

The Practical Q&A Guide to Cutting-Edge Intellectual Property Issues



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We combine market-leading positions in Asia, the Middle East, and Africa with a strong presence alongside some of Europe's most successful innovators. Together with Lusheng Law Firm, we provide a more comprehensive protection strategy for our clients including foreign entities investing in China and local Chinese enterprises going global.

Rouse has offices in Beijing, Shanghai, Guangzhou, and Hong Kong SAR. With outstanding capabilities and services, Rouse China is often Ranked top tier by International and Domestic legal and IP directories such as Chambers & Partners, The Legal 500, Managing IP, ALB (Asian Legal Business), China Business Law Journal, WTR (World Trademark Review), and IAM (Intellectual Asset Management).

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Lusheng Law Firm (hereinafter referred to as "Lusheng") was established in 2006 and specializes in providing legal services related to intellectual property. Its headquarters are in Beijing, with offices in Shanghai and Guangzhou. Additionally, Lusheng is one of the few law firms that have been granted the qualification of a patent agency by the National Intellectual Property Administration.

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With its leading professional reputation in the industry, Lusheng has received recommendations from numerous international authoritative rating and research institutions as well as professional media, including Chambers & Partners, The Legal 500, Managing IP, ALB (Asian Legal Business), China Business Law Journal, IAM (Intellectual Asset Management), Asia IP, Benchmark Litigation, and others.

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Preamble

Harnessing the collective insights of diverse experts, we've crafted a series of highly informative guides. In 2024, driven by an ambition to offer legal professionals a systematic repository of expert knowledge, Wolters Kluwer initiated a range of events spotlighting pressing issues across five key practice areas: labor law, corporate law, data compliance, advertising, and intellectual property. As domain experts shared insights on these topics, these professionals also engaged in structured writing projects that culminated in the creation of the booklets. These publications serve as invaluable references, distilling complex information into accessible guidance.

Across the contemporary business landscape, shaped by globalization and digital transformation, intellectual property (IP) has been positioned at the crossroads of significant opportunity. The breakneck pace of technological advancement has brought challenges to the realms of copyright protection, patent applications, and trademark management. At the same time, the rise of online infringement poses an escalating threat, making IP defense an increasingly intricate endeavor. Yet, the commercial significance of IP is on the rise, and the push for innovation-driven strategies has unlocked tremendous potential regarding the strategic use of IP assets.

Against this backdrop, Wolters Kluwer has partnered with Rouse International & Lusheng Law Firm—entities with a long-standing commitment to IP excellence—to produce "The Practical Q&A Guide to Cutting-Edge Intellectual Property Issues." The manual zeroes in on the most topical issues currently animating the IP sector, spanning domains such as patents, trademarks, copyrights, trade secrets, internet-based unfair competition, IP as capital contributions, and punitive damages in IP cases. Structured around a "Q&A" format, the text addresses over a hundred frequently asked questions from IP professionals, delivering up-to-the-minute legal analyses, case studies, and practical advice to empower readers with actionable insights.

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CHAPTER I

Generative AI and intellectual property protection

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At present, many countries and regions around the world have discussed or have actually begun to advance legislative processes relating to AI. Judicial and enforcement practices have also been continuously evolving with the development of AI technology, the advancement of legislation and the deepening of human cognition of AI. The following analysis is based on the current legal framework of relevant countries and regions. With the gradual improvement of legislation and practice, discussion of the following issues will need to be adjusted, and readers are advised to pay close attention to the legislative and practical trends of the corresponding countries and regions.

Q1: 【Definition】 What is generative AI?

A1: Generative AI (‘GAI’) is an artificial intelligence technology that relies on deep learning models trained on large data sets to create new content. The core of generative AI is machine learning, and its fundamental idea enable computer programs to extract underlying rules, patterns, relationships, and structures by learning from vast amounts of data. Through the act of recognizing, analyzing and learning in different data, it determines the characteristics of something and uses these features to generate new content that is similar to the original data including text, images, audio, etc¹.

The process of ‘Generative AI’ is divided into two parts:

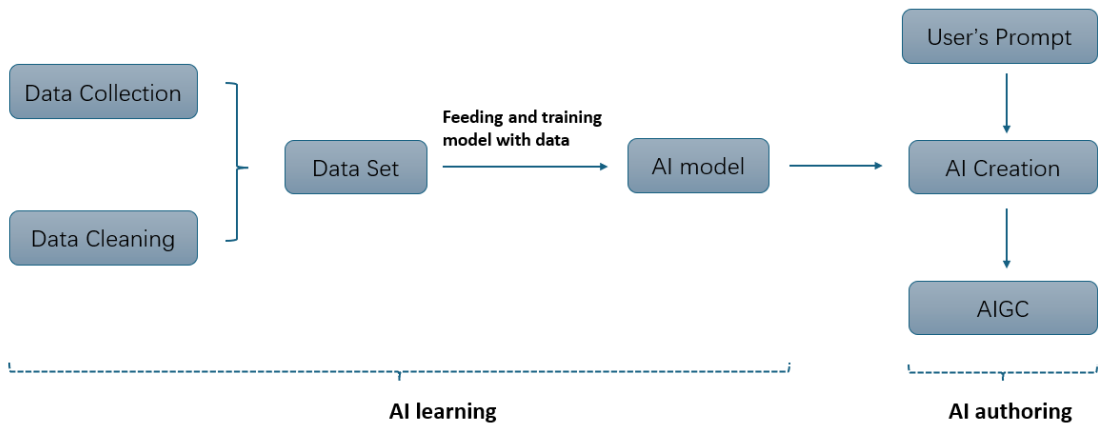
The first part is **AI learning**, i.e., building a model by learning from large data sets. Models are the foundation of generative AI, and their essence is a form of machine learning algorithms. Deep learning is one of the most used algorithms in this field. Before creating a foundational model, developers must first take a large amount of raw data from the Internet or other types of databases, and then clean, filter, and label these data accordingly. After that, this large data sets are input into the algorithm for training. During the training process, deep learning algorithms continuously improve themselves by building multi-layer neural networks, simulating the way humans acquire knowledge. Specifically, by learning the content of these data and extracting the effective features, it attempts to predict the next element in the data series according to these features, and constantly

¹ <https://www.elastic.co/cn/what-is/generative-ai>

adjusting itself in the process of this cycle, to achieve the purpose of predicting the results infinitely close to the actual data. The basic model is a deep learning model generated based on a large amount of ordinary data, and based on this deep learning model, developers can adjust the model for different types of generative AI programs for different purposes.

The second part is **AI creation**, where users input prompts into the generative AI model, and generative AI generates new content. This process is known as the “AI creation” process. The content generated through this process is called Artificial Intelligence Generated Content (AIGC). Recently, with the continuous development of deep learning technology, a new generation of models can process a variety of contents including text, speech, code, images, videos, 3D models, etc., and the corresponding AIGC has also been continuously enriched. It is worth mentioning that the process of AI creation is different from human control over their own actions. The logic in the analysis of traditional copyright infringement is to prove or presume the possibility of “access” and then prove that the fact that the output work is identical/substantially similar to the prior work is attributable. However, this logic does not necessarily apply to AI creation. Taking the deep learning model as an example, in the data processing process, AI technology needs to construct a mathematical model of artificial neurons by imitating the hierarchical structure of neurons in the human brain, and applies such mathematical model to decode, analyse and learn from the sample data. This kind of learning requires training the deep hierarchical structure of a large neural network. Each layer can solve different problems and conduct machine learning to different degrees, so that more complex problems can be systematically solved. The algorithms behind AI learning do not necessarily follow the path of data acquisition input, feature extraction, and logical reasoning prediction, which leads to relatively certain results. Instead, it may automatically learn and further generate more advanced cognitive results based on the initial features of the data. Thus, there is an unobstructed “hidden layer” between the input data and the output answer, also known as the “black box”. People can see the data that goes into the open system, and see the results released by the system. However, they cannot see how the system organizes the relationship between input and output.

The basic workflow of generative AI:



Q2: 【Intellectual Property Rights of AI Models】 Can generative AI models/algorithms and training data be protected by intellectual property rights?

A2: The term of “generative AI model/algorithm” in this question refers to a model/algorithm that includes the processes of data training and content generation, has the ability to analyse input data and can generate content based on the input data.

The protection for generative AI models/algorithms and training data based on intellectual property can be considered from the following perspectives:

- **Copyright:** Generative AI models/algorithms may contain source code and algorithms. The source code and algorithms themselves may constitute computer software, and on the basis, generative AI models/algorithms can be protected by copyright law. The training data may also be protected by copyright law if it contains copyrighted works or constitutes an adaptation or compiled work.
- **Patents:** If a generative AI model has a unique technology, method, or application, such as the main innovation lying in the training process of the

model, it can also be considered for patent protection as a technical solution. In particular, for AI models/algorithms that are more susceptible to reverse engineering, patent protection - where disclosure is exchanged for protection - may be a more suitable choice. From this perspective, it is wiser to choose patent protection than trade secret protection as mentioned below. However, it is important to note that patent protection can be challenging in proving the innovativeness and non-obviousness of AI models/algorithms.

- **Trade secrets:** Trade secrets refer to technical/business information that is not known to the public, has commercial value, and has been kept confidential by the right holder. Thus, content with commercial value that is not yet known to the public can theoretically be protected as trade secrets as long as confidentiality measures are taken in place. The advantage of trade secret protection, as compared to copyright and patent protection, is that as long as the AI model/algorithm is still kept secret, the protection can be continued. AI models/algorithms have commercial value and can gain advantages and benefits for the developer. Thus, they can also be protected as trade secrets by taking confidentiality measures. In particular, trade secret protection is a more sensible choice for AI models/algorithms that are not easily obtained by reverse engineering and for AI models/algorithms whose value lasts longer than the term of copyright and patent protection.
- **Property rights and interests under the Anti-Unfair Competition Law and the Civil Law:** As mentioned above, first, the AI model/algorithm is finally generated by the developer after expending human, material and financial resources and going through processes such as program writing, data collection and collation. Second, the AI model/algorithm has commercial value and can bring competitive advantages and economic benefits to the developer. Hence, it may be protected as a property interest under the Anti-Unfair Competition Law and the Civil Law. As for the training data, for the big data that has incurred costs and has commercial value, there have been cases that have taken into account that the big data product has the above two

characteristics, and therefore recognized that the big data product should enjoy independent property interests².

Additionally, when evaluating the IP protection of generative AI models/algorithms, it is necessary to consider the distinction and boundaries with existing algorithms in the public domain.

Q3: 【Copyright of AIGC】 Can content such as images, music, and text output by generative AI be protected by copyright?

A3: Whether AIGC can be protected by copyright law is still a topic under debate in academia and practice around the world. However, some consensuses have been reached at present, including:

- **Insisting on the sole subject status of human beings** – that is, adhere to the view that only human beings can have authorship. Copyright law only protects the creations of natural persons, but generative AI models do not have free will and are not legal subjects, so the content generated solely by AI should not be protected. The degree of contribution and control of human beings (users) over the creation process and the final generated content is the main factor.
- **Determinations regarding whether AI-generated content can be protected should be based on the criteria set forth in the Copyright Law** – whether the content generated by AI qualifies as a work protected by the Copyright Law should still be judged based on the requirements for a work under the Copyright Law. That means the determination of originality and intellectual achievement, among other criteria, will not vary based on the source of the content. According to the provisions of the Copyright Law of the People's Republic of China, works shall refer to original intellectual achievements in the fields of literature, art and science that can be expressed in a certain form. The characteristics of work include that the work should be creative intellectual achievements in the fields of literature, art, and science, it can be reproduced

² Hangzhou Railway Transport Court (2017) Zhe 8601 Min Chu No. 4034 Civil Judgment; Hangzhou Intermediate People's Court (2018) Zhe 01 Min Zhong No. 7312 Civil Judgment.

in tangible form, and it has originality. Since the model/algorithm is not qualified as an independent civil subject, the content generated by AI alone does not meet the requirements for constituting a work under the Copyright Law of PRC.

For example, in the case of Shenzhen Tencent v. Shanghai Yingxun Co., Ltd., which was selected as one of the “50 Typical Intellectual Property Cases of Chinese Courts in 2020” by the Supreme People's Court³, the court held that even though the direct creator of AIGC is not a human being, it can still be defined as a work under the Copyright Law. That is because the determination of the originality of a work focuses on the personal elements involved, and as long as the AIGC's connection to the AI designer and the user can be proven, it can be classified as a work for protection. As a result, the court affirmed that the articles written by robot Dreamwriter developed by Tencent were considered corporate works created by Tencent. However, in the case (2019) Jing 73 Min Zhong No. 2030, based on the principle that “the creation by a natural person should still be a necessary condition for the work under the Copyright Law”, the court held that there was no participation of natural persons in the generation of the graphics and analysis reports involved in the case. The court's line of thinking is that the analysis report was formed by Wolters Kluwer using the input keywords combined with algorithms, rules and templates, and in a certain sense, it can be determined that Wolters Kluwer “created” the analysis report, but since the analysis report was not created by a natural person, even if the analysis report “created” by the Wolters Kluwer is original, the analysis report is still not a work of the Copyright Law, and it still cannot be determined that the Wolters Kluwer is the author and enjoys the relevant rights stipulated in the Copyright Law.

In the first case regarding AI text-to-image generation heard by the Beijing Internet Court⁴, the court held that since the process of a person's use of AI tools for creation is reproducible, and the same result can be obtained by inputting the same prompt word to the generative AI application used by the plaintiff. As such, the arrangement and choice of the natural person in the process of “creation” is no different from the process of a person using a camera to shoot and create a

3 (2019) Yue 0305 Min Chu No. 14010

4 (2023) Jing 0491 Min Chu No. 11279

photographic work. Thus, when a person uses a tool to create works, the intellectual input is made by the user who enters the prompt, and therefore the creative content is protected by copyright and belongs to the user.

In the case of *Zarya of the Dawn*, a user used the Midjourney platform, an artificial intelligence drawing tool, to create his comic strip *Zarya of the Dawn* and applied for copyright registration in US. The U.S. Copyright Office (USCO) initially granted copyright registration for the comic without knowing that it was AI-generated and later withdrew the copyright registration. USCO stated that images generated by Midjourney, an AI painting tool, lacked sufficient human involvement in the creation process and were therefore not eligible for copyright protection. In other words, in this case, the user did not have sufficient control over the content generated by the AI model, but “human” is the only subject who can carry out creative acts under the Copyright Law of US. As such, the content generated by AI in this case does not fall within the scope of protection under the Copyright Law of US. However, the Copyright Law of US does not completely exclude AIGC. If users edit and modify AI-generated images, the part that can reflect the original work of human beings still can be protected by the Copyright Law of US.

It is worth noting that the number of cases concerning the copyright status of AIGC in various countries is still relatively limited, and all the cases are analysed on a case-by-case basis. With the development of technology and the deepening of our understanding of the application of AI, the criteria and standards for determining whether AI-generated products can be protected by copyright will be further clarified.

Q4: 【Right Holder of AIGC】 If the content output by generative AI can be protected by copyright, who is the right holder?

A4: As mentioned above, the current court precedents in China basically agree that AIGC can only be protected by the Copyright Law if it is created based on the intellectual efforts of the civil subject and shows a certain degree of originality. However, there is no consensus on which entity the copyright of AI-generated works belongs to.

Presently, in the academia and industry discussions, the dispute over the ownership of rights to AIGC mainly focuses on the three parties: the AI model developer, the AI model provider, and the user. The main reason for arguing that the copyright of AIGC should belong to the developer of the AI model is that it invests intellectually and financially in data collection, screening, cleaning, and model training, and the AIGC is generated by the “creativity/non-pure creativity” contributions of the AI model developer. The view that the copyright of AI-generated content should be attributed to the AI model providers mainly stems from the situation of commissioned design, where the ownership has been stipulated in the commission agreement. The argument for granting copyright of the AIGC to the user is mainly based on the fact that users have made intellectual efforts through the instructions they input and have contributed to the originality of the works, or that the relevant provisions in user agreements have stipulated users' rights to AIGC.

By reviewing the existing cases at PRC and abroad, it can be seen that the courts have mainly adopted a case-by-case analysis approach, and have not reached an agreement on the ownership of the intellectual property rights of AIGC:

- In the case (2019) Yue 0305 Min Chu No. 14010 heard by the People's Court of Nanshan District, Shenzhen, Guangdong Province, it was held that the choice of the model developer played a key role in the content generation. Thus, even though the direct creator of the machine-generated content is not a human, it can still be defined as a work under the Copyright Law. The developer of the AI model is recognized as the copyright owner.
- In the case (2023) Jing 0491 Min Chu No. 11279 heard by the Beijing Internet Court, it was held that the process of human use of AI tools for creation is reproducible. Hence the same result can be obtained by inputting the same prompt word to the generative AI model used by the plaintiff. It proves that the arrangement and choice of the natural person in the process of ‘creation’ is no different from the process of using a camera to shoot and create a photographic work, which is the person uses a tool to create works. The user enters the prompt content to make the intellectual input, so the user who enters the prompt in the AI model shall be the copyright owner of the AIGC.

