Media Center > Insights > IP General

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Focus on: China’s IP Landscape 2023

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2023 is not a quiet year, even for China’s IP regime. The year started with the surprise release of the draft of the fifth amendment to the Trademark Law, concluded with the State Council’s approval of the third amendment to the Implementing Regulations of the Patent Law. These legislative moves along with an array of other fine tunings in procedure and practice will herald a more eventful 2024.

Three changes in the IP practice

Joining the Apostille Convention

On March 8th, 2023, China joined the “Convention Abolishing the Requirement of Legalization for Foreign Public Documents” (“Apostille Convention”). The Apostille Convention applies to “public documents” which have been executed in the territory of one Contracting State and has to be produced in the territory of another Contracting State. Administrative documents, notarial acts and official certificates which are placed on documents signed by persons in their private capacity are considered as “public”. The Convention became effective in China on November 7, 2023. This means that, as of this date, foreigners who need to produce documents in a procedure before a People’s court, are exempted from going through the whole process of notarization, validation by the Ministry of Foreign Affairs and legalization by the Consulate of China. For private documents such as the Power of Attorney given to the Chinese lawyer, a notarization is sufficient to allow for the Apostille to be applied. China’s embassies in many countries have already announced that they no longer provide legalization services. This is an excellent news indeed, as it will cut the red tape and streamline the process for foreign litigants.

Suspension of cases

In 2023, the China National Intellectual Property Administration (CNIPA) issued internally the "Regulation on the Suspension of Review Cases". The regulation per se is not published, but the CNIPA provided some explanations about the main content and rationale behind this important change of practice in June 2023.

The review procedure referred to in this regulation arises in three different circumstances: (1) where a trademark application is rejected ex officio by the examiner due to the presence of a prior trademark, (2) where a trademark application is not approved for registration due to the opposition by a third party, (3) where a trademark is invalidated by the CNIPA upon request of a third party. When the refusal, opposition or invalidation decision is contested, it is necessary to file an application for review before the CNIPA (initially called the Trademark Review and Adjudication Board – TRAB). At the same time, in most cases, it is necessary to initiate a procedure against the prior right (the “obstacle”) invoked against the rejected/opposed or invalidated trademark. The problem is that the review procedure is much faster than the procedure seeking to remove the “obstacle” so that the situation prevailing at the time of rejection/opposition or invalidation remains unchanged when the CNIPA adjudicates the application for review, and inevitably, the initial decision will be upheld. Hence, appeals need to be filed before the Court, and so on, until a final decision is made in the procedure against the “obstacle”. For decades, the CNIPA has been asked to suspend its review procedure when the decision hinges on the outcome of another pending procedure, but to no avail (the Trademark Law provides that such suspension is only optional). The new regulation stipulates that the suspension shall be an obligation in the aforesaid circumstances. This is a considerable improvement for all stakeholders, as it will cut many unnecessary procedures and save legal expenses.

Retrials by the Supreme People's Court

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Retrial is part of the general "supervision" of cases dealt with in Chapter 16 of the Civil Procedure Law. The most frequent occurrence of retrials is where a litigant, unhappy with the decision rendered at the second instance level, asks the higher-level jurisdiction (therefore, the SPC, if the appeal decision was rendered by a High Court), to retry the case. With the steady increase in the number of civil litigations, the SPC became progressively overwhelmed with retrial applications. In May 2021, the SPC issued the "Pilot Program for Improving the Four Levels Court Trials " which narrowed down the acceptable causes for retrial by the SPC. The SPC only accepted cases if there was no objection on evidence or procedure and if the dispute focused on a point of law, or if the decision had been made by the Judicial Committee of a High Court (a special panel who deals with the important cases).

Consequently, it became quasi-impossible to obtain the retrial of a difficult case by the SPC.

However, on July 28, 2023, the SPC issued the Guiding Opinion on the Determination of Jurisdiction Concerning Elevation of Jurisdiction and Retrials of Cases, in which the apex court announces that it will accept the retrial of cases that meet certain conditions, such as, having a nationwide significant impact, being of general significance in the application of the law, having a point of law that involves discussions within the SPC, being more conducive to a fair trial, and "other cases" that the SPC deems warrant a retrial.

Since then, retrials before the SPC have resumed.

Drastic restrictions for the filing of trademarks

Apart from these welcome changes, the year 2023 has seen the confirmation of a more general change in strategy concerning the administration and protection of trademarks.

This strategy goes back to 2008, when China announced the National IP Strategy for the Protection of Intellectual Property Rights. During the years that followed, the Government created all sorts of subsidies, awards and tax advantages, to encourage the filing of IP rights: invention patents, utility models, trademarks. The result was a spectacular growth of the number of filings, mainly utility models and trademarks.

For trademarks, the growth in the number of applications was exponential. The number of trademark applications, which until the launching of the National Strategy had remained in the range of 700,000 to 800,000 each year, ballooned and reached the stratospheric number of 9.45 million in 2021. For many applicants, a trademark was pure commodity to be filed and kept for its potential reselling value. The practice was called “trademark hoarding”.

