

The Brief

October 2008

Special supplement

China Intellectual Property News

Editorial

The Patent Law initially adopted in 1984 has been amended twice in 1992 and 2000. A project of the amendments to the Patent Law has been submitted to the Standing Committee of the National People's Congress in Beijing in early September. The first amendment added pharmaceutical compositions to the list of patentable subject matter and inaugurated China's membership in the Patent Cooperation Treaty (PCT). The second amendment brought China's Patent Law into compliance with the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement. The present amendment is expected to bring the law and processes up to international standards and best practices.



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HIGHLIGHTS IN NEW DRAFT PATENT LAW COMPARED TO THE EXISTING LAW

The latest version of the Draft Patent Law (the "**Draft Law**") has been adopted by the Standing Committee of the State Council in the end of July 2008 and its final version will likely come into effect beginning of 2009. The new draft has introduced 29 separate amendments that appear primarily focused on increasing protection for patent rights, encouraging innovation and better balancing the interests of patentees and the public.

Specific conditions for the application of a patent

"Absolute Novelty" as the standard for patent grants

Under the current Patent Law, the level of "*novelty*" required for the grant of an invention or utility model patent is narrowly defined, requiring only that the invention be not in public use or have been made known to the public "*within the PRC*". Under the Draft Law, this definition will be expanded, requiring that any invention cannot have been disclosed in "*any prior art anywhere*" in the world in existence prior to the date of filing and not just within the PRC.

Similarly, in relation to designs, "*prior designs*" in existence prior to the date of filing from both inside and outside the PRC will not be considered in determining a design's novelty. This is a change from the current law, which only considers designs disclosed within China. Accordingly, it will need to be demonstrated that the design applied for and the combination of features therein are clearly distinguishable from the prior design.

Moreover, any design without apparent distinction as compared to the existing design or the combination of the features of the existing design shall not be patented. This provision in fact is aimed at preventing design applied was copied from the existing design but with only minor alteration or simple combination of existing design, and design devoid of any originality, with main function of identification that consisting of patterns, colors or their combination of plane printing. This provision appears mainly aimed at preventing registration of designs for signs, billboards, menus and other items including the signals of other companies, a common tactic amongst pirates.

"First Filing in China" requirement of earlier drafts modified

Previous draft versions of the Patent Law extended provisions requiring that invention-creations first realized in China by Chinese entities or individuals to any

invention-creation, regardless of the inventor's nationality. The Draft Law has eliminated this blanket requirement, instead proposing that any entity or individual may file an overseas patent application for invention-creations realized in China, but that such applications shall undergo a prior confidential examination by patent authorities under the State Council, a provision apparently intended to reassure multi-national companies running or considering setting up PRC-based R&D centers.

Details on the procedures, rules, timing and costs of the "confidential" examination—and the scope of appeal from any rejection of a request—remain unclear, and will likely remain so until after implementation of the Draft Law.

Finally, while "*offers for sale*" of products infringing a design patent are not prohibited under the existing Patent Law, Article 12 of the Draft Law remedies this deficiency, and entitles design patentees to prevent others from offering to sell products infringing their registered design, to be in advertising, to display infringing goods at an exhibition, or via websites.

Increased protection for the holder of a patent

Clarification on rights of joint patentees

Under Article 15 of the Draft Law, clarification is provided to the respective rights and responsibilities of joint patentees. The amendment indicates that in the absence of an agreement laying out the joint patentees' respective rights and responsibilities, joint patentees may independently, i.e., without the consent of the other, exploit the patent or allow third parties to do so via a "non-exclusive" license. Any royalties obtained from such exploitation is to be allocated amongst the joint owners.

Broadened serial designs - similar designs for the same product

The current Patent Law limits design patents to a single design for use on a single product. Serial designs are only available for products to be sold or used in batches. Applications for similar designs relating to a range of similar products, such as brushes, bottles, etc., are currently deemed conflicting, and can be invalidated, even if the applicant for the additional designs/products is identical. The Draft Law provides that similar designs for multiple products may be covered under a single application.