In practice, platforms provided with generative AI service usually make agreements with users regarding the ownership of the AIGC copyright in the TOS (Term of Service) on the platform. The platform may stipulate to retain or partially retain the copyright of the AIGC, or it may stipulate that the copyrights of the AIGC belong to the user who entered the prompts and the platform retains the right to use the content.

Q5: 【AIGC infringement】 If the AIGC is similar to an existing work, does it constitute infringement?

A5: The core of copyright infringement in the context of generative AI is whether the prior work has been used without authorization during the AI learning process. If the AIGC is identical or substantially similar to the prior work of another person, there is a higher risk of copyright infringement if it can be proved or presumed that the prior work was used without authorization during the AI learning process. However, if the right holder cannot prove that the prior work was “fed” to the AI model during the AI learning process, the existing evidence cannot prove that the prior work was “fed” during the AI learning process, or the developer of the AI model can prove that the AI model has never been in contact with the prior work, then the risk of copyright infringement is limited.

Specifically, AI learning and AI creation are two independent processes, which should be evaluated separately:

- **From the perspective of AI learning,** the generation of AI model inevitably involves learning of data, among which there may be materials that constitute copyrighted works. The act of collecting copyrighted materials for “feeding” constitute a reproduction act under the Copyright Law, and using the copyrighted works in the process of AI learning and training will constitute use of the works. If the above-mentioned acts are conducted without right holders’ permission, copyright infringement might be established. Currently, the fair use doctrine listed in China's Copyright Law does not include the reproduction and use of copyrighted works in AI learning and training, and it is still inconclusive whether fair use can be invoked as a defence.

- **From the perspective of AI creation**, considering AI creation process is different from the human creation process, and there is a “black box” between the AI input data and the output results, which cause certain degree of uncertainty and uncontrollability between input and the output, it is not easy to claim and further prove that copyright infringement of reproduction and plagiarism exist during AI creation process. Nevertheless, courts may still recognize that the AI model is of copyright infringement based on the presumption of infringing reproduction and use of copyrighted works during AI learning process. Specifically, it may involve infringement of the right of reproduction, the right of communication through information network, the right of adaptation, etc., especially when the prior works involved in the above-mentioned scenarios are works with a high degree of originality or are well-known works that have already been published. In the “Ultraman” case⁵ heard by the Guangzhou Internet Court, the court adopted the general principle of “substantial similarity + probability of access” when judging the copyright infringement. The court held that the AI-generated part of the involved picture was substantially similar to the original expression of the image “Ultraman”, and in addition, the work of Ultraman enjoyed a high reputation. Thus, it was presumed that the defendant had the possibility of accessing the involved work, and the defendant had constituted copyright infringement of reproduction. Furthermore, the court held that the involved AI generated picture partially retained the original expressions of the work “Ultraman Tiga Multi Type”, and on the basis of retaining these original creative expressions, new features were formed, which constituted an adaptation of the plaintiff's work and infringed upon the plaintiff's right of adaptation regarding the Ultraman work.

As mentioned above, the current judicial practice of the fair use doctrine in Copyright Law of PRC is still based on the behaviours of fair use/restriction explicitly listed in the legal provisions, which does not include the reproduction and use of copyrighted works in AI learning and training. Before amendment of fair use doctrine in Copyright Law of PRC to embrace the development of AI technology, it is difficult to eliminate the risk of infringement in the data training stage. However, at the same time, in order to encourage the development of AI technology, scholars have begun to discuss the necessity of including AI data

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training in fair use. Government departments and authoritative institutions have also successively issued AI-related incentive policies and guidance. As China attaches increasing importance to the development of AI technology, there may be a trend of relaxation in the future. For example, AI learning and training may be incorporated into "fair use", or certain exemptions may be granted in other ways.

In summary, the issue of copyright infringement of AIGC is currently a relatively cutting-edge, controversial and unclear issue. It is recommended to dynamically follow the development of legislation and judicial practice and explore the boundaries of fair use in AI creation.

In addition, it is also necessary to pay attention to the risks of unfair competition that may be caused by AI creations and AIGC (market confusion under Article 6 of the Anti-Unfair Competition Law, including infringement of merchandising rights, etc., or the good faith principle under Article 2 of the Anti-Unfair Competition Law), as well as the risk of infringement of portrait rights.

Q6: 【AIGC infringement】 Does the content output by generative AI constitute an infringement when it is highly similar in style to another person's prior work?

A6: Firstly, there is a need to analyse the nature of "style" under the context of copyright. Copyright Law protects expression rather than ideas. Some highly abstract and generalized styles, such as impressionist painting style, Fauvist painting style and other painting styles and genres, belong to the category of "ideas" and are difficult to become the objects protected under the Copyright Law.

However, under special circumstances, if an author's style is expressed in a more concrete way, with distinct features and forms a specific expression with personal style and originality, for example, a painting author has a special and unified presentation in the expression of the body proportions and facial features of figures or animals, thus forming a specific personal style, then the author's style may be recognized as an "expression" protected by the Copyright Law rather than just an "idea".

Additionally, apart from the copyright perspective, the style may also be protected by competition interests because of its popularity, recognition and influence. Taking painting as an example, infringement under the Anti-Unfair Competition Law may be established if imitation of the painting style lead the relevant public to confusion and misidentification of the source of the painting.

Q7: 【Data Training】 What authorizations should be obtained for the materials used in the training process of generative AI models?

A7: Article 7 of the Provisional Measures for the Administration of Generative Artificial Intelligence Services (Decree No.15 of the Cyberspace Administration of China, hereinafter referred to as the ‘Measures’) jointly issued by the Cyberspace Administration of China, the National Development and Reform Commission, the Ministry of Education, the Ministry of Science and Technology, the Ministry of Industry and Information Technology, the Ministry of Public Security, and the State Administration of Radio and Television on July 10, 2023 stipulates that: *“Generative AI service providers (hereinafter referred to as the “Providers”) shall carry trained data processing activities such as out pre-training, optimization training in accordance to the law, and use data and basic models from lawful sources. Providers shall not infringe upon the intellectual property rights that are owned by others in accordance with the law. Where personal information is involved, Providers shall obtain the content of the individual whose personal information is involved or complying with other circumstances stipulated by laws and administrative regulations;”,* according to this provision, for generative AI, the data source used by its developer in the model training process must be lawful. The following are some of the aspects that need to be paid attention to in the process of data collection for generative AI:

- **Intellectual Property Licensing**

Generally, it is necessary to obtain the authorization of the intellectual property right holder for data training. From a jurisprudential perspective, it is necessary to sign a licensing agreement with the right holder or its agent, ensuring that the scope of authorization covers activities that may be involved in AI learning, such as activities of reproduction, use, compilation, modification, etc., while also

specifying the licensed territory and the term of authorization. However, from a practical perspective, AI learning involves a very large amount of learned data, and obtaining authorization from rights holders one by one is time-consuming, costly, and unlikely. Hence, many AI model developers will choose to purchase licenses from commercial databases to collect data. It should be noted that when obtaining a license from a database, it is important to carefully understand the legitimacy of the source, scope and duration of the rights owned by the database, to ensure that the data obtained from the database can be used for AI data training. In addition, in the AI research and development industry, there are calls for collective management organizations to obtain necessary authorizations from authors and then uniformly issue authorizations to AI research and development parties.

- **Personal Information Authorization**

Article 23 of the Personal Information Protection Law (effective in 2021) provides that: *“Where a personal information processor provides the personal information it processes to other personal information processors, it shall inform the individual of the recipient's name, contact information, processing purpose, processing method and type of personal information, and obtain the individual's separate consent. The recipient shall process personal information within the scope of the above-mentioned processing purposes, processing methods, and types of personal information. Where the receiving party changes the original purpose or method of handling, it shall obtain the individual's consent anew in accordance with the provisions of this Law.”*

Thus, if the trained data involves personal information, the AI research and development party shall obtain the consent of the personal information subject on the purpose and method of information processing.

It should be emphasized that in the first case related to voice generated by AI, which was heard by the Beijing Internet Court in early 2024, the court has clearly put forward the view that personality rights/interests and the intellectual property rights of their carriers should not be conflated. The court held that the sound clips generated by AI were highly consistent with the plaintiff's timbre, tone, pronunciation style, etc.. As such, it could cause ordinary people to come up with

thoughts or emotional activities related to the plaintiff, and then associating the voice with the plaintiff and identifying the plaintiff's subject identity, which would then cause infringement of the plaintiff's voice rights. The defendant had obtained the plaintiff's authorization to use the sound and related recordings, but the court held that the authorized use of copyright should be distinguished from the authorized use of personality rights and interests and the voice rights and interests and the copyright of sound recordings should not be confused. As a result, there are concerns about data compliance and data authorization during AI data training. The general licensing templates and practice previously used may not cover the commercial use of personality rights and interests such as voice or portrait, leading to potential legal risks. Based on this, before conducting data training, enterprises need to clearly stipulate, in the relevant authorization agreement, that the consent of the relevant natural person for the authorized use of the data containing identifiable personal characteristics is required. For example, listing the possible use methods and application scenarios of the voice/portrait data in the contract, so as to ensure that the right holder is fully informed about AI development or training-related uses. For celebrities, it is advisable to directly enter into an agreement with these celebrities regarding the AI development and use of the portrait/voice when using their portrait/voice-related data, so as to minimize the risk of being sued.

- **The legitimacy of the data acquisition acts**

Some sites may have restricted measures for data crawling. For example, they may set protocols in the site that prohibit crawling content on the site, implement anti-crawling measures in the site code, or adding rights management information. In these circumstances, if the site data is crawled in violation of the protocols, it is a failure to comply with the obligations and may constitute infringement from a civil law perspective; if technical means are used to circumvent or destroy the anti-crawling measures set by the site, it may constitute an act of unfair competition or a violation of network security/computer system security rules, the provisions of the Copyright Law on technical protection measures would be violated if the data contains copyrighted content (according to Article 49 of the Copyright Law, no organisation or individual may intentionally circumvent or destroy the technical measures set up by the copyright owner to protect the copyright without the permission of the

copyright owner.) and copyright infringement will be constituted; if the rights management information is deleted or changed during data cleaning, it may also violate the provisions of the Copyright Law on rights management information (according to Article 51 of the Copyright Law, the intentional deletion or alteration of the rights management information on the work without the permission of the right holder shall constitute copyright infringement).

Q8: 【Liabilities of Generative AI Service Providers】 If the AIGC by users using the Generative AI services constitutes infringement, should the AI service providers be liable?

A8: In principle, the analysis of infringement liability focusses on the factors such as which party controls the creation process of AIGC, and the degree of intervention and decision-making of each party's actions on the output results of the AI model. The greater the degree of decision-making and control, the higher the risk of the party being liable for infringement.

The AI service providers referred here may be divided into two types. The first one trains AI models for themselves and provides these models to users on their own platforms. This type of AI service provider is also the AI model developer. The second one purchases AI models from developers and provides these models to users on their own platforms. This type of AI service provider is pure intermediate platforms.

According to Article 9 of the Measures, generative AI service providers shall bear the responsibility of information content producers, i.e., it shall assume direct infringement liability for infringing content. However, it is unclear whether the “generative AI service provider” defined here includes an intermediary platform who provides AI services. The question remains controversial in practice.

For the developer of the AI model, there are 2 most potential scenarios where the platform would be held liable for infringing AIGC. Firstly, the right holder can prove that its published work was copied and used without authorization during learning process of the model. Secondly, if the right holder cannot directly prove the work was used for AI learning, but based on the popularity and originality of

the work, it is less likely for the AI model to generate content identical or similar to the work without “feeding” the work during data learning process, and the developer cannot give a reasonable explanation meanwhile.

For intermediate platform who provides AI services, we believe their liability can be considered by analogy to “safe harbour” rule for platform liability, and judged based on factors such as whether the platform has set up a mechanism for dealing with the infringing content, and whether the platform “actually knows/ought to know” about the infringing content generated by the AI model. If it can be recognized that the platform is aware of the infringement from the factual background (for example, the right holder has sent a valid notice of infringement), or that the platform should have reasonably known about the infringement (for example, the AI model itself has infringement issues, such as the AI model provides special effects related to prior character images for users to choose from, or the AI model is designed for “imitation” purpose and it provides famous artists’ painting styles for users to choose from), then it may also need to bear corresponding infringement liability.

Q9: 【Responsibility of Platforms Providing GAI Services】 How should platforms provide generative AI services deal with a infringing notice which claims the AIGC is infringing?

A9: According to Article 12 of the “Administrative Provisions on Deep Synthesis of Internet-based Information Services” (Order No. 12 of the Cyberspace Administration of China, the Ministry of Industry and Information Technology, and the Ministry of Public Security, hereinafter referred to as the “Provisions”), *deep synthesis service providers shall set up convenient portals for user complaints, complaints and reports from the public, publish the handling process and time limit for feedback, and promptly accept, handle, and give feedback on the results.* In other words, generative AI service platforms should establish methods for reporting and infringement notices to ensure that the platform can deal with potentially infringing content on its platform. That echoes the provisions of Civil Code, E-Commerce Law, Regulations on the Protection of the Right of Information Network Dissemination and other laws and regulations of PRC on the obligations of platforms.

Although the Provisions did not provide further details of requirements for above-mentioned mechanisms and processes, judicial interpretations and reference to the procedures stipulated in the Civil Code, the E-Commerce Law, the Regulations on the Protection of the Right to Information Network Transmission, other laws and regulations can provide a starting point. The said reference provide rules to deal with the infringement notices of AIGC, including confirming whether the notice is a valid which comply with legal provisions after receiving the infringement notice, and blocking the content involved in the complaint in a timely manner if the notice is valid, including deleting the contents, disabling keywords, and other functions that may lead to the generation of infringing contents, etc. In other words, all feasible means shall be taken to prevent users from using their generative AI to generate infringing content.

Q10: 【Generative AI Going Overseas】 What IP compliance issues may generative AI model products face when they go overseas?

A10: The most important aspect for generative AI model products going overseas is paying attention to local laws and regulations on AI model product supervision, data training and other issues. For instance, in terms of intellectual property compliance, the following points can be used for reference:

- **Data compliance.** On the one hand, it is mandatory that training data should be properly authorized. This can be achieved by establishing commercial cooperation with database such as major publishers, copyright owners, and third-party databases to improve training data compliance, especially regarding intellectual property rights, as much as possible. On the other hand, for data training, only some countries in the world, such as Singapore and Japan, have implemented corresponding exemptions for data training/machine learning, but other regions and countries are yet established clear exemption policies, or where there are related policies, such as the EU⁶, but there are still

⁶ The Directive (EU) 2019/790 provides an exception for private entities that reproduce and extract copyrighted works for the purpose of text and data mining, provided that the work is lawfully obtained. However, on the one hand, the exception is based on the condition that reproduction and extraction are necessary to achieve the purpose of text and data mining, and the right holder can opt out or agree to exclude the application of this exception, which sets a high threshold for its applicability. On the other hand, this rule still needs to wait for the transformation of domestic legislation by member states, and some countries may also set further conditions for application during the act of transformation.

great difficulties in implementation. There is a need to pay close attention to the legislative and judicial developments of various countries and regions, and formulate corresponding data compliance strategies.

- **Disclosure Obligations.** Some countries have already introduced disclosure requirements for training data of AI models. For instance, in the Artificial Intelligence Act of EU, it is proposed that for general-purpose AI models, developers should draft and publish comprehensive and detailed descriptions of the data used to train general-purpose models, including copyright data.
- **Open-Source Obligations.** Some countries have already set regulations regarding open-source issues related to AI models. For example, the Artificial Intelligence Act of EU mentions that for general-purpose AI models, extensive documentation and guidelines for the use of the model should be provided to downstream providers in the case of open source. More specifically, for generative AI model products, in the process of going overseas, it is vital to pay attention to whether the algorithms, software, and programs related to the product involve open-source issues, and consider whether the code generated by the AI model is subject to open-source obligations, and whether it is reflected in the user agreement⁷.

