

# Top Ten Chinese Intellectual Property Cases of 2009

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## Civil Cases

### 1. UTILITY MODEL PATENT INFRINGEMENT: CHINT VERSUS SCHNEIDER

CHINT Group Co. Ltd sued Schneider Electric (Tianjin) for infringement of a small circuit breaker utility model patent. In September 2007, the Intermediate Court of Wenzhou City awarded about RMB 334.8 million to CHINT—the highest amount ever awarded in a Chinese IP lawsuit. Schneider then appealed to the High Court of Zhejiang province, where the issue was mediated and resulted in the two parties settling for RMB 157.5 million.

Over the years, domestic enterprises were more likely to imitate rather than innovate, and thus are frequently accused by multinationals in IP litigation, with a high losing rate. This case highlighted the significance of independent innovation and the value of intellectual property in the market. Additionally, the reconciliation between the Chinese party and the foreign party exemplifies the concept of harmony and win-win strategy in international competition, and sets an excellent example for both domestic and foreign enterprises in IP disputes. Through judicial wisdom the appellate court triggered a settlement by the two parties in a long-standing IP dispute that spanned many countries.

### 2. TRADE SECRETS AND UNFAIR COMPETITION: KINGDREAM VERSUS FAFEN XING AND LILIN GROUP

Kingdream Public Limited Company, an oil and gas drill-bit manufacturer, accused former senior engineer Fafen Xing of illegally disclosing a trade secret regarding “roller bit” technology to LILIN Group, a petroleum and chemical drilling equipment manufacturer, after becoming the head of LILIN’s technology department in 2001. The court sentenced Xing to six years in prison and ordered him to pay a fine of RMB 50,000. The court also granted an injunction on infringing actions and awarded Kingdream RMB 10 million in damages. On appeal, the three parties reached a mediated settlement in which LILIN Group agreed to pay RMB 17 million in damages.

This case is significant for the growing risk of trade secret theft as more people change companies midway through their careers. Typically, plaintiffs will have a difficult time gathering enough evidence in trade secret theft cases to be able to proceed to trial. This case is exceptional because the information which police gathered for the criminal investigation yielded enough evidence to merit a civil hearing and eventually permitted Kingdream to win a trade secret infringement civil suit. Further, this case also shows the important role mediation can play.

### 3. UTILITY MODEL PATENT INFRINGEMENT AND PUBLIC INTERESTS: CHINA ENVIRONMENTAL PROJECT TECH INC. VERSUS JAPAN FKK AND HUAYANG

China Environmental Project Tech Inc.(CEPT), a company specializing in pollution-reduction solutions, brought action against Japan FKK and Huayang Electronic Co. Ltd for infringement of a patented process of using seawater for flue gas desulphurization. The Supreme People’s Court held that the defendants had infringed CEPT’s patent and ruled in favor of CEPT. Typically, the court grants an injunction in such circumstances. However, an injunction was not granted in this case because the infringing process was being used to generate electricity, and an injunction would interfere with the public interest. Instead, the court awarded CEPT RMB 50 million and ordered the defendants to compensate CEPT for usage fees until the patent expires.

This case is significant because the court’s decision appears to indicate that courts should balance the interests of both patent owners and the public in special cases.

#### 4. WELL-KNOWN TRADE MARK DISPUTE: BMW VERSUS SHENZHEN CENTURY BAOMA, FU XIANQIN AND YOUR-MART CO. LTD



BMW's Trademark



Infringing MBWL Logo Trademark

BMW sued Shenzhen Century Baoma Apparel Co. Ltd for unfair competition practices and trade mark infringement. Taking into consideration elements such as the distinctiveness of the trade mark and market awareness, the court first recognized the registered BMW trademark and logo (above) as a well-known trade mark. As such, it receives broader protection. Next, the court identified that the defendant used similar trade marks, such as the “MBWL logo” above, in its clothing and apparel goods, which easily confused the public and further damaged BMW’s reputation. The court believed the defendant intentionally misled the public and violated generally accepted business ethics, which thus constituted trade mark infringement. In addition, the court explicitly indicated that the use of a well-known corporate name by a third party is a typical violation under unfair competition laws.

In this case, Century Baoma also sells products blended with other brands, making it difficult to calculate the profits made from products carrying the infringing MBWL trade mark. The court awarded RMB 500,000 to BMW, the maximum permitted by statute in cases in which the infringer’s profits are unknown.

#### 5. TRADE MARK DISPUTE AND UNFAIR COMPETITION: SHANGHAI SANLIAN VERSUS SUZHOU WU LIANG CAI

The court ruled that if a company registered another company’s well-known trade mark as a company name, such behavior would constitute trade mark infringement and/or unfair competition.

