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INSIDE

P2 NEWS
Winter is Coming for Moncler's Counterfeiters

P3 HIGHLIGHT
The Importance of Creativity and Distinctiveness

P5 NEW LAW
Trade Secrets Protection Reinforced

P7 NEW AGREEMENT
A New Stage for Geographical Indications In China

P8 FOOD LAW
Shanghai FDA and Starbucks: profitable cooperation

Happy New Year!

With the first issue of GossIP in 2018 we bring to your attention several interesting cases decided by the Courts and Administrative Authorities in recent months in China.

The first article is about an intensive anti-counterfeiting campaign moved by Moncler against fake markets and stores selling fake products. The case reached the attention of the Shanghai Pudong PSB which is currently investigating. The second case relates to two opposition decisions that saw the cosmetic brand "Officina Profumo Farmaceutica Santa Maria Novella" succeeding in stopping the registration of two identical trademarks filed in class 3 and class 35. The case is interesting since the CTMO stresses the importance of the distinctiveness of the trademark at issue.

The third article explains the changes in the protection of trade secrets under the new Anti-Unfair Competition Law.

The forth articles is about the agreement between EU and China on the protection of 100 geographical indications on each side.

The fifth article still in relation to food highlight a case of good collaboration between Shanghai administrative authority and Starbuck for the issuance of new kind of Food license for a retail store provided with roastery (mixed retail and manufacturing).

The sixth article focus the attention on the current scenario of duties: while China lower or cancel many duties to imported products, EU develop a new method for assessing the necessity of duties for products coming from China.

Last but not least we bring the attention to the investigation launched by the US government on China IP practice. Will this bring new duties against Chinese products imported in the US?

Don't forget to scan the QR code herein if you use Wechat.

Fabio Giacopello
Partner | Counsel

HFG
LAW & INTELLECTUAL PROPERTY

NEWS

Winter is Coming for Moncler's Counterfeiters

As soon as the temperature drops in China Moncler passes on attack with an intensive anti-counterfeiting campaign thorough whole China, with special focus on Harbin , Shenyang, Beijing, Shanghai, Guangzhou and Shenzhen.

Six cities, more than 30 stores, hundreds of products seized and 2 persons detained by the Police is the current result of the campaign launched to protect the brand from counterfeits. HFG Law & Intellectual Property is proudly supporting Moncler deploying on the field more than 20 professionals.

At the end of November the campaign reached its peak with an action leaded by Shanghai Pudong Police Bureau. Soon after lunch time around 40 policemen entered the two markets known to be located around the metro stop Science and Technology Museum and targeted 16 stores identified in the previous days thanks to careful survey and monitoring of the activity of the vendors.

Based on a complaint prepared by the injured party Moncler, Chinese authority will prosecute the offenders under the criminal law given that the offense reaches the minimum threshold for criminal liability. Moncler decided that this should be the way and planned the simultaneous raids in different cities, shops and markets now, at the beginning of the winter seasons in order to withdraw from the market the higher number of counterfeited products.

This campaign is only one piece of a wide range of actions that Moncler is undertaking since several years including action in front of Trademark Office and TRAB, litigations in front of the Court, seizures in cooperation with the Customs and so on. After an important business trip in China during which the legal counsels visited the main cities and their fake shops and markets, the famous brand started the first part of a planned series of raid aimed to fight as much counterfeiters as possible. Moncler made its point: they'll not ignore this problem and to deal with it nothing has been left to chance.

The protection of intellectual property rights in China is still quite complex and it will be probably a long battle, however brands – especially brands – cannot ignore the matter and need to play an active role in this battle.

Waiting for the prosecution of these seizures and arrests, it should be noted how important is to plan a efficient IP strategy in order first to protect the rights in China (through registration and effective use of the signs in the China mainland) and then to be able to enforce its against small and big counterfeiting cases.

HIGHLIGHT

The Importance of Creativity and Distinctiveness.

"Santa Maria Novella" cases.

The attempt to register the trademark by a possible squatter was then stopped thanks the prompt reaction of the trademark owner and favorable decisions from the CTMO.

With the decisions issued on October 2017, the China Trade Mark Office ("CTMO") accepted the oppositions filed in the name of Officina Profumo Farmaceutica di Santa Maria Novella S.P.A. (herein "SM Novella") against two trademark applications for "'SANTA MARIA NOVELLA & Device".

