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Client Satisfaction Survey 2017-2018

In line with our commitment to continuous improvement, we are looking to examine our performance in the past year. We would be grateful if you could click <https://www.surveymonkey.com/r/CQP2GJF> to respond to our online questionnaire.

It should take 5-10 minutes of your time to complete. This client survey will run from April 23 until May 15.

By participating in this survey you will be making an important contribution helping us to improve and to serve you better. Should you have any questions about this survey, please feel free to contact us.

Thank you very much!

<http://afdip.com/index.php?ac=article&at=read&did=3197>

China Tightens IP Transfer to Secure Transparent Business Environment

China has issued a guideline tightly reviewing the transfer of intellectual property rights to overseas buyers.

IPR transfers will be reviewed if they involve patent rights, exclusive rights to layout designs of integrated semiconductors, software copyrights, or rights to new plant varieties.

"The government will only review two categories of IP transfers: technology restricted for exports and international acquisitions of Chinese enterprises," said Zhang Zhicheng, director of the Protection

and Coordination Department at the State Intellectual Property Office of China (SIPO).

The acts of transfers include change of right holders, change of actual controllers of IPRs and exclusive licenses of IPRs. Moreover, the transfers will be reviewed if they appear to affect national security or the country's core technology in key fields.

In 2017, China's intellectual property royalties earned abroad surpassed 4 billion US dollars, according to SIPO.

"Besides the financial influences, improper review of core IP transfers could restrain China's self-developed innovation abilities and competitive advantages internationally," Zhang said.

He noted that the developed economies like the United States, EU, and Japan have similar review systems.

<http://english.ipraction.gov.cn/article/News/201804/20180400180559.shtml>

SPC to Expedite the Construction of A National Appeal Court for IPR Cases

China has established specialized IPR courts in 18 cities. Each court is charged to accept and hear IPR cases from a much larger area —one to two provinces—than the city it is located in.

Experience shows that the courts in different places usually apply different trial standards and may result in different judgments of the same case.

The current operation is that an appeal against a judgment is then heard by the court

which is one-level higher than and in the place where the appellants come from.

The founding of a national IPR court could effectively solve this problem and reduce disputes.

<http://english.ipraction.gov.cn/article/News/201804/20180400182886.shtml>

People's Procuratorate of Haidian District in Beijing Released the Guideline on Handling IPR-related Criminal Cases

As a national center of technical innovation, the Haidian District of Beijing is the home to over 10,000 hi-tech enterprises, 144 scientific institutions and 33 universities.

On April 13, the local People's Procuratorate released the Guideline of Handling IPR-related Criminal Cases, which is the first of the category in the country.

The Guideline not only covers all the crimes stated in Section 7 of Chapter 3 of the Criminal Law with specific analysis on relevant concurrent crimes, but also selects some typical cases handled by different courts to improve readability and practicality.

The Guideline focuses on the criteria of evidence, direction of evidence collection and evidence examination to directly explain the difficult issues arising from identification of crimes in a pertinent and effective manner.

<http://english.ipraction.gov.cn/article/News/201804/20180400182410.shtml>

Tencent, 360 and Baidu Have the Most Granted Invention Patents

Recently, icoPat Innovation Index Research Center and IPRdaily Chinese website jointly released the "Top 100 Internet Companies Based on the Number of Invention Patents".

This list of Top 100 Internet companies of invention patents updates the data about volume of publicly released patent grants as of April 10, 2018. In particular, Tencent ranked the top with 4,933 invention patent grants, followed by Qihoo 360 for 2,281 and Baidu for 1,790. The fourth to the tenth were Alibaba, Xiaomi, UFIDA, Neusoft Group, JD, iFlytek and Sina. Almost the same as the previous ranking, Tencent, Qihoo 360 and Baidu maintained the top 3 in terms of invention patent grants in 2017.