7 WIPO - Generative AI: Navigating Intellectual Property

CHAPTER II

Protection of trade secrets and management of employees

Authors of this chapter | Landy Jiang, Terry Lu



Q11: 【Definition and Scope of Trade Secrets】 What is a trade secret? What are the statutory requirements for constituting a trade secret?

A11: Article 9 of the Anti-Unfair Competition Law provides that "trade secrets" refer to commercial information such as technical information and business information that is unknown to the public, has commercial value, and has been subject to corresponding confidentiality measures by the right holder. According to the above definition, the commercial information involved in the business activities of an organization must meet the following three statutory requirements to constitute a trade secret:

- **Not known to the public, i.e., secrecy.** According to Article 3 of the Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Civil Cases of Infringement of Trade Secrets (hereinafter referred to as the "Provisions"), being not known to the public generally refers to not generally known and easily accessible to relevant persons in the field when the infringement act in question took place. "Relevant persons in the field" generally refer to the producers, sellers, R&D personnel and other persons involved in the industries related to the information and derive economic value from the use of trade secrets, including competitors and employees of the information holder. It is different from the expression of "technicians in the relevant technical field" as described in the Patent Law. Patents and trade secrets, as the basis of rights, have different legal interests and legal relationships involved. The value of trade secrets is mainly reflected in market competition, so the field of technology shall not define the subjects who perceive this value as in the patent law, but rather by the economic activities characterized by production factors. "Not generally known" emphasizes that trade secrets should be distinguished from publicly known information in the said field, while "not easily accessible " requires that the formation process of trade secrets is relatively difficult, requires a certain degree of labor and cost, and information that relevant persons can easily know through lawful channels should be excluded from the scope of protection of trade secrets. Article 4 of the Provisions enumerates the common

circumstances where information known to the public does not constitute a trade secret:

(I) The information is common knowledge or industry practice in the field to which it belongs;

(II) The information only involves the size, structure, materials, and simple combination of components of the product and can be directly obtained by relevant personnel in the field by observing the product on the market;

(III) The information has already been publicly disclosed in any publications or other media;

(IV) The information has already been disclosed through methods such as public reports or exhibitions;

(V) Relevant persons in the field may obtain the information from other public channels.

It should be noted that the new information formed after sorting, improving, and processing the information known to the public may constitute a trade secret if it meets the requirements of Article 3 mentioned above.

- **It has commercial value.** Article 7 of the Provisions provides that if the information requested by the right holder has actual or potential commercial value because it is not known to the public, it may be deemed to have commercial value. The phased results formed in production and business activities can also be determined to have commercial value. In practice, the value of trade secrets is easy to prove. According to Article 7 of the Reference for the Presentation of Evidence in Civil Cases of Trade Secret Infringement issued by the Beijing Intellectual Property Court, the value of trade secrets can be proved based on factors such as the cost of research and development, the benefits from the implementation of the trade secret, the benefits that can be obtained, and the time during which the competitive advantage can be maintained.

- **Confidentiality, i.e., the confidentiality measures taken by the right holder.**

Article 5 of the Provisions provides that reasonable confidentiality measures taken by the right holder before the occurrence of the alleged infringement in order to prevent the leakage of trade secrets shall be determined by the people's court as corresponding to confidentiality measures. The determination of whether corresponding confidentiality measures have been adopted shall be comprehensively judged based on factors such as the trade secret's nature and its carrier, the trade secret's commercial value, the identifiability of the confidentiality measures, the correspondence between the confidentiality measures and the trade secret, and the rights holder's willingness to maintain confidentiality. Article 6 of the Provisions enumerates the common circumstances in which corresponding confidentiality measures are taken:

(I) Signing a confidentiality agreement or stipulating confidentiality obligations in the contract.

(II) Putting forward the confidentiality requirements to employees, former employees, suppliers, customers, visitors, and others who may have access to or obtain trade secrets through means such as articles of association, training, rules and regulations, or written notices.

(III) limiting visitors to factories and workshops or other production and business sites that involve secrets or conducting differentiated management.

(IV) Differentiating and managing trade secrets and their carriers by means such as marking, classifying, isolating, encrypting, sealing, or limiting the scope of persons who can access or obtain them;

(V) Employing measures such as prohibiting or restricting the use, access, storage, or reproduction of computer equipment, electronic equipment, network equipment, storage equipment, software, etc., which can be used to access or obtain trade secrets;

(VI) Requesting that departing employees register, return, clear, or destroy the trade secrets and their carriers that they have accessed or obtained and continue to bear confidentiality obligations.

Q12: 【Types of Trade Secrets】 What are the general types of trade secrets?

A12: Trade secrets generally include technical secrets and business secrets. Article 1 of the " Provisions" provides that information related to technology, such as structure, raw materials, components, formulas, materials, samples, styles, propagation materials of new plant varieties, processes, methods or their steps, algorithms, data, computer programs and related documents, is a technical secret. Information related to business activities, such as ideas, management, sales, finance, plans, samples, bidding materials, customer information, and data, is a business secret.

In practice, common technical secrets include many types, such as Coca-Cola formulations that are familiar to consumers, clinical trial data of unmarketed drugs, source code of computer software, production processes and equipment of chemical raw materials, etc. In practice, evidence may be adduced to prove that the asserted information constitutes a technical secret through judicial appraisal, technical appraisal, or other means. The most common business secret is customer information, including the customer's name, address, contact information, transaction habits, intentions, content, and other information.

It should be noted that the list of customers or the transaction information accumulated by an organization during business does not automatically constitute a trade secret. Only in-depth information such as customers' trading habits and intentions, which cannot be obtained by others through public channels, can be protected as trade secrets. For example, in the (2020) Yu Zhi Min Zhong No. 539 case, the customer list provided by the plaintiff only contained the customer's name, telephone number and address, but no in-depth information such as trading habits and intentions, and the information in the customer list could be obtained from public channels and thus did not constitute a trade secret. In the case (2019) Yue 03 Min Zhong No. 4816, the customer information claimed

by the plaintiff included the combination of transaction habits, intentions, and content of the customer and the supplier's transaction product name, payment method, document requirements, quality requirements, packaging requirements, etc., which were fixed by the plaintiff through preliminary transactions, repeated contacts, and communication, and were not generally known and easily obtained by persons in the field to which they belonged, and thus constituted a trade secret.

Q13: 【Sorting out and Checking the Risk of Trade Secret Leakage】

Which aspects of a company's business activities organization are prone to causing trade secret leakage?

A13: "Prevention before it happens" is the primary and ultimate goal of organization trade secret management, because once a trade secret is leaked, the damage to the competitiveness of the organization is often irreparable. In order to achieve this goal, organizations need to identify and understand the risk points that are easy to cause trade secret leakage in actual operations, and regularly sort out and inspect the risk points to prevent the occurrence of secret leakage incidents. In practice, the high incidence of trade secret leakage includes the following scenarios:

- Confidential Employees will take away the company's trade secrets when they leave the company. The resignation of confidential employees is a high-risk event for trade secret leaks. Organizations need to carefully check the following matters:
 - (1) Sort out and inventory all confidential information that the departing employee has been exposed to during his or her employment.
 - (2) Check whether the IT equipment of the departing employee has any records of illegal use of the network or transmission of confidential information.
 - (3) Inspect and supervise the handover process of confidential information, and ensure that all confidential information carriers and office equipment are returned to the company by departing employees.

(4) Check whether a confidentiality agreement or non-compete agreement has been signed with the departing employee, and ensure that the departing employee is clear about the content and scope of the confidentiality obligation.

- Competitors bribe internal employees to provide them with trade secrets. In practice, trade secrets are also often leaked by employees in exchange for direct economic benefits from competitors. In the trade secret infringement case of "rubber antioxidant,"⁸ The defendant company stole the plaintiff's secret technology and process by bribing the plaintiff's technical personnel and used the secret process to design and build its own production line. In order to reduce the possibility of internal leaks, companies need to check the following in their daily operations:

(1) Regularly check the access records of trade secret documents and identify abnormal access situations.

(2) Interview the current employees making abnormal visits to understand and verify the reason and purpose of the visits.

(3) Regularly check the company's internal monitoring system to identify whether employees have violated regulations by storing or sending confidential documents to external parties.

- Failure to take adequate measures to protect trade secrets in external cooperation. Organizations also involve external cooperation in their business activities, such as cooperating with factories or distributors. Negligence in the process of external cooperation can also easily lead to the disclosure of trade secrets. Therefore, organizations should pay attention to the following matters when cooperating with third parties:

(1) during the cooperation, emphasize with third parties what is trade secret information and sign a confidentiality agreement.

8 (2022) Supreme Law Zhi Min Zhong No. 816

(2) Take necessary measures, such as covering up confidential information in documents, To prevent the Partner from knowing the complete trade secret information.

(3) The Partner is also required to take necessary confidentiality measures to avoid the disclosure of trade secrets.

Q14: 【Measures for the Protection of Trade Secrets】 What technical measures can organizations adopt to prevent trade secrets from being leaked?

A14: With the rapid development of IT technology, the construction of effective technical measures has become one of the important measures to effectively prevent the theft and leakage of trade secrets. Many organizations that regard trade secrets as the lifeblood of their companies have invested a lot of manpower and material resources to form their own "firewalls" of trade secrets. To sum up, the technical measures commonly used by organizations include the following categories:

- Control of trade secret carriers. Today, when digitalization has become the norm, the carrier forms of trade secrets also tend to be digital and electronic. However, the ease of copying and accessibility of electronic data and documents puts forward higher requirements for the protection of trade secrets. The company's core trade secrets can be stored on a specific computer or internal server for effective control to avoid being stolen or leaked by others in cyberspace. At the same time, trade secrets can also be encrypted and rewritten to avoid the confidential information being directly stored in the carrier, and even if the carrier is lost or compromised, the trade secret information will not be cracked by others.
- Access control eliminates the possibility of unauthorized persons accessing trade secrets. Many large organizations have set up strict access control mechanisms, allowing only authorized personnel to access trade secret information. For example, organizations can grant different level of access to different personnel through technical means such as identity authentication,

access control lists, and role-based access control to prevent unauthorized personnel from accessing trade secret information.

- Establish a secure network and data protection mechanism. Organizations can build internal networks and set up high-level firewalls through the IT department. It can also monitor and record the external communications, such as the emails to detect any leakage of confidential information or abnormal information and behavior, and take immediate countermeasures.
- Physical isolation and control of confidential areas. Where objective conditions permit, areas involving confidential information may be physically isolated. For example, except for the production personnel who are allowed to visit, other staff and visitors are prohibited from entering the confidential workshop or can only enter after approval.
- Necessary technical measures should be set up on products that carry trade secrets to prevent the acquisition of trade secret information through "reverse engineering". "Reverse engineering" is a legal way to obtain trade secrets. To avoid the disclosure of trade secrets due to the launch of products, organizations can set up necessary technical measures to protect the confidential information on the products. If the protection measures are compromised, the confidential information on the product will also be completely destroyed, which technically negates the possibility of "reverse engineering" to obtain trade secrets.

Q15: 【Reverse Engineering】 Is reverse engineering a legal way to obtain trade secrets?

A15: As mentioned earlier, Reverse engineering is indeed one of the effective defences of defendants in trade secret cases. The "reverse engineering" refers to obtaining technical information about a product by assembling, mapping, and analysing it through technical means on the product obtained from public channels. Where a party learns of another person's trade secrets by improper means, and then claims that the acquisition is lawful on the grounds of reverse engineering, the defence will not be upheld.

In practice, several key points can be paid attention to in the reverse engineering defence:

- (1) Reverse engineering using products obtained through public channels is permitted. However, if the product is obtained from a non-public source, such as from a trade secret right holder and accompanied by a confidentiality agreement prohibiting reverse engineering, it may be considered that the reverse engineering lacks legitimacy and therefore is not a valid defense;
- (2) The implementer of the reverse project shall not be a person who has previously been in contact with the trade secret or a person who has a duty of confidentiality to the trade secret.
- (3) the party claiming the reverse engineering defence needs to submit evidence to prove the reverse engineering process.
- (4) trade secret rights holders can implement barriers to reverse engineering to combat reverse engineering;
- (5) If necessary, the technical problems involved in reverse engineering can be explained with the help of technical appraisal.

In the case of Hu Sike's trade secrets before the Supreme People's Court,⁹ it was held that, given that the carrier of technical secrets involved in the case were market-circulating products, and were an external carrier, the confidentiality measures taken by Hu Sike to achieve the purpose of confidentiality should be able to resist an unspecified third party obtaining its technical secrets through reverse engineering. This kind of prevention can be achieved in at least two ways: first, by leveraging the nature of the technical secret itself, making it so that even if others disassemble the product containing the technical secret, the technical secret cannot be learned through analysis; The second is to take physical measures to counter the reverse engineering of others, such as adopting an integrated structure so that disassembly will destroy technical secrets, etc.

9 (2020) Supreme Court Zhi Min Zhong No. 538

Q16: 【Circulation and Control of Trade Secrets】 What measures can organizations take to monitor the circulation of trade secrets and effectively reduce the risk of leakage?

A16: The circulation of trade secrets refers to the transmission and transfer of confidential information between different departments and personnel of the organization. In practice, organizations can adopt the following measures to monitor the circulation of trade secrets:

- By setting up effective encryption measures, which control who has access to confidential information and limit the range of personnel who can view it. If trade secret information is stored and circulated in plaintext, there is a risk that it will be accessed and leaked by unauthorized persons. Organizations can set up the necessary encryption measures so that only those who have permission to view them can decrypt and view them.
- Build an internal office system to control and track the circulation of confidential documents. Establish an internal office system through the IT department, approve, circulate, and view confidential documents within the system, and leave records of all processes.
- Establish rules for the physical isolation and circulation monitoring of confidential information and physical carriers. Much confidential information, especially technical secrets, is attached to physical carriers, such as samples, equipment structures, and production line structures. Carriers carrying confidential information can be kept in a controlled physical space and controlled by a special person, such as a separate room or workshop. Contact with the physical carrier is subject to an approval process and traces, and the contact process is monitored throughout the process.

With the advancement of IT technology, the cost of adopting electronic office systems is getting lower and lower, and many organizations tend to establish intelligent office systems to monitor the circulation of trade secrets throughout the process. This approach not only increases the efficiency of information circulation, but also provides the necessary security.

Q17: 【Management of confidential Employees】 How can organizations manage confidential employees and effectively avoid the leakage of trade secrets?

A17: According to incomplete statistics, about 70% of trade secret infringement disputes are caused by the leakage of in-service employees or the resignation of employees. The management of confidential employees within an organization is very important for the protection of trade secrets. In practice, organizations can establish and improve the management system for confidential employees from the following aspects:

- The management of the organization attaches great importance to the protection and management of trade secrets. The degree to which organization decision-makers attach importance to trade secrets often plays a decisive role in the construction of an organization's trade secret management system. Therefore, the first step in the effective management of confidential employees should be to enhance the awareness of trade secret protection among the management of the organization and establish a corporate culture that attaches importance to the management of trade secrets. Only on the premise that the management of the organization is truly aware of the importance of trade secret management, the management of confidential employees will be actively cooperated and effectively implemented by employees.
- Establish a management system for confidential employees. The management system must be clear and enforceable, and the basic responsibilities and requirements of employees for the management and protection of trade secrets should be clarified, including but not limited to: What information is a trade secret at work, what behavior is not allowed to violate confidentiality measures, and the penalties for violating the confidentiality system.
- Establish a sound training and education system for confidential employees. After establishing a sound confidentiality system, confidential employees need to understand the company's confidentiality system at the implementation level. For example, conducting regular training and learning on confidentiality policies for new employees and confidential employees.

- Regularly carry out trade secret confidentiality inspections and implement corrective measures. The formation and protection of trade secrets are constantly adjusted and changed in a dynamic manner, so organizations can regularly carry out trade secret inspections led by the leaders of various departments to identify new work results required for protection and which information no longer has the value and necessity of confidentiality; Examine the risk points of leakage in the workflow and discuss the implementation of corrective actions. Even in the event of a leak, the regular inspection system can also play a role in rapid response and timely stop loss.
- Establish a system for checking the trade secrets of departing employees. In the process of resignation procedures, organizations need to find out the trade secrets that departing employees have access to or possess in a timely manner, and do a good job of recording and handing over the work. The departing employee is required to sign a confidentiality agreement, stating that the departing employee knows that the information he or she has been exposed to during his or her employment is a trade secret of the organization, and prohibits disclosure and use to others. After the resignation of confidential employees, organizations should also pay attention to regular return visits and pay attention to their latest employment trends.

Q18: 【Scope of confidentiality agreement/clause】 How to limit the content and scope of confidentiality in the confidentiality agreement/clause signed between the organization and its employees?