The CTMO stated that "in accordance with Articles 7, 30 and 35 of the Trademark law, our Office hereby makes the decision that the Opposed Trademark No. 16441775 and 16441775 for 'SANTA MARIA NOVELLA & Device' shall be rejected for registration".

The judgment standard applied in these remarkable decisions are in line with most updated international standard in trademark evaluation and leave only as bad memory the protectionist decisions that made CTMO ingloriously famous. This is anyway new trend at CTMO that still struggle to affirm itself, and not yet an established practice.

SM Novella is a historical Italian company which is working from over 400 years in the cosmetics sector, producing perfume and others various bath products. The homonymous brand has been used worldwide including in China being anyway is a niche product rather than a mass market and large consumption item.

The trademark Applicant, an individual named CAI Zhifeng, applied two different requests for his trademark on the date of August 30th 2017. The first application designated the goods of "bath lotion, fumigation preparation (perfumes) and cosmetics, etc." in Class 3. The second one was designated the service of "advertising, publicity, provide commercial information by website, import-export agencies, etc." in class 35.

SM Novella, thanks to a careful monitoring of Internal trademark registers found out on time the malicious attempt for registration and intervened promptly buy filing Opposition. The two decisions of the CTMO are both favorable to the Italian company.

As for the first application, the Office recognized, first of all, that the prior registered trademark No. 11022226 "SANTA MARIA NOVELLA & Device" was already approved to be used on goods of "bath lotion, fumigation preparation (perfumes) and cosmetics, etc." in Class 3.

According to the Office both parties' trademarks were identical or similar in terms of letter combination, device elements and overall appearance. Moreover, as the Office affirmed, the designed goods of the both parties' trademarks were basically identical or similar in terms of function and use, which were similar goods. Thus, the co-existence of similar trademarks used on similar goods was able to confuse the consumers.

The CTMO moreover declared that the Opposer Trademark had proved the stronger creativity and distinctiveness and, by the way, that the Trademark Applicant did not offer reasonable explanation for the creativity of the Opposed Trademark. In the decision the Office observed the higher popularity among relevant consumers after the use and wide publicity for a long time. Therefore, the CTMO deemed that the Trademark application of CAI Zhifeng was filed with improper manner and violated the principle of good faith abided by the civil activities.

The question that we shall reply is "why the CTMO preliminary approved a trademark that is identical to another trademark in the same class"?

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On The reason is that the prior trademark covers partially class 3 and the applicant of the latter trademark was preliminary approved for goods that according to the Chinese classification/sub-classification system are different from those included in the previous trademark. Therefore, it is only after the owner of the prior trademark proved an actual interest to its trademark that CTMO took in consideration an intra-class extension of protection, accepted the opposition and rejected from registration the malicious application.

As the second application of the Opposed Trademark, which was designated on the service of "advertising, publicity, provide commercial information by website, import-export agencies, etc." in class 35, the China Trademark Office reaffirmed the higher popularity of the Opposer Trademark.

- Firstly, the CTMO recognized that the designed goods or services of the both parties' trademarks were different in term of functions and use, service content, and service mode, which were not similar good or service.

- On the other hand, the CTMO admitted that the Opposer Trademark enjoying strong creativity and distinctiveness and, because of lacking evidence, according to the Office the Trademark Applicant did not offer the justification of the creativity of his trademark, which is almost identical with the Italian one.

HFG represented Santa Mari Novella in front of CTMO.

The Office believed that also in this case the Trademark Applicant filed the registration of the Opposed Trademark with improper manner and violated the principle of good faith, which is moreover settled on the Article 7 of Trademark Law.

So based on the above, the CTMO made the decisions to reject the registration of the two opposed trademarks Nos. 16441774 for "SANTA MARIA NOVELLA & Device" in Class 35 and 16441775 for "SANTA MARIA NOVELLA & Device" in Class 3.

These decisions constitute a very important precedent for the trademarks subject.

Indeed, in addition to the prior registration, which is a factual data, the China Trademark Office has recognized the prior reputation and high distinctiveness of the Italian trademark in China even though their products haven't been largely sold in the PRC.

Paola Stefanelli, IP lawyer at Bugnion Spa that assists SANTA MARIA NOVELLA from several years comments that prompt reaction and bold attitude are the key to success in such kind of cases.