In 2019, the fourth amendment to the Trademark Law was rapidly approved, without public consultation. The main amendment concerned Article 4, which provided that trademarks filed in bad faith without intention to use shall not be approved. Based on this legislative change, the CNIPA started to clamp down on such “bad faith trademark applications”. Subsidies were cancelled, the work of patent and trademark agencies and agents was scrutinized, and “trademark hoarding” was targeted for sanctions. This new strategy had an impact on the number of trademark filings. In 2022 the number of applications dropped to 7.52 million and in the first nine months of 2023, the amount of granted trademark registrations decreased by 35%.

However, the new criteria applied by the examiners may sometimes backfire, which makes it necessary to ask the courts to rectify some refusal decisions. For example, in 2021, a trademark filed by a pharmaceutical company IMEIK Technology, designating various products related to medical filler, was refused ex officio by the examiner who considered that since the applicant had filed a significant amount of trademark in a short period of time, that such trademark was filed “without intention to be used”, and should be rejected. The rejection was upheld by the CNIPA and the company had to file a lawsuit before the Beijing IP Court. On 26 December 2022, the Court found that the trademark could be considered as an extension, or a variant, of the applicant’s already registered trademark and a mean to widen the scope of protection of the basic trademark. The Court added that even if the applicant had filed many other trademarks (over 500), this did not automatically mean that such trademarks were filed in bad faith.

Revision of the Trademark Law

China is in the process of revising its Trademark Law. A draft was proposed for comments. One of the new provisions attracted a lot of comments: the obligation for all trademark registrants to submit, every five years, a declaration containing evidence of actual use of the trademark. Many stakeholders are worried that such a rule might cause the loss of legitimate trademarks filed for defensive purpose, not to mention the burden and cost of having to maintain, update and file records of use. Among the many comments that were submitted, some suggested that China could find inspiration in the European trademark legislation (rather than the US legislation) and set up a system based on the principle that trademarks are not to be protected if they are not used (except

for the first three years).

Besides, the draft provides a list of examples of bad faith, which is welcome, but this would be even more useful if a general definition of what is bad faith was provided. For example, the following definition (given by the European Court of Justice in the case Sky vs. Skykick, C-371/18) could be considered: there is bad faith if the trademark owner has filed the application with the intention of: (1) dishonestly undermining the interest of a third party, or (2) obtaining the right for purposes other than those falling within the functions of a trademark (irrespective of any third party interests).

The revision of the Trademark Law will take some time, as it is not listed among the priorities of the National People's Congress. This being said, the People's courts have been busy shaping, under the supervision of the SPC, a consistent jurisprudence which aim to discourage the use and enforcement of trademarks registered in bad faith, so that when a lawsuit is built on such a trademark, the court should dismiss the case. In 2022, a district court of Shanghai went even further than dismissing a case: the plaintiff is the exclusive licensee of a legitimate registered trademark but he was suing the owner of another registered trademark. In such a situation, the court would, normally, have refused to docket the case and would notify the plaintiff to file an application for invalidation. Yet, the court examined the subjective intentions of the plaintiff and found that he was abusing his right to sue (for instance, he was using an isolated element of his mark to claim similarity). The court even accepted the counterclaim submitted by the defendant and granted damages.

Revision of the Anti-Unfair Competition Law (AUCL)

According to the work plan of the National People's Congress, the revision of the AUCL is more likely to be adopted within the next five years. As a matter of fact, the AUCL is becoming, more and more, a ground used by the courts when the evidence produced in the case substantiates the presence of bad faith and unfair practice. Thus, the strengthening of this law is more than welcome. The draft revision (first issued in November 2022) introduces a series of new articles. For example, the act of providing convenience or knowingly selling products subject to the prohibition of confusing acts, is considered as unfair. Other articles are related to the technological evolution of the digital economy, such as the misuse of algorithms to "highjack" the customers of a competitor.

Revised Implementing Regulations of the Patent Law

On 21 December 2023, the State Council promulgated the long-awaited "Decision on Amending the Implementing Regulations of the Patent Law of the People's Republic of China". The amended regulations specify practical details concerning several issues, including partial design patents, priority for designs filed in China, patent-term extensions and the open licensing regime, to align with the fourth amendment to the Patent Law, which was enacted on 17 October 2020 and entered into effect on 1 June 2021.

These revised regulations have been hotly anticipated since the promulgation of the amendment to the Patent Law. The adjustments to various CNIPA practices and harmonization with the Hague Agreement are positive changes to the system and aim to make China more appealing to the international IP community.