WU LIANG CAI, is a centuries-old, well-known eyeglass brand popular in the Yangtze River Delta and other parts of China. It was registered as a trade mark by the Shanghai Sanlian Group Co. Ltd. early in 1989, and was recognized by authorities in 2004 as a well-known trade mark. Established in 1992, the defendant Suzhou Wu Liang Cai Glasses LLC, which changed its name to Suzhou Wu Liang Cai in 1999, used WU LIANG CAI and Suzhou WU LIANG CAI as trade marks on their products and services. When the defendant began to expand its market share across Jiangsu Province with nearly 100 franchised stores, the plaintiff, Shanghai Sanlian, discovered and filed six related lawsuits throughout the province.

In China conflicts between company trade names and trade marks may exist because they are registered in separate administrative departments. Company trade names are registered in the local Administration for Industry and Commerce (AIC), while company trade marks are registered in the State Trade Mark Office under the national State Administration for Industry and Commerce (SAIC) and give the registrant an exclusive right to use the trade mark throughout the country. However, relevant laws prohibit the emphasized use of a local registered trade name that misleads the public to believe that such trade name is a registered trade mark.

In this case, the court found that the defendant should have been aware of the popularity of the WU LIANG CAI trade marks, and had intended to take advantage of the plaintiff’s fame and confuse customers through false recognition. On one hand, the court is obliged to protect old and famous brands and halt any infringements, but on the other, the court recognized the fact that the defendant registered its corporate name legally and might have employed their own efforts during business operation. Taking both of these factors in consideration, the court ordered the defendant to cease infringement, modify its company name and pay damages for a reasonable amount.

6. TRADE MARK DISPUTE AND GENERIC NAME: SHANDONG LU JIN VERSUS JUAN CHENG LU JIN AND JINING LIZHIBANG

In this case, the court held that the trade mark registration of a generic product name does not hold exclusive right to use the name. In 1999 Shandong Lu Jin Industrial Co. Ltd registered the Chinese characters “LU JIN” (which means “brocade from Shandong”) as a trade mark. Prior to that registration, LU JIN had been recognized as a common name for handmade cotton fabric from the Shandong province. Shandong Lu Jin sued Juan Cheng Lu Jin Handicraft Co. Ltd and Jining Li Zhi Bang Home Textile Co. Ltd for trade mark infringement. The defendants argued that LU JIN could not be registered as a trade mark because it was a generic name in the industry.

The court ruling was based on the facts that: (1) the term LU JIN has been commonly used in the brocade industry in Shandong and was widely recognized by the public as standing for brocade from Shandong, (2) the weaving skill of LU JIN cotton brocade has been identified as a national cultural heritage and (3) the raw material of LU JIN cotton brocade is widely cultivated in Shandong. Furthermore, the court held that the trade mark owner does not have an exclusive right to use that common name, and the defendant’s behavior constituted a proper use of a generic name.

7. COPYRIGHT INFRINGEMENT: BEIJING CHANGDI VERSUS CARELAND COMPANIES, SHENZHEN ZHONGJIAXUN CO. LTD; FOSHAN JINLI AUTO ACCESSORIES CO. LTD, NANHAI BRANCH

Beijing Changdi Wanfang Technology Co. Ltd., a digital-navigation-map producer, sued Careland Technology Co. Ltd and Shenzhen Careland Computer System Technology Co. Ltd (collectively referred as Careland Companies) for plagiarizing its “Dao Dao Tong” GPS electronic map. Careland Companies argued that Changdi’s map should not be legally recognized as copyright because it was not legally registered or published. The court held that the originality of the GPS map existed in the way it sorted, selected and expressed geographic data, and thus, regardless of whether the map was registered or published, the GPS map could still be protected as a copyrighted work. The court found that the loss or gain is difficult to accurately predict for determining the amount of compensation, so it used a statutory amount of compensation and ordered the two Careland Companies to pay RMB 2 million to Changdi, which is the biggest compensation yet paid for a copyright infringement in the GPS industry.

This case confirms that whether work is ascertained as copyrighted primarily depends on whether it has originality. The case also used an appropriate comparison method which included an analysis of both the relationship between the two companies and whether the main functions and features of the two products were materially similar.