ANTI-UNFAIR COMPETITION LAW

Trade Secrets Protection Reinforced

On January 1st, 2018, the new Amendment to the PRC Anti-Unfair Competition Law (the "Amended AUCL") has entered into force. AUCL has always been a crucial weapon for intellectual property rights owners to stop infringement and this Amendment would also have material impact on IP enforcement.

More specifically, regarding protection of trade secrets the Amended AUCL, among other things, provides clarity on what constitutes trade secret infringement and increases penalties to strengthen trade secret protection. That will help to create a business-friendly environment and promote business healthy and sustained growth.

Let us summarize the main points amended by the new law and how they can affect and help companies to defend their trade secrets.

Trade secret new definition under Amended AUCL.

According to Amended AUCL "trade secret" means: "technology or business information unknown to the public and of a commercial value for which the right holder has taken corresponding confidentiality measures".

This new definition has simplified the criteria of "trade secrets" by eliminating the former requirement of "practical applicability" that the information must have to be qualified as trade secret. In practice, this new concept will expand the scope of trade secret protection granting a higher degree of protection

Preventing unfair competition by employees, ex-employees and new employers.

The Amended AUCL added or further clarified the provisions that tackle breaches of trade secrets by former employees who use them in their own business or reveal them to third parties without authorization. Now, under the new regulation, such third parties obligations and liabilities on trade secrets are heightened.

Thus, any third party that has obtained trade secrets from a direct infringer on a knowing or should-have-known basis and use or allow any other third party to use them may be held liable together with the final user of the trade secret.

Furthermore, the new law imposes the obligation on the employers not to improperly use, or allow any of its employees to disclose or use any information or trade secret of their former employer or any other person or entity to which the employee owes a confidentiality obligation

Relevant increased of the administrative fines under the Amended AUCL.

The new Administrative fines foreseen to punish trade secret infringement acts ranges now from 100.000 to 3 Million RMB. Those figures compared to the previous amounts stated in the former AUCL ranging from 10.000 to 200.000 RMB should be regarded as a very significant increased.

As a matter of fact, such increase together with the new likely more effective enforcement measures also implemented will encourage companies suffering infringement of their trade secrets to act and take legal actions against the infringers.

Enforcement measures and activities enhanced

The previous AUCL was criticized for inadequate supervision, inspection and enforcement. These criticisms have been addressed by the Amended AUCL enhancing the supervisory and investigation powers and duties of the law enforcement agencies.

As a result, law enforcement agencies are now authorized, among other things, "to seal up or seize the property related to the suspected unfair competition, investigate bank accounts of operators involved, request evidences, demanding the investigated operator to temporarily cease suspected activities and especially, request the competent Courts to freeze assets upon their foreseeable concealment".

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ANTI-UNFAIR COMPETITION LAW

Trade Secrets Protection Reinforced

Nonetheless, whether this extension of law enforcement agencies powers will have a positive impact from a trade secret protection perspective remains unclear. For instance, where misappropriation of trade secrets is suspected but not found trade secrets of the suspected company might be disclosed involuntarily if administrative authorities access supposedly confidential business information. It is also possible that such enforcement power be abused or taken advantage of by bad faith reports of misconduct.

Consequently, these risks will have to be managed in practice to avoid that these new enforcement options may be counterproductive to achieve the original purpose of these new provisions, which is not other than protect the rights of trade secrets holders.

Damages and compensation as a result of Unfair Competition acts.

Prior to the Amendment AUCL Courts lacked of statutory guidance in relation to the calculation of damages in cases of infringement of the rights protected by the Unfair Competition Law.

Now, this new Law states the basic principles to calculate the damages suffered, providing that:

"The amount of compensation for the entity who has suffered damage due to unfair competition is determined according to the actual loss suffered by the infringement; if the actual loss is difficult to calculate, the amount of compensation shall be determined according to the interests obtained by the infringer due to the infringement."

In addition to that, such provision further states that "the amount of compensation shall include the reasonable expenses incurred by the operator to prevent, find out and stop the infringement." , which in cases of trade secret infringements, for instance, are usually quite significant.

As mentioned above, the expectations to obtain a fair and adequate compensation as a consequence of the infringement will encourage companies to take administrative or legal actions to protect their rights against the infringers' practices.