Civil litigation: a rising percentage of "high value" IP lawsuits

As regards IP civil litigation, the number of judgments rendered by the People's courts (published each year by the Supreme People's Court) remains relatively stable. The number had grown steadily from 21,518 in 2008 to 514,999 in 2021. Sometimes the SPC publishes separately the number of foreign related cases. It can be seen that cases involving foreign litigants only represent 1.2% to 1.3% of the total civil IP cases. However, the percentage is much higher for administrative litigations concerning the granting, confirmation, cancellation of IP rights (it was 38% in 2018, dropped to 21% in 2021 and further dipped to 18% in 2022). It is also worth noting that in the past four years (2019-2022), 10% of the technology related cases were foreign related, and the number of these cases involving patents is on the rise: in 2023 patent contractual disputes raised by 42%; patent infringement and patent ownership disputes raised by 27%; technology related disputes increased by 56.7%. In other words, the rate of "high value" IP lawsuits has increased significantly in 2023.

The SPC IP Court

This increase of "high value" IP lawsuits had a direct impact on the practice of the SPC and led to the issuing of a decision on 16 October 2023, reorganizing the boundaries of the jurisdiction on patent and technology related cases.

In order to avoid contradictions and guaranty a higher predictability of decisions rendered in technology related cases, it had been decided, in 2018, that all appeals against lower-court judgments rendered in cases with a technical aspect should be directly submitted to the SPC, acting as the unique court of appeal for the whole country. The SPC created a special court known as the SPC IP Court and on 27 December 2018, promulgated

Provisions setting out how the new court would function and what would be the boundaries of its jurisdiction.

According to the Provisions, the SPC IP Court was to accept (1) all appeals against judgments and rulings rendered by the High courts, the Intermediate courts and the IP courts (Beijing, Shanghai and Guangzhou) in civil cases (including contractual disputes) involving invention patents, utility models (but not designs), new plant varieties, technical secrets, computer software, layout designs of integrated circuits and antitrust matters; (2) all appeals against judgments and rulings rendered by the Beijing IP Court in administrative cases involving granting and confirmation of invention patents, utility models, designs, new plant varieties and layout designs of integrated circuits (but not antitrust, computer software or technical secrets); and (3) all appeals against judgments and rulings rendered by the High courts, the Intermediate courts and the IP Courts in administrative penalty cases involving all the IP rights listed in point (1), plus designs.

The success of the SPC IP Court was so huge that it became progressively submerged by the number of appeals, which kept growing with the increase of “high value” cases.

At the end of 2022, the SPC IP Court had accepted a total of 13,863 technology-related IP and monopoly cases. In 2022, it recorded 457 new foreign-related cases (including those involving Hong Kong, Macao, and Taiwan), accounting for 10.4% of all new cases, reflecting a year-on-year growth of 4.6%. A total of 372 cases were closed, exhibiting a sizable year-on-year increase of 32.9% and accounting for 10.7% of the total number of closed cases.

The number of cases in which both parties are foreign parties continued to rise, accounting for approximately 4% of all foreign-related cases filed before the court.

As a result of this constant increase, the SPC needed to narrow down the scope of jurisdiction of its IP Court. This has been done by the publication, on 16 October 2023, of the Decision amending the Provisions of 2018. As of November 1, disputes surrounding utility models, trade secrets and computer software, which are deemed to be of lower-level technicality, will only be accepted by the SPC IP Court if the first instance judgment was rendered by the High People's Court of a province.

Meanwhile, the SPC expands the jurisdiction of its IP Court over cases involving applications for reconsideration of interim measures ordered in the first instance of civil and administrative cases. Such cases include matters like pre-trial injunctions, especially the highly controversial anti-suit injunctions (which allows a People’s court to issue against a litigant an order preventing the filing of another lawsuit in another jurisdiction).

IP enforcement: “less is more”

With regards to IP enforcement, another change of strategy is worth noting. In the past years, Chinese courts were faced with a trend that could be described as “commercialised IP enforcement”: the filing of large numbers of civil IP lawsuits with limited value, against small sellers of infringing products, for the sake of collecting damages and turning the litigation activity into a source of profit. In such cases, the plaintiffs avoid investing time and efforts in the search of the source of the infringing products i.e., the suppliers or the manufacturers. The courts, overwhelmed with such cases, awarded, on purpose, low damages to discourage this kind of “business model”. Conversely, the courts published exemplary judgments with high damages rendered against the manufacturers.

Procedures: more user friendly

When the Covid pandemic ended in China, the courts at various levels had to wind up the pending lawsuits, which were delayed by the Covid restrictive measures, and had to deal with newly filed lawsuits. This was a big challenge. The Supreme Court found a solution by selecting intermediate courts to hear technology related lawsuits, allowing them to hire “technology investigators” to help in the fact finding and understanding of the technology, and by designating nearly 600 courts at basic levels to adjudicate simple IP disputes (like trademark infringement).

On top of jurisdictional adjustments, the “Smart Court” practice also contributed to the expedition of the procedures. Even before the pandemic, some courts had begun to move certain procedures, like filing a lawsuit, online. The pandemic markedly popularised this practice. Pre-litigation settlement negotiation, cross-evidence examination, lawyer’s brief, argument presentation and oral hearing have all moved online ever since. Courts also utilise electronic file transfer system to speed up the appeal process. All these practices make the litigation procedure more user friendly for IP practitioners.