A18: When an organization establishes or terminates an employment relationship with an employee, it is common for an organization to enter into a separate confidentiality agreement or introduce a confidentiality clause in the employment contract. As one of the confidentiality measures, signing a confidentiality agreement may affect the determination of the "confidentiality" of trade secrets. For example, in the case (2019) Yue 2071 Min Chu No. 11169, the court held that the agreement on confidential information in the confidentiality agreement was too broad and could not naturally identify the information

involved in the case as the agreed confidential information, and further concluded that the plaintiff had not taken appropriate confidentiality measures.

So, how should organizations limit the content and scope of confidentiality when drafting confidentiality agreements? Here are three suggestions:

- If the organization has adopted other reasonable and effective confidentiality measures such as confidentiality system documents, access restrictions, etc., a broader expression may also be used in the confidentiality agreement to limit the scope of confidentiality. A confidentiality agreement is only one of the commonly used confidentiality measures, and if an organization has established a sound confidentiality system, set access permissions, set confidentiality levels and other measures in addition to signing a confidentiality agreement, it is normally sufficient to prevent the leakage of trade secrets, even if the scope of trade secrets is not specifically described in the confidentiality agreement, it does not prevent the recognition that the organization has implemented appropriate confidentiality measures.
- If the confidentiality agreement is one of the main confidentiality measures of the organization, it is recommended to further list the types and carriers of trade secrets. For example, the following expressions may be adopted: *The trade secrets in this Agreement include technical secrets and business secrets, of which the technical secrets include but are not limited to: experimental data, synthesis process, equipment drawings, quality control standards, etc.* Business secrets include, but are not limited to bidding documents, planning plans, customer information, etc.
- For particularly important Core trade secrets, organizations may specify the product line names, project names, etc. In a pharmaceutical company's confidentiality agreement, it is common to clearly define the compound code that needs to be kept confidential. The game development company will also list the name of the game project in the non-disclosure agreement.

To sum up, an organization can choose the scope of confidentiality in a confidentiality agreement according to the confidentiality measures it has adopted and the importance of the trade secret.

Q19: 【Non-compete Agreement and Compensation】 Which employees in the organization are eligible for non-compete agreements? How to agree on non-compete compensation?

A19: According to Article 24 of the Labor Contract Law, the non-compete restriction is limited to the senior management personnel, senior technical personnel and other personnel who are obliged to maintain confidentiality. The duration of the non-compete restriction shall not exceed two years.

The amount of non-compete compensation may be agreed upon by the employer and the employee, provided that the agreement does not violate the provisions of laws and regulations.

According to Article 36 of the Interpretation of the Supreme People's Court on Issues Concerning the Application of Law in the Trial of Labor Dispute Cases (I), in the absence of an agreement, an employee may request the employer to pay compensation on a monthly basis at 30% of the average salary for the 12 months prior to the termination or termination of the labor contract. If 30% of the prescribed average monthly wage is lower than the minimum wage standard of the place where the labor contract is performed, it shall be paid according to the minimum wage standard of the place where the labor contract is performed. For example, Article 24 of the Regulations on the Protection of Technical Secrets of Organizations in the Shenzhen Special Economic Zone provides that the non-compete compensation shall not be less than one-half of the average monthly salary of the employee in the last 12 months before leaving the organization.

As for the initiation time of the non-compete agreement or clause, it is generally required that it should be clearly determined at the time of termination of the employment relationship between the two parties¹⁰. The employer may stipulate that the employer may unilaterally revoke the non-compete clause, i.e., after signing the non-compete agreement, the non-compete clause will no longer be effective as long as the employer issues a notice of revocation of the non-compete requirement or directly notifies the employee that the non-compete

¹⁰ (2016) Jing 0108 Min Chu No. 4835

obligation will not take effect. However, such notice must be issued no later than the employee's last day of employment. The employer may also agree to decide whether the employee needs to perform the non-compete obligation when the employee leaves the company, but it shall clearly indicate whether the employee has a non-compete obligation when the employee leaves the company, otherwise it will be deemed to require the employee to perform the non-compete obligation normally.

Q20: 【Liquidated damages for confidentiality agreements】 Can liquidated damages be stipulated in the confidentiality agreement signed between the organization and the employee?

A20: According to Article 25 of the Labor Contract Law, an employer may only agree with an employee that the employee shall bear liquidated damages under the following two circumstances. Under other circumstances, the employer shall not agree with the employee that the employee shall bear the liquidated damages.

(I) If the employer provides the employee with special training fees and agrees on the service period, and the employee violates the service period, the employee may pay liquidated damages in accordance with the agreement.

(II) For employees who are obliged to maintain confidentiality, the employer may stipulate a non-compete clause with the employee in the labor contract or confidentiality agreement. If the employee violates the non-compete agreement, he or she shall pay liquidated damages to the employer in accordance with the agreement.

According to the above provisions, the confidentiality agreement can only stipulate liquidated damages in the non-compete clause. If the confidentiality agreement only requires the employee to bear the confidentiality obligation and does not stipulate a non-compete clause, then the liquidated damages based on the confidentiality obligation alone are invalid. However, according to Article 90 of the Labor Contract Law, if an employee violates the confidentiality obligation, resulting in the disclosure of trade secrets and causing losses to the organization,

the employee shall be liable for compensation. In practice, organizations are required to submit evidence to prove the amount of actual losses caused.

For liquidated damages under a non-compete clause, the parties may agree on the non-compete obligations and liquidated damages during the employment period, or the non-compete obligations and liquidated damages after resignation. The law has no clear limit to the specific amount of liquidated damages. Generally, it is subject to the mutual agreement between the parties. Still, the principle of good faith should be followed, and it is not appropriate to agree on excessively high liquidated damages. In practice, it is common to base the liquidated damages on a proportion of non-compete compensation paid by the organization to the employee.

Q21: 【Handling of Employees Who Leak Trade Secrets】 Can an organization directly terminate the labor contract if it finds that an employee has violated the organization confidentiality system?

A21: According to Article 39 of the Labor Contract Law, if an employee seriously violates the employer's rules and regulations, the employer may terminate the labor contract.

If the employee has been clearly informed of the relevant confidentiality system and signed a confidentiality agreement, the employee's violation of the confidentiality system constitutes a serious violation of the employer's rules and regulations. The organization may directly terminate the labor contract with the employee and is not required to pay economic compensation.

For example, in the case (2024) Su 02 Min Zhong No. 1327, an employee violated the provisions of the Employee Handbook by sending confidential company documents to a private mailbox, causing the company's trade secrets to fall outside the company's control. After the company interviews the employee and solicits the opinions of the labor union, it terminates the labor contract with the

employee. The court ruled that the company's action was legal and it did not need to pay compensation.

Q22: 【Risk of hiring new employees】 Does the organization, as the current employer, need to bear legal liability if it unknowingly uses the trade secrets of a new employee's former employer?

A22: Paragraph 3 of Article 9 of the Anti-Unfair Competition Law stipulates that where a third party clearly knows or should know that an employee, former employee, or other unit or individual of the right holder of a trade secret has committed any of the illegal acts listed in the first paragraph of this Article, but still obtains, discloses, uses, or allows others to use the trade secret, it shall be deemed to have infringed the trade secret. This puts the current employer at risk of infringing the trade secrets of the former employer when using the relevant information provided by the new employee.

In practice (e.g., (2020) Zui Gao Fa Zhi Min Zhong No. 726), it is likely that the current employer will be deemed to be "should have known" and constitute trade secret infringement. Because the current employer and the former employer are often related organizations in the same industry, it is difficult to submit sufficient evidence to prove that the necessary review duties have been performed in the process of using the information provided by the new employee. Moreover, it is difficult to explain the lawful source of the information used in the case of substantial similarity with the trade secret information.

In this case, in order to avoid the legal risks of new employees, it is recommended to strengthen the review and evidence traces from the following aspects:

- When recruiting employees, the employer should find out whether the employee has confidentiality and non-compete obligations to the former employer through background checks and other means, fully understand the content and scope of the confidentiality obligation, and require the employee to make a written commitment not to disclose or use the trade secret information of the former employer.

- stipulated in the employment contract that no trade secrets of others can be used in the course of work.
- In actual technology research and development or use of business information, do a good job of document management and leave traces to prove the legitimate source of technical information and business information.
- Be cautious about using information from new employees that has not been previously accumulated or exposed. If it is necessary to use it, do a good job of reviewing and leaving traces, including asking new employees about the source of the information, understanding how difficult it is to obtain the information, and whether it can be obtained in a short period of time.

Q23: 【The difference between an employee's experience and knowledge and trade secrets】 How to distinguish between an employee's tacit knowledge and trade secrets?

A23: An employee's tacit knowledge usually refers to the knowledge, experience, and skills that an employee has mastered and accumulated at work. Except in the case of trade secrets, employees' tacit knowledge constitutes an integral part of their personality, is the basis of their survival ability and labor ability, and they enjoy the right to use it freely. Theoretically speaking, there should be a clear line between the tacit knowledge of employees and the trade secrets, but in practice, the production and operation activities of the company are carried out by the employees, and the process of collating, forming and developing trade secret information will inevitably use the experience and skills of the employees. This leads to a certain degree of "confusion" between employees' tacit knowledge and trade secrets, which need to be carefully distinguished. From the perspective of judicial practice, organizations can distinguish between trade secrets and employees' tacit knowledge from the following three aspects:

- Trade secrets are generally specific technical or business information recorded on tangible or intangible carriers, existing independently, while employees' tacit knowledge is often the general basic industry-specific technology or skills. For example, in the (2018) Yue 73 Min Chu No. 514

judgment, the Guangzhou Intellectual Property Court held that the adjustment method of the inverter parameters claimed by the plaintiff was an experience mastered by the modulator master, and no written materials were formed, and the adjustment method did not have a carrier and no clear specific content, so it was not a trade secret. However, the converter and technical parameters designed by the plaintiff are recorded in the schematic diagram of the equipment, which is specific technical information and constitutes a trade secret.

- The technical or business information independently developed by the organization and reflecting the personalised expression of the organization is generally easy to be identified as a trade secret, rather than the tacit knowledge of employees. For example, in the (2022) Zui Gao Fa Zhi Min Zhong No. 901 case, the 474 technical parameters and their corresponding engineering parameters defining the attribute information of oil and gas reservoirs in the DAKS system database involved in the case were designed and sorted out by the plaintiff company, and the plaintiff company used its own personalized expression of the relevant technical terms in the database (such as using "FLD_NAME" to refer to "oil and gas field names"), which is not publicly known information and constitutes a trade secret.
- If Employees use the knowledge, experience and skills they have learned from their former employers to learn relevant market information from public channels or to know or judge the demand for relevant products and services from a market entity based on their business experience, this generally falls under the tacit knowledge of employees and does not constitute trade secrets. For example, in the (2019) Zui Gao Fa Min Zai No. 268 case, the Supreme People's Court held that customer information collected by employees based on their employment experience after leaving the company does not constitute trade secret infringement when customer needs are easily obtained from public channels.

Q24: 【Remedies for Trade Secret Infringement】 WPunitive damages of one to five times the amount of economic loss may also be claimed for malicious infringement of trade secrets that are the ways for an organization to seek relief if it discovers that a trade secret has been infringed?

A24: The existing legal framework for the protection of trade secrets provides organizations with three ways to protect them: civil, administrative and criminal:

- **Civil Route.** As the right holder of trade secrets, an organization may file a trade secret infringement lawsuit with the people's court, requesting the infringer to stop the infringement and compensate for economic losses. For malicious infringement of trade secrets, punitive damages of one to five times the amount of economic loss may also be claimed.
- **Administrative route.** Organizations may also report to the market regulation department. If, after investigation, it is determined that the trade secrets are infringed, the supervision and inspection department may order the cessation of the infringing behaviour, confiscate the illegal gains, and impose a fine of up to 1 million yuan, or up to 5 million yuan if the circumstances are serious.
- **Criminal route.** If an organization's core trade secrets are infringed upon, causing serious losses, the organization may also directly report the case to the public security organs. According to the standards for filing and prosecuting criminal cases of infringement of trade secrets, if the amount of losses or illegal gains exceeds 300,000 yuan, the case meets the threshold for filing a criminal case.

It should be noted that the above three remedies are not mutually exclusive, and organizations can choose one of the three ways or use all three ways together. For example, in the series of protection cases of trade secrets of "Haode Machinery", the Shanghai Songjiang District Administration for Market Regulation, the Shanghai Intellectual Property Court and the Songjiang District People's

Procuratorate severely cracked down on the infringement of trade secrets through the combination of civil, administrative, and criminal reliefs¹¹.

In practice, due to the secrecy of trade secret infringement and the limited means of investigation and evidence collection by the right holder, to obtain more adequate evidence of infringement and higher compensation, organizations will generally adopt the method of "seeking criminal/administrative relief first and then civil relief" to carry out rights protection. For example, in the case of "rubber antioxidant" trade secret infringement¹², the right holder first reported the case to the public security organ, and in the criminal case, the amount of loss was determined to be 201 million yuan through judicial appraisal. Subsequently, the right holder filed a civil lawsuit with the court, claiming compensation of 201 million yuan for the actual loss, which the court fully supported.

11 (2021) Hu 0107 Xingchu No. 2 Administrative Judgment; (2023) Hu 03 Xingzhong No. 28 Criminal Verdict; (2021) Hu 73 Zhi Min Chu No. 1358 Civil Judgment

12 (2022) Supreme Law Zhi Min Zhong No. 816

CHAPTER III

Legal Regulation of Acts of Unfair Competition on the Internet (Data Scraping)

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Q25: 【Definition, Manifestations, and Characteristics of Unfair Data Competition】 What is Data Unfair Competition? What are its main manifestations? What are the characteristics?

A25: (1) Definitions:

Acts of data unfair competition refer to the conduct of business operators obtaining the data of others through unfair competitive practices, harming the lawful rights and interests of other business operators and consumers, and seriously disrupting the order of fair competition in the data market.

(2) Manifestations/types:

With the rapid development of the Internet economy and science and technology, data has become an important factor in economic development. Unfair data competition practices have also developed into various types, such as violating business ethics and improperly using other people's data products to obtain commercial benefits; using crawler technology to steal other people's data; Unauthorized collection and storage of user data on online platforms and destructive use; Obtaining and using the information of the Platform users without the authorization of the Platform; Capturing, storing, and displaying network platform data through abnormal means, etc.

(3) Features:

a. The data types are diverse

Based on the multiple classifications of the term data, it may present completely different characteristics. For example, the Tencent v. Taozhuo case¹³ divides data into authorized data and unauthorized data; In the case of Weimeng v. Jian Yixun,¹⁴ the court of the second instance divided the data into user data and platform data.

¹³ Beijing Intellectual Property Court (2022) Jing 73 Min Zhong No. 1154 Civil Judgment

¹⁴ Civil Judgment of Guangdong Provincial High People's Court (2022) Yue Min Zhong No. 4541

In addition, there are also differences between raw data and derived data, public data and non-public data, single data and data collections, and so on.

b. The technical means of scraping data are complex

Complex technical measures are often involved in unfair competition disputes involving data scraping. While the defendant adopts technical means to capture the platform data, the plaintiff will also invest manpower and technical costs to resist the data scraping behavior. The technical protection measures adopted by the plaintiff mainly include setting up a Robots protocol for public data, setting access permissions for non-public data, setting up database keys, and image verification mechanisms. In addition to crawling through web crawlers, the techniques adopted by the defendant also included methods such as calling the platform's API ports to achieve server interaction, credential stuffing, associating extranet accounts, Xposed plug-ins, and RPA technology that simulated manual click operations.

c. Data scraping activities are covert in nature

The parties, technical means, and outcomes of data scraping are highly concealed. First, it isn't easy to investigate the parties engaging in data scraping. Compared with large-scale Internet platforms that control data, the parties engaging in data scraping are often unknown, small and medium-sized organizations with no business relationships with the platforms. Therefore, it is difficult for the platform to investigate the information of the parties engaging in data scraping. Second, it is difficult to identify the technical means of data scraping. The party that scrapes the data may scrape it by dispersing multiple IP addresses, simulating user clicks, credential stuffing, etc., and the results presented by the above behavior patterns are consistent, making it difficult to trace the technical means of scraping data. Third, the effect of behavior is even more covert. For example, the front-end data scraping behavior is manifested in repeated filtering and sorting of computer information, but in this process, the purposes of the competition, such as alerting the homepage of the user's browser, treating browsers of different manufacturers differently, algorithmic discrimination, and data "free riding", are achieved through data scraping behavior.

Q26: 【Legal basis】 What are the main regulations of data scraping in the current Anti-Unfair Competition Law?