In conclusion, the Amended AUCL will substantially improve China's legal regime with respect to protection of trade secrets by clarifying the requirements for trade secret qualification, imposing liabilities on third parties that obtained trade secrets and raising administrative fines and compensations which may be obtained by trade secret owners.

EU-CHINA NEW AGREEMENT

A New Stage for Geographical Indications Protections in China

On June 2017 the UE and China published a list of new geographical indications that are to be protected in a bilateral agreement to be signed by both parties. In total, 200 new Geographical Indications (100 each side) will be recognized in both regions.

This new agreement is framed within the 5 years plan launched by the European Commission in 2016 to enhance the promotion, growth and investment into China. Equally, it is part of of the agreements previously signed pursuing the recognition and adequate protection of Geographical Indications (GI) in the countries of origin.

The publication of the definitive list includes diverse GIs from different European countries such as Italy, Spain, France and United Kingdom, which joins the ulterior GIs already recognized.

In macroeconomic terms China is the main importer of agricultural products worldwide. Moreover, according to the World Trade Organization in 2018 it will also become the world leader importer of food & beverages products with a total estimated value of importations of 480 billion RMB (around 64 billion EUR).

In this context, the European Union Commission expects that the new protection of products under the GI will help to extend its recognition and enhance its defense and legal protection against counterfeit products and squatters.

On the other hand, China also holds a rich tradition on GIs which may be at the same time object of specific proceedings for its legal protection. To this extent, article 16 of Chinese Trademark Law defines Geographical Indications as “the origin of the goods, the special qualities, credibility or other characteristics of the goods and it is primarily determined by the natural factors or other humanistic factors of the place indicated”.

Regarding the specific proceedings and tools available in China to protect and register the GIs, the different applicable regulations lead to 2 main procedures to be followed by the interested parties:

1. **Protection by means of Intellectual Property rights.** In this case, GIs will be recognized and protected as collective or certified trademarks before the Chinese Trademark Office. This recognition grants the right to exclusively use the corresponding GI and the faculty to prohibit or act against any other third party illegitimately using such mark.

2. **Protection of the GI by means of the rights granted by the China General Administration for Quality, Supervision, Inspection and Quarantine (AQSIQ).**

In the first case, as mentioned above, the GI may be object of a collective or certified trademark application.

On one hand, the collective trademark can only be applied before the Chinese Trademark Office by the Official Association in charge of managing the GI in the country of origin and must also have such GI registered in the country of origin. Additionally, we should bear in mind that the GI at stake cannot be applied for those products whose origin is not the indicated region.

On the other hand, the certified trademark is a sign managed by a specific organization who grants the right to use such sign whose aim is to certify some special attributes of the product, such as the origin, manufacturing method, quality or any other specific and distinctive feature of the good.

Secondly, as mentioned before, it is possible as well to obtain the recognition, registration and protection of the GIs included in this new agreement by means of the procedure carried out before the AQSIQ. This entity enacted a set of specific measures whose goal is to protect foreign products under GIs. These regulations include the description of the proceeding for the official registration of the GI in China, as well any actions available for GIs owners to act against any third party infringing their rights and interest.

As a matter of fact, both protection systems described are complementary. Thus, any interested party may request the protection of a GI by both channels at a time in order to reinforce his strategy to protect and defend the GI in China and so his products.

CHINESE FOOD LAW

Shanghai FDA and Starbucks: profitable cooperation

On October 25, 2017 the new "Shanghai Open coffee-roasting production license review rules" entered into force. These rules apply to food production licenses for coffee-roasting in open way.

These rules apply to food production licenses for coffee-roasting in open way, which is basically coffee-roasting activity conducted in areas within retail or food-service stores, defined as *"…processing way which enables consumers to see the roasted coffee production facilities and production process, meanwhile, there is transparent protective facilities between the non-production area and the production area to prevent entrance of no-production person to the producing area".*

Just a couple of months after, the new famous Starbucks flagship store (Starbucks Reserve Roastery) was open – first ever in China to host a coffee-roasting site within a Starbucks coffee shop.

Authorities officially declared that approval of this new regulation has indeed been sparkled by Starbucks opening; a long technical cooperation between Starbucks and FDA has been required in order to agree on the food safety requirements for this regulation.

The regulation requires that the open-roasting area shall comply with the ordinary requirements for food-production sites. We are therefore really talking about having a factory-degree facility within a restaurant. The two different areas (production and non-production) must be totally separated one from another to avoid cross-contamination risk.