Concrete improvements for pre-trial and trial measures

The Draft Law adds specific provisions that permit patentees to apply to the court for evidence and asset preservation prior to trial. It also expands the current right



to see pre-trial injunctions against allegedly infringing activities, permitting applications for such injunctions during trial as well. These changes integrate and clarify relevant extant provisions in the Patent Law, Civil Procedure Law and relevant judicial interpretations.

Under the current version of the Patent Law, defendants in patent infringement suits can only file a request with the Patent Reexamination Board (PRB) for invalidation of the plaintiff's patents if the alleged product is covered by the patent. The invalidation procedure can act to suspend the litigation until the PRB decides on the invalidation request. This procedure can be expensive, inefficient and time-consuming.

Under the Draft Law, however, defendants may bypass the PRB invalidation process by establishing that the technical solution employed is "prior art", and there will be no patent infringement even if the product is covered by the patent.

Finally, the Draft Law increase penalties for patent infringement. For example, local patent offices would now be permitted to impose administrative fines of up to four times an infringer's illegal income or up to RMB 200,000, a significant increase over the existing law. The limit on statutory damages judges can grant in cases where neither the patentee's losses nor the infringer's illegal gain can readily be calculated would be increased from RMB 500,000 to RMB 1,000,000.

THE DIFFICULTIES ENCOUNTERED IN SUBMITTING EVIDENCE IN CHINESE CIVIL PROCEDURE IN INTELLECTUAL PROPERTY CASES

The submission of evidence in Chinese civil procedure is governed by the Law on Civil Procedure, promulgated on 28 October 2007, and by the Provisions Regarding the Production of Proof in Civil Procedure, which came into effect on 1 April 2002 (the "**Applicable Laws**").

The burden of proof is on the claimant

According to the Applicable Laws, the current system relies on the principle "the one who claims is the one with the burden of proof" unless the disclosure of the evidence is impossible and Court must intervene for so-called "realistic" reasons. Each party shall have the responsibility to provide evidence in support of its own allegations.

For example, for disputes concerning the ownership of a trademark, the certificate of registration of the trademark, any international registrations, qualifications as a renowned

brand, and evidence of the use of the brand in the concerned country should be provided.

However, the obligation for production of evidence can be reversed according under specific conditions and provisions and can be borne by the party which is more inclined to provide the missing evidence. In addition, evidence can be collected by the Court at its own initiative or upon request if it considers the evidence useful for adjudicating the case.

In theory, evidence must be direct and the originals must be submitted to the Court, or the evidence might otherwise be rejected. This requirement might lead to difficulties when it comes, for example, to a fax received by a third party or a photocopy of a document which could be deemed not conclusive and rejected by the Court for failure to provide the original document.

It is important to determine whether the claimant's evidence is admissible before Chinese Courts inasmuch as the absence of originals or the failure to obtain legalization can challenge the proceedings, even though the counterfeiting of the evidence could have been easily established.

The admissibility of evidence in a litigation involving a foreign party

When the procedure involves a foreign party, the applicable regulations require foreign documents to be translated into Chinese before being submitted to the Courts. Evidence gathered outside China has to be certified by a duly empowered authority and notarized by the Chinese Embassy located in the country where the evidence is collected.

The difficulties issued from these requirements can sometimes be impassable as obtaining notarization from the Chinese Embassy is rather complex: the Embassy does not recognize documents referred to by an administrative authority designated by a state and only notarizes signatures of notaries or any other person duly empowered according to domestic regulations. When any step of the above mentioned procedure has not been completed, notarization by the Chinese Embassy appears impossible.

For example, in some countries, some official documents issued by a public authority are *per se* authentic and cannot be notarized subsequently, i.e. a trademark registration certificate granted by the entitled authority of a foreign country.

Evidence needed to assess the damage sustained

In order to prove and assess the damages suffered by a victim of counterfeiting, the Chinese Courts require direct



evidence to assess the illegal profits stemming from the counterfeiting, such as the counterfeiters' accounting books. Such requirement is usually impossible to fulfill for the victim of counterfeiting.

In practice, counterfeiters usually defend themselves by using those requirements in order to exclude evidence which was either not provided to the Court in the original or which was not notarized by the Chinese Embassy.