A26: Under China's current legal system, data scraping is classified as anti-unfair competition. The classification mainly includes the following three paths: the application of the Internet-special provisions, the application of the general provisions of the Anti-Unfair Competition Law, and the application of trade secret provisions.

(1)Applying Internet-specific provisions

Article 12 of China's Anti-Unfair Competition Law ¹⁵regulates the use of network technology to obstruct or undermine the normal provision of products and services by other business operators. However, in practice, it is often difficult to regulate data scraping. On the one hand, after the introduction of the catch-all clause in the Internet-Special Article, it has not yet formed a widely accepted set of criteria to establish liability, making it difficult to apply it in practice. The basis for the judge's reasoning to make legal judgments is insufficient, resulting in subjective judgment that are difficult for both parties in dispute to accept. On the other hand, data scraping behavior is technology-neutral, which makes it difficult to accurately address improper data scraping under the standards of "obstruction" and "destruction". In the digital economy, data sharing has become normalized, and the advancement of data scraping technology does not affect the normal operation of other operators. Defining unfair competition based on "obstruction" and "destruction" has limitation in its applicability.

(2) Applying The general provisions of the Anti-Unfair Competition Law

¹⁵ Article 12 of the Anti-Unfair Competition Law: "Business operators using the Internet to engage in production and business activities shall comply with the provisions of this Law. Business operators must not use technical means to influence users' choices or other methods to carry out the following conduct that obstructs or undermines the normal operation of network products or services lawfully provided by other business operators: (1) Without the consent of other business operators, inserting links or forcing redirects into network products or services that they lawfully provide; (2) Misleading, deceiving, or forcing users to modify, close, or uninstall network products or services lawfully provided by other business operators; (3) Maliciously carrying out incompatibility with network products or services lawfully provided by other business operators; (4) Other conduct that obstructs or undermines the normal operation of network products or services lawfully provided by other business operators."

In China's judicial practice, Article 2 of the Anti-Unfair Competition Law is mostly cited to ¹⁶ determine that data scraping constitutes unfair competition. This clause has formed a complete and authoritative set of criteria, which is generally applicable in the determination of improper data scraping. In judicial practice, the criteria include: a. the party being scraped has legal rights and interests in the data under the Anti-Unfair Competition Law, b) there is a competitive relationship between the parties involved, c) the conduct involved in the case is improper, usually reflected in the violation of good faith and business ethics, and d. substantial damage includes caused, m"includingly'including including damage to market competition, the rights and interests of business operators, and the interests of consumers, and it is also required that there is a causal relationship between the data scraping act and the actual damage caused.

(3) Applying Trade secret provisions

Article 9 of the Anti-Unfair Competition Law ¹⁷ stipulates the scope of trade secrets, but in practice, there is likely to be an overlap between the scope of business data and trade secrets, that is, the captured data is likely to constitute trade secrets, and then be included in the scope of protection under Article 9 of the Anti-Unfair Competition Law. In fact, organizations often claim trade secret protection for the data they collect or produce, for example, the "Developer Agreement" of Weibo stipulates that user data is the trade secret of Weibo. However, it should be noted that the business data of an organization needs to

¹⁶ Paragraph 1 of Article 2 of the Anti-Unfair Competition Law: "In production and business activities, business operators shall follow the principles of voluntariness, equality, fairness and good faith, and abide by laws and business ethics."

¹⁷ Article 9 of the Anti-Unfair Competition Law: "Business operators shall not carry out the following acts of infringing on trade secrets: (1) obtaining the trade secrets of the right holder by theft, bribery, fraud, coercion, hacking or other improper means; (2) Disclosing, using, or allowing others to use the rights holder's trade secrets obtained through the means described in the preceding paragraph; (3) Disclosing, using, or allowing others to use the trade secrets in their possession in violation of confidentiality obligations or rights holders' requirements for the preservation of trade secrets; (4) Instigating, inducing, or assisting others to violate confidentiality obligations or violate rights holders' requirements for keeping trade secrets, to obtain, disclose, use, or allow others to use rights holders' trade secrets. Where natural persons, legal persons, or non-legal persons other than business operators carry out the illegal acts listed in the preceding paragraph, it is to be viewed as an infringement of trade secrets. Where a third party clearly knows or should know that an employee, former employee, or other unit or individual of the right holder of a trade secret has carried out the illegal conduct listed in the first paragraph of this article, but still obtains, discloses, uses, or allows others to use the trade secret, it is viewed as an infringement of the trade secret. "trade secrets" as used in this Law refers to commercial information such as technical information and business information that is not known to the public, has commercial value, and has been subject to appropriate confidentiality measures by the rights holder. "

meet the requirements of confidentiality, value and confidentiality to constitute a trade secret.

Q27: 【Determination of "Competitive Relationship"】 Based on the particularity of the Internet economy, if there are obvious differences in business content and business models between entities, will the court make an extensive or restrictive interpretation when determining "competitive relationship"?

A27: Traditionally, courts have often regarded the existence of competition as a precondition for the application of anti-unfair competition law. In the digital era, cross-sector competition among platform operators has become the norm, and the profit model has shifted from the pursuit of "product management" to the pursuit of "linkage dividends". In this context, it is necessary to re-evaluate the role of competition in the trial of unfair competition cases. Different from the previous practice of courts restricting competition to competitors in the same industry from a narrow perspective, more and more courts adopt a broad standard to determine competition from a pragmatic perspective. Other courts, on the other hand, have argued that competition is not a requirement for determining unfair competition in data, and that the analysis focuses on competitive behavior. At the same time, some court rulings do not address competitive relationship at all.

As mentioned above, it is relatively common for courts to make extensive interpretation in recognizing competitive relationships in unfair data competition dispute cases, and sometimes even downplaying the need for such recognition. First, in a number of cases, the courts have made it clear that competition is not limited to "intra-industry competition", especially in the Internet field, where more and more cross-industry competition is being brought into the competitive relationship. Second, the court held that the competition for traffic and business resources, the competition for potential trading opportunities, and the damage to competitive advantages in the Internet field have become the key elements in identifying a competitive relationship. In addition, in *Tencent v. Jutongke*, the court clearly pointed out that the recognition of competitive relationship should

not be a necessary element in anti-unfair competition cases, and that "whether an accused act constitutes unfair competition does not depend on whether there is a competitive relationship between the plaintiff and the defendant, If there is a causal relationship between the damage to the lawful rights and interests of other business operators and an act of unfair competition, the injured party has the right to request compensation from the actor of unfair competition, regardless of whether there is a competitive relationship between the two parties." As mentioned above, it is becoming increasingly difficult for the recognition of competition relationship to become an obstacle to the substantive trial of a case.

Q28: 【Elements of Substantive Review of Data Scraping Behavior】
What are the main factors that the court considers when reviewing the legitimacy and damage results of data scraping in judicial practice?

A28: In judicial practice, when the court makes a judgment on the result of damage and the nature of the act, the **examination method of measuring multiple rights and interests is indispensable.**

On the one hand, when determining the result of damage, the court will usually **comprehensively consider factors such as the interests of the operator, the interests of consumers, the public interest, the development of the industry and the order of market competition, and whether the principle of good faith and business ethics has been violated.**

Operator Interests	Whether it results in the effect of <u>substantial substitution</u> , increases operating costs, reduces operating interests, reduces its competitive advantage, and affects the obligations of the business entity and the performance of the contract
Consumer interests	Whether it is conducive to providing better services, improving user experience, reducing consumption costs, preventing consumer information leakage and abuse, etc.

Industry development and market competition order	Whether it affects the enthusiasm of practitioners to carry out R&D and innovation, stimulates healthy competition in the market, and maintains the order of market competition
Social and public interests	Whether it conforms to the spirit of Internet interconnection, interoperability, sharing, and openness, and promotes data flow and information sharing

For example, in the unfair competition dispute between Beijing Chuangrui Culture Media Co., Ltd. and Beijing Weibo Vision Technology Co., Ltd.¹⁸ The court held that the accused act did not produce new high-quality content, and grabbed the business results obtained by others with a lot of cost and energy, so the legitimacy evaluation of it will inevitably discourage the enthusiasm of practitioners in research and development, which will lead to serious homogeneity of the industry and undermine the order of the industry. At the same time, the accused act will substantially replace the products or services provided by Weibo and harm its competitive interests. In addition, the high degree of homogeneity of content not only does not increase consumers' choice of services, but reduces their browsing efficiency, and the sued behavior will ultimately harm consumer interests. It was after the aforesaid analysis that the court concluded that Chuangrui's use of improper means to capture the collection of non-original data in the Douyin app exceeded reasonable limits, weakened the competitive advantage of Weibo, undermined the order of market competition in the industry, and harmed the interests of consumers, and it could be determined that it violated the principle of good faith and business ethics and constituted unfair competition.

On the other hand, when determining the nature of the conduct involved in the case, the court usually conducts a comprehensive assessment based on the appropriateness and necessity of the conduct and the proportionality of the consequences of the conduct.

18 Beijing Intellectual Property Court (2021) Jing 73 Min Zhong No. 1011 Civil Judgment

Appropriateness of means	Of the multiple implementation paths for the same effect, the one that does the least damage should be chosen
The necessity of means	The conduct at issue shall be conducive to achieving the relevant purpose
Proportionality of consequences	The damage caused by the act at issue should be proportionate to the benefits obtained by consumers, the industry market, and the public

For example, in the unfair competition dispute between Beijing Chuangrui Culture Media Co., Ltd. and Beijing Weibo Vision Technology Co., Ltd., the court mentioned when discussing the appropriateness and necessity of the accused conduct that since Chuangrui could have obtained and used the content of the Douyin platform through legal means such as negotiation to minimize the unnecessary damage caused to the Weibo Company, a peer operator in the same industry, Chuangrui chose to directly capture the data collection without permission, which was obviously a "free-riding" act. In addition, the data collection includes users' personal information, so Chuangrui's unauthorized capture and use of such information will not only infringe on the personal information rights and interests of network users, but also hinder Weibo's performance of the platform's security obligations. Therefore, Chuangrui's alleged conduct exceeded the necessary limits of business activities, and its behaviour lacks legitimacy.

Q29: 【Requirements for the Application of Trade Secret Clauses】

Under what conditions can the trade secret clause be applied to data scraping?

A29: Article 9 of the Anti-Unfair Competition Law of the People's Republic of China stipulates that: "Business operators shall not carry out the following acts of infringing on trade secrets: (I) obtaining the trade secrets of the right holder by theft, bribery, fraud, coercion, hacking or other improper means; (II) Disclosing, using, or allowing others to use the rights holder's trade secrets obtained through the means described in the preceding paragraph; (III) Disclosing, using, or allowing others to use the trade secrets in their possession in violation of

confidentiality obligations or rights holders' requirements for the preservation of trade secrets; (IV) Instigating, inducing, or assisting others to violate confidentiality obligations or violate rights holders' requirements for keeping trade secrets, to obtain, disclose, use, or allow others to use rights holders' trade secrets. Where natural persons, legal persons, or non-legal persons other than business operators carry out the illegal acts listed in the preceding paragraph, it is to be viewed as an infringement of trade secrets. Where a third party clearly knows or should know that an employee, former employee, or other unit or individual of the right holder of a trade secret has carried out the illegal conduct listed in the first paragraph of this article, but still obtains, discloses, uses, or allows others to use the trade secret, it is viewed as an infringement of the trade secret. "Trade secrets" as used in this Law refers to commercial information such as technical information and business information that is not known to the public, has commercial value, and has been subject to appropriate confidentiality measures by the rights holder."

Based on this, the application of trade secret clauses to regulate data scraping requires the following elements to be met:

(1) The scraped data is a trade secret

a. The scraped data is confidential. confidentiality means that the captured data should be kept confidential and not known to the public, and that ordinary people should not easily obtain it through legitimate channels or methods. Subjectively, the data holder has a intent to keep that data confidential. Whether the right holder has such intent mainly depends on whether the data holder has taken corresponding confidentiality measures, such as setting a password for confidential data and signing a confidentiality agreement. Objectively, the data should not be known to the public and cannot be directly obtained from public sources. In this case, it is necessary to examine whether the data is a fact known to the public and how easy it is to obtain the information. For example, in the case of "Kumike" v. "Chelaile",¹⁹ the real-time bus information data of "Kumike" crawled by Yuanguang Company was not undisclosed, and it could be made available for public inquiry free of charge, which did not constitute a non-public knowledge

19 Intermediate People's Court of Shenzhen, Guangdong Province (2017) Yue 03 Min Chu No. 822

and was not a trade secret. Therefore, the disclosed data does not meet the characteristics of trade secrets, and the trade secret protection clause cannot be applied to its scraping. Trade secret protection clauses cannot fully cover improper data scraping behaviors.

b. The scraped data possesses intangibility and commercial value. As an intangible asset, data can be represented through carriers, but its content and idea remain intangible. In other words, the business value of data lies not in the carrier, but in the information. In the age of the Internet, data has increasingly become an important business resource, which can be used for profit, and bring economic benefits and competitive advantages to holders. For example, the grasp of user preference data often becomes an important indicator for organizations to innovate and develop data development and develop products that are favoured by the market. It can be seen that the information contained in data has great business value, which can make organizations stand out in the market competition and occupy a favorable position.

(2) Data scraping is an infringement of trade secrets

China's Anti-Unfair Competition Law stipulates that "hacking" is an infringement of trade secrets. From the perspective of behavior, data scraping using crawler technology is an electronic digital means. In addition, the "hacking" behaviour is unjustified, meaning that data scraping is deemed improper when it is conducted in violation of the "Robots" protocol, the confidentiality agreement, or by bypassing the security measures of others.

Q30: 【Public Data Scraping】 Can an organization claim its rights and interests under Anti-Unfair Competition Law if it collects and sorts out public data?

A30: Depending on whether creative intellectual work has been put in, data can be divided into raw data and derived data. Raw data refers to unprocessed data and does not need to rely on other data. Derivative data refers to new data or data products that form their own valuable content based on the original data obtained through legal means, through a series of processing processes such as collection,

selection, sorting and analysis, and the owner of derivative data has rights and interests under the anti-unfair competition law because of the additional creative labor. It is worth noting that data rights and interests are not statutory rights, and the ownership of data and the boundaries of rights should be defined according to the content and nature of the disputed data and the data owner's contribution to the data's value.

According to China's current laws and regulations, organizations can obtain original data, including public data, through legal channels, and collect, select, sort, analyze, and process such data to form new data or data products with valuable content. Derivative data products lawfully collected by organizations or developed on the basis of self-generated data are protected following law.

Q31: 【Setting of Robots Protocol】 Can an Internet platform set the Robots Protocol as it pleases? What kind of unfair competition risks will crawler protocols bring?

A31: The Robots Protocol, also known as the Crawler Protocol, is an agreement between a website and a crawler (web robot) that defines the scope of content a crawler can access, including informing search engines what content can or cannot be crawled, and whether the website wants to be crawled by search engines. Proper and reasonable crawler protocols are generally considered the accepted industry ethics in the Internet field. However, Internet platforms are not allowed to arbitrarily set up Robots protocols arbitrarily, as improper Robots protocols will restrict competition and violate the Internet spirit of openness, equality, collaboration, and sharing. The legitimacy of the restriction on the crawler behaviour in the Robots protocols lies in balancing the independent management rights of website operators with the interests of consumers, other operators, and the fair competition. Internet platforms should reasonably set up the Robots Protocol according to their business content and nature of services.

When setting up the Robots Protocol, organizations should pay attention to the following factors: (1) whether the Robots Protocol specifically sets up a whitelist or blacklist of data scraping subjects and whether it limits certain types of targets, and whether these lists are discriminatory, etc.; (2) whether the Robots Protocol

restricts data scraping to protect the internal information or sensitive information of the visited website, maintaining the normal operation of the visited website, or protecting the public interest; (3) whether the restriction on data scraping in the Robots protocol violates the Internet spirit of openness, equality, collaboration, and sharing; (4) Other factors.

Q32: 【Determination of Compensation Amount】 If the data scraping act is found to constitute unfair competition, what considerations does the court generally consider to determine the amount of compensation?

A32: Article 17 of the Anti-Unfair Competition Law stipulates that the amount of compensation for a business operator who has suffered damage due to an act of unfair competition shall be determined according to the actual losses suffered by the operator due to the infringement. Where the actual losses are difficult to calculate, they are to be determined in accordance with the gains obtained by the infringer as a result of the infringement. However, in unfair competition cases of data scraping, it is difficult to determine the actual losses and the gains obtained from the infringement. The reason for this is that, on the one hand, data is diverse, and the value generated may also be uncertain due to its different types, scales, and timeliness. On the other hand, since most of the evidence of infringement profits is in the hands of the data scraper, it is difficult for the plaintiff to obtain relevant evidence, so it is also difficult to determine the amount of compensation through the defendant's infringement profits. Therefore, in cases of unfair competition related to data scraping, it is usually necessary to rely on the court to determine the amount of compensation through discretionary means based on the actual situation, the duration of the unfair competition act, the impact, the value of the data and other relevant factors.

