 20% of shares). On 23 January 2014 Wu registered the domain name 'www.siemives.com' and then granted Siemives a license to use it to sell allegedly infringing products. Wu's personal bank account was used as the company's operating account and the two parties engaged in numerous combined activities. According to news reports, some consumers began to mistake the products produced by Siemives for products produced by Siemens under the SIEMENS brand. Siemens filed suit with the Shaoxing Intermediate People's Court, petitioning it to order that Siemives and Wu cease the trademark infringement and unfair competition and jointly compensate Siemens for its economic losses.

The court of first instance found that, although Siemives's actions constituted infringement, Siemens had failed to provide sufficient evidence to show that the defendants' property was combined; therefore, Wu did not bear joint and several liability. Dissatisfied with the judgment, Siemens filed an appeal with the Zhejiang Higher People's Court.

The Zhejiang court determined that, subjectively, both Siemives and Wu had intended to conduct the infringement and, objectively, they had fully cooperated with each other, thereby contributing to the damage incurred. The court held that the defendants' respective actions were inter-related and combined to constitute joint infringing acts. Therefore, their personalities were interchangeable and both defendants should bear joint and several liability for damages. The court ordered that Siemives and Wu jointly compensate Siemens for its economic losses (including reasonable costs incurred to stop the infringement), which amounted to Rmb2 million.

Sakura v Yinghua

Sakura Bath & Kitchen Products (China) Co, Ltd v Zhongshan Yinghua Integrated Bath & Kitchen Products Co, Ltd (2015 Jiangsu IP Civil Final 00179) was concluded by the Jiangsu Higher People's Court on 28 August 2018. Plaintiff Sakura was established on 12 April 1994. Through years of marketing and brand cultivation, its SAKURA trademark for kitchen utensils had come to enjoy a high reputation

and market recognition among the relevant Chinese public. The defendants – the Suzhou and Zhongshan branches of Yinghua Technology and the Zhongshan branch of Yinghua Integrated – intentionally conducted business activities using the SAKURA mark and trade name, within the same scope of business as that of the plaintiff. Indeed, the defendants produced and sold products which were the same as, or similar to, those produced and sold by Sakura, and marketed these products under business signs similar to those of the plaintiff.

Sakura argued that such publicity and sales activities:

- caused confusion among relevant consumers with regard to the origin of the products and market entities;
- disturbed the market order; and
- constituted trademark infringement and unfair competition.

Further, it argued that defendant Rongling Tu – a natural person, who was the legal representative of Suzhou Yinghua Technology and the legal representative and principal shareholder (holding 90% of shares) of Zhongshan Yinghua Integrated – had deliberately committed infringement through the aforesaid companies. Therefore, Sakura filed suit with the Suzhou Intermediate People's Court, petitioning it to order that the defendants cease the trademark infringement and unfair competition and jointly compensate Sakura for its economic losses.

The court of first instance determined that, although the defendants' actions constituted infringement, Sakura had failed to prove that Tu abused the independent status of the companies as legal persons and the limited liability of shareholders, thereby damaging the interests of the creditors of the company. As such, the court ruled that Tu should not bear joint and several liability. Sakura appealed the judgment to the Jiangsu Higher People's Court.

The Jiangsu court held as follows:

- As the legal representative of Suzhou Yinghua Technology and Zhongshan Yinghua Integrated, Tu had infringed Sakura's trademark rights on establishing the companies, as he should have known the relevant circumstances of the plaintiff's SAKURA trademarks and trade name.
- Tu established the three defendant companies successively, thereby demonstrating his subjective malicious intent.
- The composition of the shareholders of Suzhou Yinghua Technology and Zhongshan Yinghua Integrated was relatively simple, with Tu holding 90% of the shares and acting as the legal representative of both companies. As a result, Tu had a strong influence over the business activities of both companies.

The three defendant companies intentionally:

- used a trade name that was identical to that of the plaintiff;
- failed to use their trademarks in a normal way in business operations;
- used slogans that were similar to the slogan used by the plaintiff; and
- operated products that were similar to those of the plaintiff.

As such, the companies had infringed the plaintiff's mark in order to conduct their main business, for which Tu bore corresponding liability.

Ultimately, the court concluded that Tu had committed infringement by controlling the defendant companies while being fully aware of the plaintiff's registered SAKURA trademarks and business reputation. As an individual, he played a key role in all of the infringing acts. Therefore, the court determined that the actions of Tu and the other defendants constituted joint infringement and that all parties should bear joint

and several liability. The court ordered the defendants to jointly compensate Sakura for its economic losses (including reasonable costs incurred to stop the infringement), which amounted to RMB 2 million.