For example:

Why this was required

Coffee-roasting is considered food-production activity. The existing implementing regulation for coffee-roasting production license has been conceived for production activity conducted in factories, not in areas within restaurants or retail stores. Therefore, without a new regulation tailored on the *"open space"* way of production, it would have been impossible for Starbucks to obtain such a license.

Why this is a milestone

This is a milestone because it shows how – through communication, commitment and technical effort – Chinese authority can effectively open regulatory doors in order to meet business players requests. As declared by FDA officers, when Starbucks discussed its intention to launch this new project – which merges into one same facility food production, food service and food retail – FDA feared that, due to lack of regulatory grounds, the project would have been unfeasible. Nevertheless, deep commitment from both side, along with one-year long technical discussion, cleared way to this important regulatory and business achievement.

Of course, Starbuck great status in China (where it is a major food player) along with the low-food safety risk in coffee-roasting compared with other food production activities has definitely helped.

However, this shall from one side help existing business which de-facto already host food production in their food-service facilities to adjust their business model; on the other side, it may clear the regulatory-way to new creative food business models (totally-automated restaurants, etc…).

EXPORT-IMPORT

European Union vs. China: Call of Duties

It has not yet ceased the tug-of-war between the European Union ("EU") and the People's Republic of China when it comes to trade exhange.

As a matter of fact, while China has recently been showing an unexpected trend to favor importation of products from western markets, Europe has demonstrated a closing attitude towards the Asian ones. Indeed, we have recently been witnessing this clash in the opposing economic policies of these two giants.

On one hand, the Chinese Government has recently taken the decision to reduce again the importation tariffs on selected consumers goods, including food, health products, medicines, clothes or shoes.

This is not a new decision for the China's Finance Ministry. Actually, this specific economic policy was already implemented few years ago, when importation tariffs had been cut on products like food, healty products, medicines, clothes and hats. Now, according to the new statement the tariffs will be cut again from the beginning of December, on an average from 17,3 % to 7,7 % on those same products.

Firstly, why is China taking this trend and why is this choice that significant?

Lu Zhengwei, ICBC's economist, brings some light on it and believes that firstly that trend is due to the "common feeling among Chinese consumers who believe that Chinese market cannot satisfy the needs of some quality goods".

Secondly, and more important, because it "encourages consumers to buy foreign product at the local shops and that means also encrising job roles".

However, if China is taking a step toward the West, the latter is, on the other hand, taking one step back.

In this regard, the EU has taken the opposite path and will implement more rigorous measures on the Chinese exports in the member states. To this extent, the EU Parliament has recently approved the proposal of the European Commission to introduce new rules to regulate Chinese dumping practices.

But what exactly are we talking about when we refer to dumping?

Beign not a clear concept for the general public, we can describe dumping as a form of price discrimination. Dumping practices occurs when manufacturers lower the price of a good aimed for a foreign market compare to the prices charged for it to domestic customers. As a matter of fact, we might say this is one of the issues going on nowadays for the Chinese exports to the EU.

China has so far benefited from this favorable treatment on import rates for Chinese exporters. The primary advantage of trade dumping is the ability to access the market with product prices often seen as unfair. And that is possible thank to the China's "non-market economy" label.

In fact, under the old system, dumping duty rates for China were calculated by comparing the export price of merchandisng when sold to the EU with the comparable domestic price in an analogue country, which under the EU perspective did not reflect the real situation.

Therefore, under the new system, the differences between market economy countries and those that are not so considered will not longer be taked into account for this purpose. The Commission now will use Chinese normal values, or domestic prices, for the purposes of making the dumping margin calculations and will impose sanctions for "significant market distortions" in cases where prices are not market-based.

The intention of European Union is basically to protect European industries from acts of unfair competition, which are harming the local enonomies. Thus, in orden to avoid the application of the anti-dumping measure, the Chinese exports to the EU must be adequate to the social and environmental standards of the European Union.

However, for the time being the actual impact of the implementation of these new measures in the markets remains uncertain. But what it is certain is that both policies are the outcome of the clash in their respective markets which, as well we know, it have been rather massive.

WATCH OUT

IP as ground for duties against China

In the search for a possible legal mean to fight against countries which practice unfair practices and export good to US that might the national industry the last idea Section 301 of the Trade Act of 1974, famous among Intellectual property but less to the great public.