As mentioned above, in current judicial practice, it is usually necessary to rely on the court to determine the amount of compensation through discretionary means according to the actual situation, and the factors to be considered are as follows: a. the value of the data being scraped; b. the market position of the rights holder and the data scraper; c. The scope of data scraped, the scraping method, and the

subsequent display method. If the other party not only illegally scrapes the background data of the right party, but also displays it directly and completely on its own platform, it indicates a higher level of infringement severity; d. The duration of the infringer's act of unfair competition. The longer it lasts, the more serious the infringement; e. The number of downloads and views of the relevant infringing information on the infringing platform; f. Whether the infringing platform illegally profited by combining the platform interface of the right holder with its own functions. (if applicable)

Q33: 【Compliance Advice】 What factors should Internet operators pay attention to when obtaining and using Internet data to avoid unfair competition?

A33: In order to avoid unfair competition, the acquisition and use of data should follow the principles of legality and reasonableness. There are two main types of unfair competition acts related to data acquisition and utilization, one is the data crawler that violates the protocol, and the other is the unauthorized acquisition of data. When judging whether the act of obtaining and using data is an act of unfair competition, the court will mainly examine whether the method of data acquisition is legitimate. For example, if the data is obtained by linking accounts on other platforms with the user's consent or authorization, it is generally not improper; However, it is generally deemed improper to obtain data by crawling in violation of relevant valid protocols or taking technical measures to invade the server. In addition, the court will also consider whether the data acquisition, collection and use have caused damage to the legitimate rights and interests of other operators. If the data acquisition results in a substantial substitution of online products or services lawfully provided by other business operators, it may constitute an act of unfair competition of "growing fat at other's expense" or "free-riding" under the rules of the Anti-Unfair Competition Law; If the data acquisition does not cause losses to the business operator, including the loss of the data itself and related competitive interests, it is generally not considered unfair.

Based on this, Internet operators should pay attention to the following points when obtaining Internet-related data: First, properly obtain data, obtain relevant data of users or Internet platforms by obtaining authorization, respect the robots

protocol of other Internet companies (unless the robots protocol itself is unlawful or unreasonable), and do not take unauthorized technical measures to invade the server to obtain data. Second, attention should be paid to the acquisition and use of data to avoid causing damage to the legitimate rights and interests of other business operators, the public interest, and the interests of consumers.

CHAPTER IV

Legal practice of intellectual property contribution in the context of the new Company Law

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Q34: 【Types of capital contributions】 What types of intellectual property can be used for capital contribution?

A34: Article 48 of the new Company Law stipulates that *"shareholders may make capital contributions in currency, or in kind, intellectual property, land use rights, equity rights, creditor's rights, and other non-monetary assets that can be assessed in currency and can be transferred in accordance with the law; However, there is an exception for property that is not allowed to be used as capital contribution as stipulated by laws and administrative regulations. The non-monetary property used as capital contribution shall be appraised and verified and shall not be overvalued or undervalued. Where laws and administrative regulations have provisions on appraisal valuation, follow those provisions."* This provision is the legal basis for the contribution of intellectual property rights.

Article 123 of the Civil Code stipulates that *"intellectual property rights are the exclusive rights enjoyed by the right holder in accordance with the law in respect of the following subject matter: (I) works; (II) inventions, utility models, and designs; (III) trademarks; (IV) geographical indications; (V) trade secrets; (VI) layout design of integrated circuits; (VII) new varieties of plants; (VIII) other objects specified by law"*. Combined with the provisions of the Company Law, the above objects can be used as intellectual property capital contributions.

"Copyright" refers to a set of rights in literary, artistic and scientific works enjoyed by natural persons, legal persons or other organizations. These rights include property rights and moral rights, including moral rights such as the right of publication, the right of authorship, the right of modification, and the right to protect the integrity of the work, as well as property rights such as the right of reproduction, distribution, rental, exhibition, performance, screening, broadcasting, information network dissemination, filming, adaptation, translation, and compilation. The works protected by the Copyright Law refer to intellectual achievements in the fields of literature, art and science that are original and can be expressed in a certain form, including works such as writing, music, fine arts, architecture, photography, audio-visual works, engineering design drawings, product design drawings, models, computer software and other intellectual achievements that conform to the characteristics of the work.

"Patent right" refers to the exclusive or proprietary right enjoyed by the right holder within the statutory time limit for the invention or creation for which the patent has been obtained according to the provisions of the Patent Law, including invention patents, utility model patents, and design patents.

"Trademark right" refers to the exclusive right enjoyed by a registered trademark holder as provided under the law. The acquisition of trademark rights is subject to the trademark registration procedure. The law does not prohibit the use of unregistered trademarks to make capital contributions, but because unregistered trademarks do not have the exclusive right to use, it is difficult to obtain the full protection of the Trademark Law, and their rights base is relatively fragile, and there is a risk that they are easy to be preemptively registered by others and infringe on the rights of others' registered trademarks.

"Geographical indication" is a mark that indicates that a certain commodity originates from a certain region, and the specific quality, reputation or other characteristics of the commodity are mainly determined by the natural or human factors of the region.

"Trade secrets" refer to technical information, business information, and other commercial information that is not known to the public, has commercial value, and has been subject to corresponding confidentiality measures taken by the right holder. Different from patent rights, the core of trade secrets lies in their confidentiality, while patents require the disclosure of technical solutions. In addition to technical information, trade secrets include business information and other commercial information that is not known to the public, and there is no time limit for protecting trade secrets.

"Layout design of integrated circuits" means a three-dimensional configuration of two or more components and some or all of the interconnected lines of at least one active component in an integrated circuit, or a three-dimensional configuration prepared to manufacture an integrated circuit.

"New plant variety" refers to a plant variety that has been artificially cultivated or developed from a discovered wild plant, which is of novelty, distinctness, uniformity, and stability and has an appropriate name.

The Company Law does not limit the specific types of intellectual property that may be contributed as capital, i.e., it does not prohibit the use of "intellectual property usage rights" for capital contributions. Therefore, in practice, there are also situations where the right to use the intellectual property is invested under certain conditions, that is, the owner of the intellectual property retains the ownership of the intellectual property (the right of final disposal), and authorizes a part of the right to use the intellectual property (the right to use under license) to the company for a certain period of time and scope. This kind of license can also be legally registered and recorded with competent intellectual property authority. However, even though there are some positive cases or judicial rulings, in general, there are greater legal risks in this form of contribution of intellectual property rights. These include:

(I) Article 49 of the Company Law stipulates that *"if a capital contribution is made with non-monetary property, the formalities for the transfer of property right shall be handled in accordance with the law"*. However, the license of the intellectual property usage rights cannot be qualified as "the transfer of property rights";

(II) Compared with the ownership of intellectual property rights, the right to use intellectual property rights is more likely to be risky, that is, there may be ownership disputes, defects or restrictions, or the investor does not have the right to sublicense, which may bring risks.

(III) Valuing the right to use intellectual property rights is also crucial. Compared with the ownership of intellectual property, the right to use intellectual property alone will affect its appraised value, which may substantially impact the rights and interests of both parties.

(IV) It is uncertain whether the local company registration department will accept the intellectual property usage rights as a form of capital, if not, the company registration cannot be completed.

Therefore, the company should be cautious about the contribution of the right to use the intellectual property, understand the above risks, conduct detailed due diligence to ensure that the ownership of the intellectual property is clear, and there are no defects or restrictions on the rights, and sign a rigorous capital

contribution agreement and license agreement to clarify the specific form, content, appraisal value, method of transfer of rights and liability for breach of contract, so as to reduce potential legal risks.

Q35: 【Ratio of capital contribution】 What is the limit on the ratio of intellectual property as capital contribution?

A35: China's Company Law and related regulations have gradually changed and loosened the issue of intellectual property contributions. As early as 1997, the former Science and Technology Commission and the former State Administration for Industry and Commerce issued the "Provisions on Several Issues Concerning the Contribution of High-tech Achievements", which made it clear that the total amount of capital contribution using high-tech achievements can exceed 20% of the company's registered capital but shall not exceed 35%. The Regulations were repealed by the Ministry of Science and Technology in 2006. The Company Law, amended in 2004, provides that the amount of capital contribution in the form of industrial property rights and non-patented technology shall not exceed 20% of the registered capital of a limited liability company; unless, the government has special provisions on the use of high-tech achievements. The Company Law, amended in 2005, requires that the monetary contribution of shareholders shall not be less than 30% of the registered capital of a limited liability company. This provision aims to balance the risk control of companies and the effective use of intellectual property. However, in practice, this proportion limit is often a major obstacle for companies to use intellectual property to make capital contributions.

The Company Law, as amended in 2013 and later (including the latest revision in 2023), has deleted the explicit provisions on the ratio of intellectual property capital contributions. This means that when setting up a company, investors can flexibly decide the ratio of intellectual property contribution according to their own circumstances. However, this does not mean there are no intellectual property contribution restrictions. In fact, companies still need to abide by the following principles when making intellectual property capital contributions to ensure the legitimacy and effectiveness of capital contributions:

First of all, when making intellectual property capital contributions, companies must strictly abide by the provisions of relevant laws and regulations, and must not infringe on the legitimate rights and interests of others. Patents, trademarks, copyrights and other forms of intellectual property rights have corresponding legal protection measures. In the process of capital contribution, companies should ensure that the source of intellectual property used is legal and there is no infringement, and clarify the impact of relevant intellectual property pledge and license on capital contribution. In addition, companies also need to pay attention to the validity period and territorial scope of intellectual property rights, so as to avoid the invalidation of capital contributions due to the expiration of intellectual property rights, invalidation or beyond the scope of application.

Second, the value of intellectual property contribution should not only be reflected in its legal rights, but also in its substantive economic value. When making intellectual property capital contributions, a company should ensure that the intellectual property has actual commercial application prospects and development potential, and can bring economic benefits to the company. In order to prove the practical value of an intellectual property, a company usually needs to conduct market research and feasibility analysis to understand the competitiveness and potential market demand of the intellectual property in the relevant field. Only when intellectual property has substantial economic value can it truly play a role in promoting the development of companies.

Finally, since the value of intellectual property is often difficult to measure directly in monetary terms, companies need to make a fair and reasonable assessment of their value through a professional appraisal agency when making capital contributions. The evaluation process should follow the principles of science and objectivity and fully consider factors such as the technical content of the intellectual property, market prospects, and revenue expectations so as to ensure the authenticity and accuracy of the evaluation results. At the same time, companies can also conduct periodically re-evaluation of the value of intellectual property rights, so as to identify and solve the problems of intellectual property life cycle and fluctuations in market value in a timely manner.

Through the standardized process of intellectual property capital contribution, companies can not only fully utilize the financing value of intellectual property

resources but also improve their own innovation ability and development level, occupying a dominant position in fierce market competition.

Q36: 【Fulfilling Capital Contribution】 What are the ways to fulfil the capital contribution of intellectual property?

A36: The basic process of fulfilling intellectual property capital contribution is as follows:

(I) For a company in the formation process, the shareholders shall specify the specific matters of intellectual property contribution in the articles of association. The content mainly includes the type, quantity, value, investment ratio, ownership, and use methods of intellectual property. For established companies, shareholders shall form a resolution agreeing to the capital increase in accordance with the relevant laws and regulations and the articles of association and amend the articles of association accordingly.

(II) The investor shall conduct the valuation on its own or by entrusting a professional intellectual property valuation agency.

(III) According to the asset valuation report that has been issued, the registered capital contribution shall be verified, and the capital verification report shall be issued.

(IV) Transfer the ownership of the intellectual property to be contributed.

(V) Handle the record-filing of paid-in capital with the Market Supervision Administration, Tax Bureau, etc.

Article 49 of the new Company Law stipulates that "*a person who makes a capital contribution with non-monetary property shall complete the transfer of the property rights in accordance with the law*". Based on the above-mentioned legal provisions, capital contribution made with intellectual property rights should meet the statutory requirements for the transfer of property rights.

In addition, Article 10 of the Provisions of the Supreme People's Court on Several Issues Concerning the Application of the Company Law of the People's Republic of China (III), as amended in 2020, stipulates that *"Where the investor makes a capital contribution with property such as buildings, land use rights, or intellectual property rights that **need the completion of registration of ownership**, and has already handed over the property to the company for use but has not completed the formalities for changing the ownership, and the company, other shareholders or creditors of the company claim that the investor has not fulfilled the obligation to make capital contributions, the people's court shall order the party to complete the formalities for changing the ownership within a specified reasonable period of time; If the formalities for changing ownership have been completed within the aforementioned period, the people's court shall determine that it has fulfilled its obligation to make capital contributions; Where the investor claims that it enjoys the corresponding shareholder rights when it actually delivers the property to the company for use, the people's court shall uphold it."*

Therefore, to determine whether the investor has fulfilled its capital contribution obligations, it is necessary to consider both the formal transfer of the ownership and the actual delivery and use of the assets. The actual delivery of intellectual property to the company is particularly important and will affect the timing of the investor's enjoyment of shareholder rights.

In practice, the investor and the company shall strictly comply with the laws, regulations and relevant provisions to ensure the legality, effectiveness and safety of intellectual property capital contribution. At the same time, the parties should also communicate and coordinate in a timely manner to solve possible problems and jointly promote the process of intellectual property capital contribution.

Q37: 【Installment Contribution】 Can intellectual property capital contributions be made in installment?

A37: Article 48 of the new Company Law stipulates that *"shareholders may make capital contributions in currency, or in kind, intellectual property, land use rights, equity rights, creditor's rights, and other non-monetary assets that can be valued*

in monetary terms and can be transferred in accordance with the law". Article 49 stipulates that "shareholders *shall pay in full and on time the amount of capital contributions subscribed by each of them as stipulated in the articles of association of the company*". This implies that, although the Company Law itself does not explicitly address this issue, as long as the articles of association of the company stipulate that the capital contribution shall be paid in installments, and the shareholders reach an agreement, the intellectual property capital contribution can be made in installments.

The steps for making intellectual property capital contribution in installments mainly include:

- (I) Determine the assessed value of intellectual property;
- (II) Formulating or amending the articles of association of the company, or further concluding contracts;
- (III) making intellectual property capital contributions, providing intellectual property ownership certificates, valuation reports, and other relevant documents;
- (IV) Completing the transfer of intellectual property rights.

Although the instalment payment of intellectual property capital contributions provides convenience for shareholders, there are also certain risks. For example, the value of intellectual property may change, or shareholders may not be able to pay their capital contributions on time. In response to these risks, shareholders and the company can take the following measures:

- (I) Regularly assess the value of intellectual property

In order to prevent fluctuations in the value of the intellectual property from affecting the capital contribution, the shareholders and the company can agree to conduct regular valuation of the intellectual property. If there is a significant change in the value of the intellectual property, the instalment payment plan can be adjusted accordingly.

(II) Establish a liability clause for breach of contract

In order to protect the interests of the company, shareholders and the company can set up a liability clause for breach of contract. If the shareholder fails to pay the capital contribution on time, it shall bear the corresponding liability for breach of contract, such as making immediate capital contribution in cash or other qualified assets, payment of overdue interest, compensation for losses, etc.

(III) Establish an effective communication mechanism

In the installation payment of intellectual property capital contributions, it is necessary to establish an effective communication mechanism between shareholders and the company to solve problems in a timely manner and ensure the smooth progress of the capital contribution process.

In summary, intellectual property capital contributions can be made in installments. In practice, shareholders and companies need to comply with relevant laws and regulations, fully understand the characteristics and risks of intellectual property capital contributions, and formulate reasonable installment payment plans to ensure the smooth completion of intellectual property capital contributions.

Q38: 【Due Diligence】 What matters should a company pay attention to before accepting an intellectual property capital contribution?

A38: Before accepting the intellectual property capital contribution, the company should conduct a comprehensive review of the intellectual property's ownership, validity, stability, possible defects, or restrictions. This includes verifying the intellectual property's legal ownership, registration status, any existing legal disputes, the validity period of the intellectual property, whether there is an exclusive license, etc. Only by confirming the validity of intellectual property rights can the company ensure that the legitimate rights and interests are protected.