<http://english.ipraction.gov.cn/article/News/201804/20180400182409.shtml>

China Led Global Blockchain Patent Applications in 2017

China filed the most blockchain patent applications in 2017, with more than half of the 406 blockchain-related patent applications filed coming from the country, the Financial Times reported by citing data collated by the World Intellectual Property Organization (WIPO).

In total, the country filed 225 blockchain patents in 2017, compared with just 59 in 2016. The US was a distant second with 91 patents and Australia was a distant third with 13 patents, according to the report.

The blockchain-related patents Chinese companies filed covered a wide range of areas, from the distribution of cryptocurrencies such as Bitcoin to the tracking of chickens, the report said. It also noted that from 2012 to 2017, among the top nine filers of blockchain patents, six were Chinese companies, led by Beijing Technology Development.

The Chinese government is also taking a positive stance on the industry.

<http://english.ipraction.gov.cn/article/News/201803/20180300179720.shtml>

SUPPLEMENT ISSUE

Analyzing the role of OEMs in Trademark Infringement

China has become the world largest manufacturing hub and exporter. Thousands of Chinese factories work as original equipment manufacturers (OEMs), making, processing and delivering goods that are then marketed by foreign purchasing parties - usually overseas manufacturers, resellers, or retailers - under foreign brands owned or legitimately used by the foreign purchasing parties. Such a business model raises concerns regarding the OEM's risk of infringing others' trademarks. We share our analysis of this issue with you in this article.

OEM business model:

OEMs in general follow a business model where a foreign purchasing party owns a trade mark or has the legitimate right to use the trade mark in jurisdictions outside China, and a Chinese OEM is paid to manufacture goods within China and label the goods with the trade mark. Once manufactured, the goods are delivered by the Chinese OEM to the foreign purchasing party. The Chinese OEM itself is not engaged in selling, marketing or promoting the goods.

In practice, Chinese courts generally consider the OEM model as a commissioned process where the following elements are present:

- The manufacturing is commissioned by a foreign purchasing party who owns a trade mark in jurisdictions outside China; the trade mark labeled on the goods is provided by the foreign purchasing party;
- The Chinese OEM manufactures the goods and affixes the trademark pursuant to the orders of the foreign purchasing party;
- The goods are delivered to the foreign purchasing party instead of being sold in domestic market in China.

Trade mark use and trade mark infringement

Chinese Trademark Law stipulates that the use of a trade mark refers to the use of the trade mark on goods, packages or containers of the goods or in trading documents, or using the trade mark in advertising, exhibition or any other business activities so as to distinguish the source of goods.

Trade mark infringement may be established on the following grounds:

- a. using the trade mark without the consent of the trade mark registrant; and
- b. Using identical trade marks on the same goods; or using similar trade marks on the same goods and liable to cause confusion; or using identical or similar trade marks on similar goods and liable to cause confusion.

Illegal use of another's trade mark is the manifestation of trade mark infringement and the prerequisite for the determination of trade mark infringement.

The key factor in determining infringement is finding whether a trade mark use occurs and whether the use destroys the distinguishing function of the trade mark. If the use destroys the distinguishing function of the registered trademark, it constitutes a trade mark use; otherwise it does not. This principle was affirmed by the Supreme People's Court's Civil Judgment (2014)MTZ No. 38, which stated that where the behavior of trade mark use does not exist, trade mark infringement is not constituted, and thus it is not necessary to determine further whether such use is liable to cause confusion.

Evolution of the standards to determine the nature of OEM activities

Chinese courts' judgments and opinions on trade mark infringement litigations involving OEM activities have gone through multiple stages of changes since 2001, from infringing, to not infringing but with an imposed duty of care on the OEM, to not infringing at all, and then to accurately differentiating normal OEM activities from those of other non-OEM activities such as manufacturing without permissions.

In 2002, Shenzhen Municipal Intermediate People's Court deemed that OEM activities constitute trade mark infringement in Civil Judgment (2001)SZFZCCZ No. 55. This is considered the first case in China regarding OEM-related trade mark infringement since China became a member of the World Trade Organization in 2001.