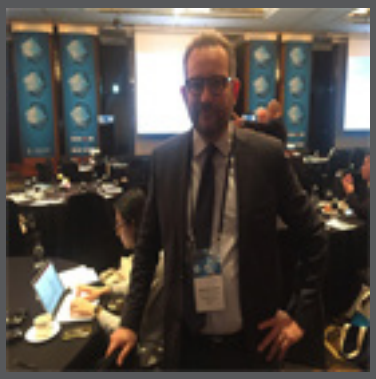
Following the directions of a memorandum signed by President Donald Trump, Robert E. Lighthizer, the United States Trade Representative ("USTR"), in August launched an investigation under Section 301 of the Trade Act of 1974 into acts, policies, and practices of the Chinese government as they relate to *"technology transfer, intellectual property and innovation".*

USTR will examine acts, policies and practices of the Chinese government (divided in 4 categories) which are focused on technology/IP transfer and cyber-theft; beyond these categories, it will also analyze "acts, policies and practices of China relating to technology transfer, intellectual property, and innovation described in the President's Memorandum," leaving open the possibility for a wider investigation. The USTR has 12 months to decide whether to take actions.

If actions are to be taken, it may be considered to withdraw the trade concessions, impose duties or other import duties and take all other appropriate and feasible actions within the power of the President.

The Chinese government has expressed its worries about this investigation that, anyway, seems to reflect concerns of international business community in China. The Chinese government declared that US criticism of China is not objective and that the imposition of the retaliatory measures, even if authorized under U.S. law, could potentially violate WTO rules. Thereby China reserves the right to consider a challenge to such measures at the WTO.

HFG INITIATIVES

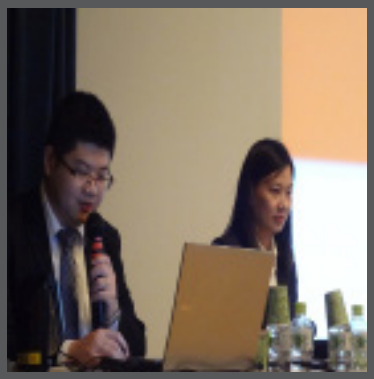


Fabio Giacopello made the presentation at Conference in Seoul

Fabio Giacopello – Partner at HFG Law&Intellectual Property – made the presentation “IP Enforcement in Italy” at the 5th Korea – EU Intellectual Property Rights (IPR) Conference in Seoul, Korea.

The Conference was co-hosted by the European Chamber of Commerce in Korea (ECCK), the European Patent Office and the European Union Intellectual Property Office (EUIPO), in cooperation with the Korean Patent Court and the French Patent and Trademark Office (INPI), also is supported by Hoffmann Eitle and Myriad IP.

Both the public and private sectors specialist will attend the conference and discuss diverse range of topics including Anticounterfeiting, Standard Essential Patents and Design Protection.



Lanny Lee delivered speech in Japan for Japanese attorneys

Ms. Lanny Lee - Partner at HFG Law&Intellectul Property - had been invited by Japanese Patent and Trademark Association to deliver two speeches regarding the strategy of ant-counterfeiting in China. More than 180 patent attorneys attended these meetings in Tokyo this week.

Mr. Harrison Ding from HFG's Japanese department conducted translation.

Lanny Lee is one of the founding Partners of HFG and been practicing law for 16 years in China. She has extensive experience in Intellectual Property rights including trademark, patent, copyright, business secrets and unfair competition. Lanny mainly provides professional Intellectual Property legal services to foreign-invested companies and Japanese enterprises.

HFG Law&Intellectual Property

HFG is a leading China focused Law Firm and IP Practice uniquely integrated and co-managed by a team of multinational professionals based in Shanghai and Beijing. Since 2003, HFG is proud of delivering the highest standard of quality service rendered with uncompromised understanding of the business interest of clients, from a range of industries all over the world.

Collectively the firm commands a profound and diversified knowledge base and represents clients at various levels before all state-level agencies and administrative and judicial authorities. Going beyond traditional areas of practice, HFG integrates commercial and corporate law services providing a one stop station to companies whose intangible assets out value the tangibles.

HFG services have a special focus on IT and telecom, petrochemical, wine and liquors, fashion, cosmetics, retail and e-commerce, food and pharma regulatory, licensing and monetization of patented technology.

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