The market value of intellectual property is an important basis for companies to judge whether their capital contribution is in line with their interests. Therefore, before accepting the capital contribution, the company needs to assess the market value of the intellectual property. The evaluation method may include referring to the market price of similar intellectual property, license fees, etc., considering the market potential, life cycle, technical level and market demand of intellectual property, and hiring a professional organization to conduct the evaluation.

In the process of intellectual property capital contribution, the reasonableness of the terms of the contract or articles of association is crucial. Each shareholder shall specify the ownership of intellectual property, the scope of use, the term of use, and the liability for breach in the contract or the articles of association of the company, so as to protect the interests of the relevant parties. In addition, the contract and articles of association should also contain details such as the specific amount, form and timeline of capital contribution to facilitate the parties to exercise their rights and perform their obligations.

For the due diligence before the intellectual property capital contribution, the company and shareholders can start from the following aspects:

(I) Reviewing the relevant documents

Examine the registration certificate, letter of authorization, assignment agreement, and other relevant intellectual property documents to verify the authenticity and legitimacy of intellectual property rights. At the same time, it is also necessary to pay attention to updates to intellectual property rights, such as renewals, changes, licenses, pledges, etc. If necessary, the company can also apply to the relevant intellectual property authority for an official inquiry report, evaluation report, etc.

(II) Check the legal status of intellectual property

The company should understand whether there is litigation, arbitration, administrative review, and other circumstances surrounding intellectual property to determine whether there are potential risks. In addition, it is also necessary to

pay attention to whether others have accused the intellectual property of infringement to avoid possible legal disputes in the future.

(III) Analyze the technical level and market prospects of intellectual property

The company should evaluate the technical content, technical maturity, technical level, brand awareness, originality of the work, etc., to judge the practicability of the intellectual property. At the same time, it is also necessary to examine the market conditions, competitive landscape, development trends, and other factors of the industry where the intellectual property is located to predict its market potential.

(IV) Consult professionals

During the due diligence process, companies can consult with intellectual property professionals to obtain more comprehensive, in-depth, and accurate opinions and recommendations. These professionals include lawyers, patent attorneys, and others who can provide professional perspectives and experience to help companies make informed decisions.

Q39: 【Management and Utilization】 How to ensure the effective use of intellectual property capital contributions?

A39: Clearly define the definition, exclusive rights, scope of use, duration, geographical restrictions, and type of license (exclusive license, sole license, etc.) of intellectual property rights in the contract or articles of association to ensure that the company and shareholders clearly understand how to use these assets legally and efficiently. Clarifying the scope of rights and conditions of use of intellectual property capital contributions in the articles of association and shareholders' contracts can help avoid or reduce the risk of future legal disputes and ensure that the rights and interests of all parties are clearly defined.

On this basis, the intellectual property should be integrated with the company's operational strategy. To integrate intellectual property with the company's operational strategy, it is necessary to conduct a comprehensive intellectual

property audit to evaluate its value, potential, relevance to the company's business, and the role it plays in the company's business, develop an intellectual property strategic plan, establish and improve the intellectual property management system, closely integrate the intellectual property strategy with the R&D process, use trademark and brand-related intellectual property to enhance market recognition, use patents, copyright, and other intellectual property to gain business advantages, establish an early warning mechanism for intellectual property risks, monitor possible infringements in the market, and ensure that the company's operations comply with relevant laws and regulations to avoid infringing on the intellectual property rights of others.

Companies can develop an intellectual property system, set up an intellectual property management team, establish an intellectual property registration, monitoring and tracking system, regularly assess the market value of intellectual property, create a plan to deal with risks such as intellectual property litigation, invalidation, infringement, etc., establish a risk assessment process to identify possible infringements and legal challenges, ensure that all intellectual property activities comply with relevant laws and regulations, establish cooperation with external legal counsel to deal with complex legal issues, regularly organize training for employees on intellectual property innovation, protection, and compliance awareness. In these ways, a comprehensive intellectual property management framework can be established to effectively integrate intellectual property capital contributions, foster innovation, protect company assets and enhance competitiveness. This requires not only support from senior management, but also cross-departmental collaboration and continuous resource investment.

To encourage innovation and effective use of intellectual property, an incentives mechanism linked to intellectual property outcomes could be established. The Patent Law of the People's Republic of China and its Implementing Rules stipulate the rewards and remuneration for service inventions-creations. Under normal circumstances, the entity to which the patent right has been granted may agree with the inventor or designer on the method and amount of the reward and remuneration, and such agreement takes precedence and can exceed statutory standards or, within a reasonable range, fall below them. However, if no such agreements are made or no provisions are outlined in entity's regulations, the

entity shall pay the inventor or designer a reward within three months from the date of the announcement of the grant of the patent right. The minimum reward for an invention patent shall not be less than CNY 4,000; the minimum reward for a utility model patent or design patent shall not be less than CNY 1,500. If an invention-creation is completed based on the inventor's or designer's suggestion adopted by the entity, the entity shall pay a reward to the inventor or designer as generously as possible.

Although the Copyright Law also has provisions on rewards for work made for hire, it does not specify a reference amount, but only classifies the ownership according to the type of work. For example, within two years after the completion of a work made for hire, with the entity's consent, the author may license a third party to use the work in the same way as the entity. The proceeds obtained from this use shall be shared by the author and the entity according to the agreed ratio. The two-year period begins upon the delivery of the work to the entity. The author enjoys the right of authorship for work made for hire, such as product design drawings and computer software, while other copyright rights are enjoyed by the entity, and the entity may give rewards to the author accordingly.

Q40: 【Insufficient capital contribution】 What are the legal consequences of the actual value of intellectual property being significantly lower than the subscribed capital contribution?

A40: Article 50 of the new Company Law stipulates that *"if a shareholder fails to fulfill the capital contribution in accordance with the provisions of the articles of association of the company at the time of the establishment of a limited liability company, or the actual value of the non-monetary property actually contributed is significantly lower than the amount of the subscribed capital contribution, the other shareholders at the time of establishment shall be jointly and severally liable with such shareholder to the extent of insufficient capital contribution"*.

In addition, Article 9 of the Provisions of the Supreme People's Court on Several Issues Concerning the Application of the Company Law of the People's Republic of China (III) stipulates that *"if the investor makes a capital contribution with non-monetary property and fails to evaluate the value in accordance with the law, and*

the company, other shareholders or creditors of the company claims that the investor fail to perform the obligation of capital contribution, the people's court shall entrust an evaluation agency with legal qualifications to evaluate the property." If the price determined by the assessment is significantly lower than the amount set by the articles of association, the people's court shall determine that the investor has not fully performed its capital contribution obligations in accordance with law." Furthermore, Article 13 of the Provisions stipulates that "if a shareholder fails to perform or fails to fully perform its capital contribution obligations, and the company or other shareholders request such shareholder to fully perform its capital contribution obligations to the company in accordance with the law, the people's court shall support it. Where a creditor of the company requests that the shareholder who has not fulfilled or has not fully performed the obligation to make capital contributions bears supplementary liability for the part of the company's outstanding debts within the scope of the principal and interest of the unpaid capital contribution, the people's court shall support it."

Based on the above provisions, if the actual value of the intellectual property used for capital contribution is significantly lower than the amount of subscribed capital contribution, the contributing shareholder may be deemed to have failed to fully perform the capital contribution obligation, and shall make up the shortfall and bear supplementary compensation liability for the company's outstanding debts within the scope of the principal and interest of the unpaid capital contribution, and the other shareholders at the time of establishment shall be jointly and severally liable with such shareholder to the extent of insufficient capital contribution.

However, it should be noted that the standard for determining whether the obligation of capital contribution has not been fully fulfilled by a shareholder depends on whether the evaluated price is significantly lower than the amount of subscribed capital contribution. The people's courts shall be responsible to determine what constitutes "significantly low". Moreover, the evaluation here refers to a supplementary evaluation that retroactively evaluates the value of the contribution at the time of the initial investment, using the price prevailing at the time of the capital contribution.

If the actual value of the shareholder's intellectual property capital contribution is significantly lower than the amount of the subscribed capital contribution, it may lead to damage to the rights and interests of other shareholders. The ratio of a shareholder's capital contribution directly affects its equity ratio and dividend rights in the company, and if a shareholder's actual capital contribution is much lower than the subscribed capital contribution, other shareholders may believe that their rights and interests have been infringed.

When the actual value of the intellectual property is significantly lower than the amount of subscribed capital contribution, the company may need to reduce the registered capital. According to the provisions of the Company Law, the reduction of the registered capital of a company needs to be resolved by the shareholders' meeting, and the record-filing procedures shall be completed in accordance with the law. As mentioned above, other shareholders may believe that their rights and interests have been infringed, which may lead to conflicts and disputes among shareholders, affecting the company's decision-making efficiency and normal operation.

Q41: 【Depreciation after capital contribution】 If the value of intellectual property is depreciated after capital contribution, does the investor need to make up the capital contribution?

A41: In practice, after shareholders make intellectual property capital contributions, the value of intellectual property may depreciate due to market changes, technological development, technological iterations, company-related litigation, or adverse impact events. So, does the shareholder need to make up the capital contribution in the event of a depreciation of the value of the intellectual property?

First, we need to understand the legal procedures for shareholders to contribute intellectual property as capital. According to the provisions of the new Company Law, when a shareholder makes an intellectual property capital contribution, it must conduct a value assessment and go through relevant procedures in accordance with the law to transfer the ownership or use rights of the intellectual property to the company.

Second, we need to distinguish the causes of the depreciation of intellectual property. Generally speaking, the depreciation of intellectual property value can be categorized into two types: one is objective factors, such as technological upgrading, changes in market demand, etc.; the other is subjective factors, such as infringement, false capital contribution, etc. The legal liability in these two cases is different.

Article 15 of the Provisions of the Supreme People's Court on Several Issues Concerning the Application of the Company Law of the People's Republic of China (III) stipulates that *"if the capital contribution is depreciated due to market changes or other objective factors after the shareholder has made a capital contribution with non-monetary property that meets the statutory requirements, and the company, other shareholders or creditors of the company request the shareholder to bear the responsibility for making up the capital contribution, the people's court shall not support it. Unless otherwise agreed by the parties"*. For the depreciation of the value of intellectual property caused by objective factors, the shareholder usually does not need to bear the responsibility of making up for the depreciated value. Because in this case, the depreciation of the value of intellectual property is not due to the fault or intentional acts of the shareholder but is affected by factors such as market changes and scientific and technological progress. Therefore, unless the parties have a certain precautionary mechanism in advance and have agreed in the articles of association, the shareholder does not need to bear additional legal liability.

However, in the case of depreciation of the value of intellectual property caused by subjective factors, the shareholder may be liable to make up for the depreciation. For example, if the shareholder has made false contributions, infringed on the intellectual property rights of others, or engaged in other illegal acts, resulting in the depreciation of the value of the intellectual property, then the shareholder will not only have to bear the corresponding civil, administrative, or even criminal liability, but may also need to make up for the shortfall to compensate the company's losses.

In practice, if there is a depreciation of the value of intellectual property, the company should investigate in a timely manner and take corresponding measures based on the findings. If the depreciation is caused by objective factors,

the company can adjust its business strategy and look for new development opportunities. If subjective factors cause the depreciation, the company shall pursue the responsibility of the shareholder in accordance with the law and require it to make up the capital shortfall.

In short, when accepting intellectual property capital contributions, companies should conduct thorough due diligence on the value and risks associated with intellectual property capital contributions and implement effective risk management strategies to protect the legitimate rights and interests of the company.

Q42: 【Debt Settlement】 Can intellectual property capital contributions be used to settle debts?

A42: The 2015 Supreme People's Court's Provisions on Several Specific Issues Concerning the Current Commercial Trial Work mentions that *"when there is a monetary debt between the creditor and the debtor, sometimes the parties will agree to offset the original monetary debt with a specific asset. In practice, this type of debt settlement is referred to as offsetting debts with properties"*. The term "specific asset" here includes not only tangible assets, such as goods and equipment (movable assets), real estate and land (immovable assets), but also intangible assets such as intellectual property and know-how, as well as property rights such as equity and negotiable securities.

Article 48 of the new Company Law stipulates that *"shareholders may make capital contributions in currency, as well as non-monetary assets such as physical objects, intellectual property, land use rights, equity rights, creditor's rights, etc., which can be valued in monetary terms and can be transferred in accordance with the law"*. As a non-monetary capital contribution, intellectual property capital contribution has legitimacy. Therefore, once the intellectual property capital contribution becomes an asset of the company, it can be used to pay off the company's debts in principle. Provided, of course, that the creditor agrees to accept the intellectual property as a debt repayment.

The process of using intellectual property capital contribution to settle debts involves the following steps:

- (I) Before setting debts, it is necessary to evaluate the intellectual property and determine their value;
- (II) The company and the creditor need to reach an agreement on the debt settlement using intellectual property, and specify the relevant details in the agreement, such as the type of intellectual property, the evaluated value, the method of transfer, and the liability for breach of contract;
- (III) Complete the corresponding transfer procedures, including the registration of the transfer of patents and trademarks. The transfer procedures shall be carried out in accordance with the law to ensure that the ownership of the intellectual property can be legally transferred to the creditor;
- (IV) After the transfer of intellectual property is completed, the creditor shall issue a receipt or other supporting document to the company to confirm that the debt has been settled.

Although it is theoretically feasible to use intellectual property capital contributions to settle the debts, there are still certain risks in practice. For example, the value of intellectual property fluctuates greatly, which may result in debts not being fully settled; There may be defects in intellectual property rights, such as unclear ownership, infringement, and other issues, which may affect the effect of settlement. In order to mitigate these risks, the following measures can be taken when using intellectual property capital contributions to settle debts: (i) conduct a comprehensive review of intellectual property rights to ensure that they are valid, complete and free from defects in rights; (2) Entrust a professional assessment agency to conduct an assessment to ensure the authenticity and accuracy of the assessment results; (3) Clarify in the agreement the method of use, duration, liability for breach of contract, and other terms related to intellectual property rights, so as to reduce potential risks; (4) Strengthen the management and maintenance of intellectual property rights to prevent depreciation of value.

In summary, intellectual property can be used to settle debts, but it needs to meet the conditions required by law, obtain the consent of creditors, ensure the accuracy of the evaluated value, complete the transfer procedures, and sign a detailed agreement. Companies need to pay attention to the relevant risks in the operation process and take effective preventive measures.

Q43: 【Disposal of Assets in Liquidation】 How to dispose of the intellectual property capital contribution in the liquidation of the company?

A43: In terms of the composition of the liquidation team, the new Company Law stipulates that "the *liquidation team shall be composed of directors, unless otherwise provided in the articles of association of the company or the resolution of the shareholders' meeting*", while the Company Law amended in 2018 stipulates that "the *liquidation team of a limited liability company shall be composed of shareholders, and the liquidation group of a company limited by shares shall be composed of directors or persons determined by the general meeting of shareholders*." In this regard, the provisions of the old and new company laws are different. The company needs to set up a liquidation team in accordance with the latest legal provisions or the agreement of the parties. During the liquidation period, the liquidation team is mainly responsible for inventorying the company's assets, preparing the balance sheet and asset list, notifying creditors, handling the unsettled business of the company related to the liquidation, paying off the outstanding taxes and taxes generated in the liquidation process, settling claims and debts, and distributing the remaining assets of the company after paying off the debts.

Therefore, for the intellectual property included in the company's assets, the liquidation team should engage a professional evaluation agency to conduct an objective and impartial evaluation to determine its market value. The results of the assessment should be recorded in the liquidation report for reference in the liquidation process.

Intellectual property, as part of a company's assets, can be disposed of through auction, sale, transfer, licensing, or other means to convert it into cash. In this

process, relevant laws and regulations must be complied with to ensure the legitimacy of the transaction and prevent infringement of the rights and interests of others. If legal proceedings or arbitration are involved, the corresponding judicial procedures should also be followed.

Once the intellectual property is successfully monetized, the proceeds shall be disposed of following the provisions of Article 236 of the new Company Law, that is, *"after paying off the liquidation expenses, employees' salaries, social insurance premiums and statutory compensation, the outstanding taxes, and the company's debts, the remaining assets of the company shall, in the case of a limited liability company, be distributed in proportion to the shareholders' capital contribution, and in the case of the company limited by shares, be distributed in the proportion to the shares held by the shareholders"*.

In short, the legal disposal of non-monetary assets, such as intellectual property, during the liquidation period needs to follow the relevant provisions of the Company Law to ensure transparency and legitimacy throughout the entire process.

CHAPTER V

Intellectual property compliance of IP co-branded products

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Q44: 【Key Points of Legal Review of Co-branded Products】 What are the key considerations for organizations in co-branding?