Zhang Zhimin v Exxon Mobil

In Zhang Zhimin v Exxon Mobil Corporation (2016 Beijing Civil Final 544) plaintiff Exxon Mobil is the owner of the trademarks MOBIL and " 美孚 ", which it has used on lubricating oil products for many years in the Chinese market. As a result, the trademarks have gained high recognition and influence, thereby constituting well-known marks in China. Defendants Beijing Beinong Guoxin Technology Development Co, Ltd and Langfang Zhongke Agricultural Technology Development Co, Ltd used the MOBIL and " 美孚 "marks on pesticide and chemical fertilizer products. Exxon Mobil argued that the defendants' marketing and sales activities:

- caused confusion among relevant consumers with regard to the origin of the products and market entities;
- disturbed the market order; and
- constituted trademark infringement and unfair competition.

In addition, Exxon Mobil argued that Zhimin Zhang – a natural person and the legal representative and principal controlling shareholder (holding 80% of shares) of Beinong and the legal representative of Zhongke – had deliberately committed infringement through the aforesaid companies. Moreover, it argued that Dandan Zhang – Zhimin Zhang's daughter – was responsible for marketing the businesses through the Beinong website, which was registered under her name.

Exxon Mobil filed suit with the Beijing IP Court, petitioning it to order that the defendants cease the trademark infringement and unfair competition and jointly compensate Exxon Mobil for its economic losses. The court of first instance confirmed that the defendants had committed trademark infringement and that they should bear joint and several liability. The defendants filed an appeal with the Beijing Municipal Higher People's Court.

The appeal court determined that Zhimin Zhang had been aware of Exxon Mobil's registered trademarks and business reputation and had therefore committed infringement by controlling Beinong and Zhongke while fully aware of the production, sale and promotion of the companies' infringing products. Indeed, Zhimin Zhang communicated ideas with the companies and played a key role in all of the infringing acts. As such, Zhimin Zhang, Beinong and Zhongke were liable for joint infringement.

The court also held that Dandan Zhang, who used to be an employee at Beinong and was the registered owner and operator of the Beinong website, should bear liability for infringement conducted on the website. Since the public actions conducted on the website aimed to market the infringing products produced and sold by Beinong and Zhongke, they were deemed to be jointly committed; therefore, Dandan Zhang should also bear joint and several liability. The court concluded that the behavior of the four defendants constituted infringement and that Zhongke, Beinong, Zhimin Zhang and Dandan Zhang should jointly compensate Exxon Mobil to the amount of Rmb3 million, while Dandan Zhang should also bear joint and several liability to the amount of Rmb300,000.

Comment

The Beijing, Zhejiang and Fujian higher courts have all explored



piercing the corporate veil in the aforementioned trademark infringement cases and have determined that the legal representative of a company should bear joint and several liability for such an infringement. Given the professional competence and guiding role of these courts in civil judgments on IP rights, if the above cases can be quoted and used as a reference by local Chinese courts, infringers will be prevented from taking advantage of corporate personality



independence and the limited liability of shareholders in order to profit through improper means such as causing confusion and riding on the business operations of other rights holders. Indeed, infringers will no longer get away with using a company with almost no enforceable property as a shield to protect them against personal liability. Nor will they be able to commit repeated infringement by establishing new companies.

To prove that the shareholder of a company has used the company as a tool for infringement, has acquired illegitimate interests by controlling the company's operation and has attempted to evade liability for the infringement by taking advantage of corporate personality independence, plaintiffs must submit evidence of the following:

- The infringer knows of the plaintiff's status in the market and its well-known trademarks.
- The infringer's business is mainly or wholly based on the manufacture or sale of products that infringe the rights of the plaintiff.
- The infringer is often engaged in such obvious acts of unfair competition as deliberately using trade names or slogans which are the same as those of the plaintiff.
- The composition of shareholders of the company controlled by the infringer is simple and the capital of the company is relatively small (the infringer is often both the controlling shareholder and the legal representative of the company).
- The financial affairs and business of the infringer and the company controlled by them are, to a great extent, combined.
- The infringer is likely to have committed repeated infringement.

The last thing to note is that piercing the corporate veil and requesting that the legal representative of a company bear joint and several liability is a means of assuming liability only in cases of severe infringement. It cannot be generalized and may apply only to acts of malicious infringement of IP rights. Rights holders should entrust experienced agents with case analysis in view of the specific circumstances, as well as specific exploration and investigation – only in this way can we protect IP rights more effectively.

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