In 2004, Beijing Higher People's Court indicated that OEM activities do not constitute trade mark infringement in the Answers on the Relevant Issues Concerning the Trial of Trademark Civil Dispute Cases.

Beijing Higher People's Court in 2006 and Jiangsu Provincial Higher People's Court in 2007 affirmed that OEMs bear a duty of care to avoid trade mark infringement. In 2009, the Supreme People's Court reaffirmed the principle in Article 18 of the Notification of Opinions on Related Issues Regarding the Overall Situation of Intellectual Property Judgment Service under Current Economic Conditions, indicating that where trade mark infringement is constituted, the OEM's

liability shall be reasonably determined by taking into consideration whether it has duly performed the duty of care.

In 2010, the Supreme People's Court deemed for the first time that OEM activities do not constitute trade mark infringement in its Reply to Whether OEM Exports Constitute Infringement. And in 2015, the Supreme People's Court reaffirmed the conclusion in the milestone PRETUL case (Civil Judgment (2014)MTZ No.38).

In 2015, Jiangsu Province Higher People's Court, in its Civil Judgment (2015)SZMZ No. 00036, deemed OEM activities to infringe trade mark rights and further established the criteria as "reasonable duty of care plus material damage." Beijing Intellectual Property Court, in its Administrative Judgment (2015)JZXCZ No.5119, indicated that original equipment manufacturing constitutes use of trade mark.

In 2016, the Supreme People's Court issued the Opinions on Providing Judicial Safeguards for the Construction of Free Trade Pilot Zone, indicating that the courts should accurately distinguish and provide different treatment to normal OEM behaviors from actions such as processing without permission, processing beyond designated scope and quantity, and selling products.

The above changes reflect, on the one hand, the complexity of OEM-like activities and, on the other hand, the changes in China's policy on treating own branding and manufacturing and OEMs.

Our view on trade mark infringement and OEM activities:

We believe that OEM activities should not be deemed as trade mark infringement based on the following grounds:

- 1) Labeling goods in the course of manufacturing does not help distinguish the source of goods.

According to the Civil Judgment (2014)MTZ No.38 of the Supreme People's Court (PuJiang YaHuan Locks Vs. Truper Herramientas), labeling PRETUL on manufactured goods is simply a physical affixation of the mark; it only provides necessary means for Truper Herramientas to use the mark in Mexico where the company has trade mark rights. The labeling does not function in distinguishing the source of goods in China. Furthermore, as long as the labeled goods are not sold in China, the logo would not hold the nature of trade mark pursuant to Chinese Trademark Law. Therefore, the labeling should not be considered as trade mark use and therefore does not lead to any infringement.

2) Transferring the manufactured goods from Chinese OEMs to the foreign purchasing parties is delivery pursuant to a processing contract rather than export in trading.

Since the recipient of the goods (foreign purchasing party) is outside China, the manufactured goods are delivered only through cross-border transactions that are substantially different from export trade transactions where the exporters earn foreign currency in overseas markets. In addition, the OEMs are paid for their processing services. This business model should be considered as activities under processing contract. Such activities neither mislead nor confuse the public nor constitute use of trademark.

3) The manufactured goods are not to be sold in China but in the jurisdictions where the concerned trade mark enjoys legal rights.

During the transactions, the manufactured goods are transferred from the Chinese OEMs only to the foreign purchasing parties. The goods are not circulated in the domestic market in China. The trade mark is used to distinguish the source of the goods in the target foreign markets. There is no need to distinguish the source of the manufactured goods in China. Thus, the labeled mark has no such function. The delivery does not constitute trade mark use.

Please note our discussion above does not cover special circumstances, such as, processing without permission or beyond designated scope and quantity and selling products; or when the manufactured goods are sold back to China. Such situations may trigger legal liabilities pursuant to not only the Trademark Law but also the Anti-Unfair Competition Law.

Advice on avoiding and resolving trade mark disputes arising from OEM business

In general, parties of interests resort to resolving OEM-related trade mark disputes via juridical and/or administrative channels.