The time needed to set up a brief and collect evidence is also an important part of the procedure. After accepting a case, the Court usually grants a very short period of time for the exchange of evidence between the parties, whereas the process involving the authentication, notarization, translation, and collection of certain documents (e.g. registration certificate of a trademark in China by international means) remains lengthy. Hence, it is very important to collect evidence and proceed to their notarization before initiating any proceedings.

The great difficulty with counterfeiting disputes remains the collection of evidence. In that respect, a thorough preparation of evidence will, to some extent, allow an assessment of the chances of success of a judicial procedure.

PROTECTION OF COMPANY'S NAME

A trademark or a company name generally refers to a well-known entity, an established a reputation, and evokes a guaranty of quality.

It is not uncommon for a foreign investor which has established a company in China to subsequently discover that several Chinese companies, wholly owned by Chinese investors, have "borrowed" the foreign investor's trademark or name. Those companies usually belong to the same sector and are located either in a nearby province or even in the same city as the foreign owned enterprise. The aim of these companies is to create confusion in the minds of consumers and to pretend the Chinese companies are affiliated with the foreign company or using the technology originating from the foreign company bearing the same name.

How can one secure the protection of company names in China?

Even though no single law specifically secures the protection of company names in China, it is possible to find protective provisions in several laws and regulations. The legislation against unfair competition and the regulation regarding the registration of company names both protect company names by formally forbidding the illegal use of

the names by third parties. In addition, the "Opinions Relating to the Conflicts between Registered Trademarks and Names of Companies" (the "**Opinions**") provide that the rights stemming from trademarks and company names are rights duly granted by way of legal procedure and are protected by the applicable laws and regulations.

China, as a member of the Convention of Paris and party to the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS") recognizes the principle of protection of company names. In particular, flaws within the company name registration procedure allow *mala fide* companies to register a name by using the one of an existing third company.

Indeed, the Chinese regulation requires the pre-registration of the company name prior to its incorporation. In most cases, the pre-registration application is carried out with the local authority, which will approve the application as long as there are no identical or similar names in the same sector or in the same area for which the authority is competent.

Hence, a company may easily apply for and obtain the registration of a name identical to the one of another company involved in the same sector if the place of registration is different. A company may also apply for and obtain the registration of a name identical to that of another company located in the same area if the latter is involved in a neighboring sector. Thus, the registration of the name "*ABC Chemical Products Limited*" will not prevent the registration of the name "*ABC Industry Limited*" in the same area.

The latter could occur, even though the Interpretations forbid any company to infringe on intellectual property rights or to mislead the public, by the registration of terms identical or similar to the trademark of another company. Moreover, companies registering names are required to sign a letter of commitment stating that the name used does not infringe on any intellectual property rights. However, the lack of information exchange between the authorities in charge of name registration and those in charge of brand registration leads to the ineffectiveness of the requirements mentioned above. Thus, there exist numerous previously registered company names and trademarks which have been encroached upon and registered with the AIC.

Hence, these measures are not an appropriate solution. The number of litigations related to trademarks keeps growing. The authorities seem rather uncomfortable dealing with litigation of such nature. It even happens that they refuse to accept complaints for which they are competent, preferring the disputes to be brought before the courts.

It is within this context that the Supreme Court of the PRC, on 18 February 2008, published an "interpretation" specifying that the courts must accept complaints based on the unauthorized use of terms or drawings of a registered trademark which would harm the plaintiff's rights or complaints based on the unauthorized use of a previously registered company name or similar name belonging to the plaintiff.

The aim of these "interpretation" is to put an end to the situation where the owner of intellectual property rights was denied the right to take his case before a court. Thus, it appears to us that the judicial procedure seems to constitute an alternative worthy of consideration. Indeed, the victims of such infringement who have obtained a favorable judgment will be better able to successfully assert their rights.

Nevertheless, the current legal framework will not allow the efficient tackling of the piracy of company names as long as the registration procedure remains unchanged. Therefore foreign entities establishing companies in China are advised to give high care to the protection of their company names. To date, the most effective protection remains the registration of the company name, as well as its name in Chinese taken as a trademark, at the national level, in addition to the registration of a company name which is only valid locally.



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