8. ILLEGAL OPERATION AND FALSE PROPAGANDA: GOLDEN-HOLIDAY VERSUS CTRIP COMPANIES, HEBEI KANGHUI INTERNATIONAL AVIATION SERVE CO. LTD AND BEIJING XIECHENG INTERNATIONAL TRAVELING CO. LTD

The court held that online ticket-distributing services might not require the same legal qualifications as brick-and-mortar ticket-selling agents. Beijing Golden-Holiday Travel Service Ltd sued Ctrip (Shanghai) Computer Co. Ltd and Shanghai Ctrip Commerce Co. Ltd (collectively referred as Ctrip Companies) for acting as a ticket-selling business without an appropriate license, thus constituting an illegal operation and false promotions. The Supreme People’s Court held that because Ctrip Companies only provides services for distributing airline tickets, and does not actually *issue* tickets, it did not need the same legal qualifications brick-and-mortar ticket agents must have. The judgment not only protected the innovation of the business model, but further encourages competition by enabling online selling to occur with fewer bureaucratic hurdles. The case also helps set an example for determining illegal operations and/or false propaganda.

## Administrative Case

### 9. RE-FILINGS OF CANCELLATION OF TRADE MARK APPLICATIONS: ST FLORA VERSUS STATE TRADE MARK REVIEW AND ADJUDICATION BOARD AND JOHNSON & JOHNSON

In 1993 Johnson & Johnson. (J&J), the third party in the case, registered the “CAI LE” trade mark (“Cai Le” in traditional Chinese characters) for “antimicrobial for human body use” goods in Class 5, which is actually a hair lotion with medicinal functions sold in just drugstores. Through the use and promotion by its Chinese subsidiary Xi’an Jansson, the CAI LE trademark of J&J enjoyed great influence in the Chinese-related market.

ST. Flora (United) Co. Ltd (the plaintiff) obtained the registration (which was rightfully assigned to them by Nanhai Mengmeisi who registered the trade mark in 1997) for the “cai le” trademark (“Cai Le” in simplified Chinese characters and phonetic letters) for “hair lotions, etc.” in Class 3. J&J filed two cancellation applications against ST. Flora in 1998 and 2000, but the applications were dismissed in 1999 and 2001 respectively. According to trade mark law, at the time, the 1999 and 2001 rulings should have been final.

After the trade mark law changed in 2001, J&J petitioned the State Trade Mark Review and Adjudication Board (TRAB) again to cancel the “cai le” trade mark of ST. Flora on the ground of the new provisions. Three years later, TRAB cancelled the trade mark registration of ST. Flora’s “cai le” trade mark. The ruling was affirmed in both the first and second administrative actions. ST. Flora then filed a retrial to the Supreme People’s Court and finally the case was reversed.

The court held that the TRAB accepted and supported J&J’s new petition after the issuance of the final rulings in 1999 and 2001, which was against the principle of “Non Bis in Idem”. Further, ST. Flora’s fame was gained through wide promotion and use of its “cai le” brand after receiving the 2001 ruling, and should be protected by law. Additionally, as ST. Flora’s “cai le” products cannot enter the medicine and drugs industry, it would not be very easy to cause consumer confusion.

Consequently, the Supreme People’s Court cancelled the original judgments and TRAB ruling, and permitted the co-existence of both J&J’s CAI LE mark and ST. Flora’s cai le mark in the Chinese market.

## Criminal Case

### 10. CRIMINAL LIABILITIES IN COPYRIGHT INFRINGEMENT: CHENGDU SHARE-SOFTWARE, SUN XIANZHONG (INDIVIDUAL), ZHANG TIANPING (INDIVIDUAL), HONG LEI (INDIVIDUAL), LIANG CHAOYONG (INDIVIDUAL)

In this case, Chinese courts imposed criminal liabilities upon the creators and online modifiers of a modified Windows XP software called “Tomato Garden.”

Between December 2006 and August 2008, with the assistance of the individual defendants, Chengdu Share-Software Net Science and Technology Co. Ltd copied a Windows XP operating system without Microsoft’s authorization, and made various versions of Tomato Garden software that allowed users unrestricted access to certain Microsoft softwares, as well as provided technical support and access through free downloads online.

Chengdu Share-Software was fined nearly RMB 9 million and ordered to forfeit all RMB 2.9 million of illegal earnings it made through advertising. Chengdu Share-Software President Sun Xianzhong, and Hong Lei, producer of Tomato Garden and manager of the program’s website, were both sentenced to three and a half years in prison and fined RMB 1 million. Chengdu Share-Software Director Zhang Tianping, and Liang Zhuoyong, who participated in developing and producing the plagiarized software, each received two years in prison and were fined RMB 1 million and RMB 100,000, respectively.

This case is significant because of the crucial social effects and influences in treating such copyright infringement as criminal liabilities, a first in China. It also serves as an example of China’s strict implementation of international obligations regarding the equal protection of foreign copyright holders under the Paris Convention and serves as a stern

warning to those who hope to earn illicit profits through piracy and distributing software illegally. Additionally, it shows a trend toward China's growing degree of attention to the enforcement and protection of IP rights.

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