Where an OEM and/or a foreign purchasing party is sued for trade mark infringement, the case normally will develop in either of the directions below:

- If OEM activities are established, trade mark use and trade mark infringement do not need to be determined, due to the reasons listed in the previous section;
- If the activities fail to meet the constitutive elements mentioned in the first section, further review will be made on whether the accused parties have exercised reasonable duty of care or whether such activities constitute export trading to determine if trade mark infringement occurs.

Our advice for OEMs is to perform the duty of care before entering a contract with a foreign purchasing party by doing the following steps:

- a) checking whether the foreign purchasing party is the legitimate trademark owner or user, asking the foreign purchasing party for a trade mark registration certificate issued by the competent authority of the foreign country (export destination or other duly designated regions), license agreement, or other relevant documents;
- b) ensuring that the contract explicitly states that all the processed goods are to be exported to the countries where the trade mark enjoys legal protection.
- c) avoiding the risk of infringing the rights of domestic well-known trademarks, especially when the foreign purchasing party is in the same industry as a domestic company that owns well-known trade mark. (Reference: Civil Judgment (2015)SZMZZ No. 00036 of Jiangsu Provincial Higher People's Court)

Similarly, the best strategy for foreign purchasing parties is to perform due diligent in the planning stage before starting contracts with OEMs in order to prevent potential disputes about trade mark infringement arising in the future. We recommend that foreign purchasing parties consider the approaches below:

- a) including sufficient details in the OEM processing contract, wherein 1) the trade mark to be labelled and the goods to be manufactured should be identical to those recorded on the trade mark registration certificates, and 2) there is a statement like “all the OEM goods are to be sold only in overseas jurisdictions where the trade mark enjoys legal protection; neither the OEM nor the foreign purchasing party may sell the OEM goods in Chinese market.”
- b) building multiple suppliers/backup plans to deal with unfortunate detention of the OEM goods by China Customs or other authorities since China’s policy and/or juridical opinion on OEM activities may change from time to time.
- c) preparing notarized and legalized trade mark registration certificates or trade mark licensing contracts as evidence to prove that the activities belong to OEM processing instead of trade mark use in preparing for defending in future against infringement claims before the Chinese courts, Chinese Customs, or other competent authorities conducting infringement investigation.

Clarification and advice on OEM export trading

The following activities are not OEM manufacturing because they do not conform to the constituent elements as mentioned in the first section:

- where a foreign brand, after obtaining a Chinese trade mark, commissions a Chinese factory to manufacture its goods, label them with the trade mark, and sell them to overseas countries; or
- where a Chinese factory, after obtaining Chinese trade mark, simply sells the labelled goods to foreign destinations.

Although they may seem like OEM activities because of the fact that the goods are sold solely via export and do not enter the Chinese market, these activities are considered as one of the steps in the whole production circle and thus as export trading.

Disputes related to the above activities between Chinese trade mark registrants and other parties are usually handled through administrative channels, where the other parties will ask the Chinese Trademark Office (CTO) to cancel the Chinese trade mark owned by the registrants using the argument of three years of non-use. If the trade mark is cancelled, the trade mark registrant can file a review application with the Trademark Review and Adjudication Board (TRAB) against the CTO's cancellation, and even continue the case in an administrative lawsuit before the court.

In such a case, the trademark registrant may rebut the accusation of three years of non-use with the facts that the processing is conducted within China, the export belongs to business trading in China, the Chinese trade mark has been used actively by the registrant in export procedures, foreign customers would use the Chinese trade mark to identify the source of manufactured goods, and such use or identification is substantially trade mark use.

We suggest that during daily operations the trade mark registrants keep evidence, for example, use in goods and packaging including product manuals or brochure, and use in trading documents, such as distribution agreement, invoices, bills, receipts, vouchers, certificates, or documents generated from export inspection or quarantine and customs declarations, in preparation for effective and efficient defenses against potential trade mark cancellation in the future.

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<http://afdip.com/index.php?ac=article&at=read&did=3195>