A44: Recently, major brands have expanded their cross-border, leading to the frequent emergence of popular co-branded products. Cross-border co-branding has become a prominent business model today. However, alongside the substantial commercial profits, several legal issues must be considered. From an intellectual property (IP) perspective, what should organizations be mindful of when planning co-branded products?

1. **Determine the basis of authorization:** Review the source of the licensor's rights and ensure that the authorization chain is complete. Verify whether the rights are secure or if there are any potential risks that could lead to disputes.
2. **Clarify the authorized use:** During the design, production, and promotion of the co-branded product and its packaging, it is crucial to define how the IP of all parties will be used. Improper use could violate legal provisions or lead to infringement disputes. To mitigate this risk, the parties can establish a review mechanism to ensure that the IP owner approves the use of joint IP before implementation.
3. **Agree on the type of license, scope of goods, geographical scope, and term:** Disputes may arise between the parties if there is no clear agreement on these matters or if the terms are ambiguous.
4. **Agree on ownership of newly created intellectual property rights:** The ownership of newly generated intellectual property rights (often referred to as "prospective intellectual property") should be clearly defined in the cooperation contract. Ownership can be determined based on each party's contribution to the newly created IP, which may be owned by one party or shared between both.
5. **Liability for taking enforcement action against infringing goods:** It is important to clarify the responsibilities of all parties involved in taking enforcement action if infringing products related to the co-branded products

are found in the marketplace. It can be agreed that one party will bear full responsibility, or both parties may share it. The agreement should be as clear as possible, considering the industry's characteristics, to prevent either party from shifting blame, responsibility or hindering the enforcement process when infringement occurs.

6. **Allocation of liability for trademark infringement:** It is complex to determine the liability of each party when the co-branded products infringe on third-party intellectual property rights, especially if there is no clear written agreement in place beforehand. According to the Supreme People's Court's 2020 ruling regarding whether a victim of a product infringement case can file a civil lawsuit against the trademark owner displayed on the products: "Any organization or individual that embodies its name, title, trademark, or other identifiable mark on the product and indicates that it is the manufacturer, is considered a 'producer' under the Civil Code of the People's Republic of China and the Product Quality Law." Therefore, if the co-branded products infringe upon another party's rights, both parties could be defendants and face joint and several liability if the lawsuit is lost. It is crucial to reach a clear agreement on how legal liability will be allocated and, on each party's, proportional contribution to avoid potential disputes.
7. **Product quality assurance:** The licensee (normally the manufacturer or product provider) must ensure the quality of the co-branded products. Failure to do so could damage the licensor's brand image. This responsibility should be clearly defined in the cooperation contract, based on the specific circumstances of the partnership.
8. **Exit mechanism:** Once the co-branding agreement is in effect, both parties form a community of interests. If either party develops negative goodwill, it could negatively impact the market performance of the entire co-branded product. Therefore, it is essential to establish a clear exit mechanism that allows either party to terminate the cooperation if the other party develops negative goodwill.
9. **Disposal of inventory goods after termination of the cooperation:** The definition of inventory goods and the disposal period should be clearly

defined at the outset of the cooperation. In practice, disputes often arise when the licensee continues to sell inventory goods after the cooperation has ended.

Q45: 【IP Licensor's Rights Layout】 How can an IP licensor effectively structure their intellectual property to ensure a solid licensing foundation?

A45: Proof of intellectual property rights, particularly trademark registration certificates, is crucial for the licensee to review before entering into cooperation. The IP holder should ensure that all relevant rights are actively registered to establish a strong foundation for authorization in the co-branded projects.

Trademarks are protected by classification and there are 45 classes based on the characteristics of goods or services, such as function and use. Each class is further divided into several subclasses. A common issue for rights holders is whether it is necessary to register a trademark in all subclasses across the 45 classes. Opting to register in all classes can lead to significant costs, both during the initial application process and for later maintenance. Therefore, a trademark registration strategy should be analyzed on a case-by-case basis.

First, it is important to recognize that not all 45 classes of goods or services are suitable for cross-border co-branding. For example, chemical industrial goods in Class 1, medical devices in Class 10, and cigarettes in Class 34 may not align with a company's brand positioning. Co-branding a product that does not match a company's identity can fail to stimulate consumer interest and may even negatively impact the brand. A notable example is the co-branding between a museum in Dunhuang and an e-cigarette brand, which ultimately resulted in an apology from the museum.

Secondly, the position of the company's brand within its lifecycle should be assessed before planning the filing strategy. For instance, a new brand (with uncertain market popularity) differs from an established brand (which has developed a stable market presence). For new brands, it is uncertain whether they can withstand market pressures. Therefore, when planning the filing strategy,

it may be prudent to focus on core products and categories. Conversely, a broader filing strategy can be pursued if the brand is already well-established. For example, during the initial launch of a game product, it may be wise to consider Class 9 (game software, electronic products), Class 25 (clothing), and Class 28 (toys), as well as Class 41 (entertainment, online gaming services). As the game's popularity grows, the filing strategy can be expanded to include additional and more common product categories such as Class 3 (daily chemicals), Class 14 (jewelry), Class 16 (stationery), Class 18 (bags), Class 20 (furniture), Class 21 (household goods), Class 29 (dairy products), Class 30 (food), Class 32 (beverages), and others. A comprehensive filing strategy should be implemented quickly for brands that gain immediate popularity upon launch.

Third, intellectual property can be divided into different protection elements, such as textual elements (brand names, movie titles, game titles, character names, etc.) and graphic elements (character images, product designs, etc.). Different IP filing strategies should be adopted for these various elements. For graphic elements, copyright protection may also be available in addition to trademark protection. Therefore, it is advisable to prioritize the trademark filings for textual elements.

In summary, there is no one-size-fits-all approach to IP filing strategy. Organizations should tailor their strategies based on industry characteristics, budget constraints, and market responses to their intellectual property.

Q46: 【Determination of Scope of Authorization】 How can an IP licensee determine the scope of rights to be granted to avoid potential infringement risks caused by using IP outside the Scope of Authorization.

A46: The licensee should firstly verify whether the licensor has a sufficient basis of rights. This involves verifying whether the licensor is the actual owner of the relevant rights or if they have the authorization to engage in cross-border cooperation from the rightful owners. This review goes beyond merely checking trademark or copyright registration certificates; it requires a thorough due

diligence process. There have been instances where co-branded partnerships ended abruptly due to incomplete licensing chains or disputes over brand ownership. For example, in the collaboration between a well-known mobile phone brand and an Italian fashion, the issue arose when it was discovered that the owner of the Italian brand was not the legitimate rights holder of a popular street fashion label. After the joint campaign was launched, consumers widely questioned the legitimacy of the collaboration, prompting the mobile phone brand to terminate the joint campaign before the formal product launch to mitigate further losses.

Once the brand's ownership is verified, it is crucial to review the scope of goods covered by the relevant trademark. For example, if the authorizing party is a prestigious luxury brand but the licensed product is milk tea, it is important to confirm whether the luxury brand has registered its trademark for those specific products. Using a trademark outside the scope of the approved goods can expose parties to the risk of trademark infringement. However, if the registered scope of goods does not encompass the co-branded products, this does not automatically preclude the possibility of collaboration. A comprehensive legal search should be conducted to assess the potential risks of infringing on third-party intellectual property rights.

Additionally, there may also be cases where the subjects of rights differ among different types of rights. For instance, an artwork may be protected by both copyright and trademark rights. If the trademark owner is not the copyright owner of the artwork, obtaining permission from one right holder may not be sufficient to secure the use of the artwork on the co-branded products. Therefore, it is vital to conduct a comprehensive review of the sources and ownership of rights at the outset of the cooperation.

Q47: 【Generation and Collection of Evidence of Use for IP Co-branding】 How can we effectively generate and collect evidence of use during the co-branding process to mitigate potential future risks of non-use cancellation?

A47: In a co-branding project, the co-branded product may not be the main products of one co-branding party. For instance, in the collaboration between a leading luxury brand and a tea beverage brand, the tea beverage is not the main product of the luxury brand. Trademark registrations owned by one co-branding party whose main products are not the co-branding products often face a higher risk of non-use cancellation.

A review of the non-use cancellation appeal decisions published by CNIPA reveals that many renowned brands in respect of non-core products/services were attacked by third parties through non-use cancellations. For example, a famous automobile brand registered in respect of clothing was attacked by a non-use cancellation, a renowned mobile brand registered in respect of tea beverages was attacked by a non-use cancellation and a leading jewellery brand registered in respect of food was attacked by a non-use cancellation.²⁰

To address the potential risk of a non-use cancellation from a third party against the trademark registration owned by the co-branding party, the co-branding party should properly use the registered trademark and timely preserve the evidence of use on the co-branded products.

Firstly, the co-branding party should properly use the registered trademark during the co-branding activities.

To avoid the cancellation of the trademark due to non-use, it is essential to prove that the co-branding party has put the registered trademark into commercial use on the co-branded products. According to the Trademark Law, "trademark use refers to the use of a trademark on goods, packaging or containers, and transaction documents, as well as the use in advertising, exhibitions, and other commercial activities to indicate the source of goods. "In the context of co-branding activities, trademark use includes the use in/on co-branding agreements, the products, product packaging, and advertising activities/campaigns.

²⁰ Non-use cancellation appeal decisions of Shang Ping Zi [2024] No. 0000077070, Shang Ping Zi [2024] No. 0000078737 and Shang Ping Zi [2022] No. 0000021344.

There is less issued in advertising campaigns because usually the advertising will promote the brands of two co-branding parties jointly. The focus should be on using the trademark on co-branded products and in the agreement.

In the intellectual property licensing agreement, or within the IP licensing clause of the agreement between co-branding parties, it is advisable to include the trademark registration in respect of the co-branded product. This inclusion serves to confirm that the co-branding party intends to authorize and use the registered trademark on the co-branded product.

On co-branded products and their packaging, usually the trademark owned by one co-branding party whose main products are the co-branded products will be displayed in a dominant position. However, it is advisable to put the other co-branding party's registered mark prominently to be considered trademark use. Meanwhile, the trademark should not be used in a trade name or descriptive manner. For example, in a co-branding event between a famous hotel brand and a beer brand, the registered trademark of the hotel brand was used in a non-prominent manner on the beer product, functioning as a trade name for the hotel group. Furthermore, the registered trademark of the hotel brand was not included in the trademark license agreement between the parties. As a result, the appellate court ruled that the use of the hotel brand did not constitute proper trademark use, leading to the cancellation of the hotel brand's registered trademark in respect of beers.²¹ This case serves as a reminder that in co-branding, it is essential to use each co-branding party's trademark appropriately to defend against potential future non-use cancellation attacks. A good example is, on the sneakers co-branded by a famous automobile brand and a clothing brand, the clothing brand's trademark is prominently displayed on the front of the shoe, while the automobile brand's trademark is featured on the side and back. Both trademarks are represented on the product, showcasing their joint branding.

Secondly, it is advisable to preserve evidence for the co-branding activities in a timely manner, especially evidence that is prone to destruction over time.

21 (2019) Jing Xing Zhong No. 7191 Administrative Judgment. After the second instance of this case, the hotel brand filed a retrial, but no decision of the retrial was located through public channels.

Co-branded events are often time-sensitive, with some lasting only a few months. In some cases, when the trademark registration is challenged on the grounds of non-use cancellation, the co-branding event has already taken place, the co-branded products have already been phased out, and there is no evidence proving the previous selling of co-branded products except for the agreement. However, the agreement alone cannot suffice as evidence proving the use of the registered mark and the sales of the co-branded products in the market.

While some co-branded activities may have strong advertising campaigns, allowing online media reports to surface years later, others may have minimal advertising, making it difficult to find supporting online reports. If such reports have been deleted, co-branding party may still have chances to defend the non-use cancellation before the CTMO but will have difficulties to defend the non-use cancellation in the appeal stage before the TRAD.

Therefore, in the time of co-branding activities, it is recommended that the co-branding parties timely preserve the evidence of trademark use to be prepared for future non-use cancellation risk. This includes archiving the original agreement signed by both parties, taking photographs of the co-branded products, and preserving advertising reports related to those products. Additionally, records of the products' listings and consumer reviews on e-commerce platforms should be kept, along with sales data from the e-commerce store, which needs two parties' communications before the evidence can be obtained.

Evidence should clearly show the trademark, products, and date of use. For online evidence related to co-branded products, such as product photos, online reports, and e-commerce listings, it is advisable to notarize the evidence via a digital notarization tool. This approach enhances the probative value of the evidence and mitigates the risk of being challenged regarding the authenticity of online evidence from the party who files the non-use cancellation.

Q48: 【Attribution of new IPs generated in the IP co-branding process】 Can the authorized party independently design the co-branded products? How is the rights holder of the resulting new intellectual property determined?

A48: Whether the licensee can independently design the co-branded product depends on the terms outlined in the contract between the two parties. In practice, most co-branded products are designed with the licensee taking the lead; however, the licensee's designs must be approved before they can be produced and sold.

Regarding the attribution of newly created intellectual property (IP), including new brands and copyrighted works, the ownership depends on the relationship to the authorized IP. If the new IP is unrelated to the authorized IP and is created solely by the licensee, it typically belongs to the licensee unless otherwise specified in the agreement. Conversely, if the new IP is developed based on the authorized IP, the licensee must obtain permission from the licensor before it can be commercially utilized. In such cases, the ownership of the new IP is usually determined by the agreement, which may designate it as belonging to one party or shared between both parties.

Q49: 【Disposal of Inventory Products】 Can I continue to sell unsold co-branded products after the cooperation period ends?

A49: The issue of whether you can continue selling unsold co-branded products after the cooperation period expires depends on the agreement between the two parties. An unclear agreement can easily lead to disputes. In practice, some IP licensors have found that after the cooperation period ends, the licensee continues to sell co-branded products in the market, which can negatively impact the licensor's ability to collaborate with other third parties.

To avoid such issues, both parties should clearly define what constitutes inventory products at the outset of their cooperation. They should also establish a timeline for clearing out inventory after the cooperation period concludes. This

approach helps effectively control the quantity and duration of inventory products in the market.

Q50: 【Dispute Resolution between IP Licensor and Licensee】 What are the methods for resolving disputes between an IP licensor and licensee?

A50: In addition to co-branding collaborations between two well-known brands, there is significant potential in other IP licensing markets, particularly with appealing intellectual properties such as cartoon characters and character images derived from popular anime or film and television works. This type of IP is often co-branded with products from various industries. For example, cartoon images frequently partner with clothing brands, toy manufacturers, and luggage companies. These industry brands may not have high visibility on their own but can leverage the appeal of the IP to attract consumers and enhance the value and attractiveness of their products.

While there is potential for disputes between the two parties and third parties, conflicts may also arise between the IP licensor and the licensee. A common issue is the breach of contract by the licensee, which can create a situation where the breach intersects with intellectual property infringement. When the IP licensor and licensee establish their cooperative relationship through a licensing agreement, it is crucial that they also specify a method for dispute resolution. Typically, the parties will need to choose between arbitration, litigation, or other means of protection based on their agreement.

In some cases, the licensing contract may stipulate that the dispute will be resolved through arbitration. Given the advantages of arbitration procedures, this can be a preferable option for more straightforward issues, such as breach of contract and liquidated damages. However, due to ambiguous agreements or the complexity and secrecy surrounding the licensee's actions, a breach of contract may also involve intellectual property infringement. In such scenarios, the IP licensor may need to pursue litigation for infringement rather than arbitration for breach of contract.

Since the law does not explicitly include or exclude intellectual property infringement disputes from the jurisdiction of arbitral tribunals, if the parties agree that all disputes arising from the contract will be submitted to arbitration, the courts may not accept related intellectual property infringement claims. In our case research, we found that many IP licensors are upholding their IP rights through court litigations.²² To maintain flexibility in future enforcement actions and to leverage the advantages of both litigation and arbitration, IP licensors should consider retaining court jurisdiction over IP infringement disputes when agreeing to arbitration.

Q51: 【Breach of IP Licensing and Competing Intellectual Property Infringement】 What breaches of contract may compete with intellectual property infringement, and what are the potential consequences?

A51: 1. Unauthorized Use Beyond Licensed Scope. One common type of non-compliance involving IP infringement is when a licensee uses the licensed IP beyond the scope permitted in the agreement. This use can include exploiting the IP for unapproved products, exceeding agreed-upon quantities, or continuing to use the IP after the license term has expired.²³ For example, if a business licenses out its trademark for use on a specific type of product, but the licensee starts using the trademark on a different product without permission of the licensor, it constitutes unauthorized use beyond the licensed scope.

2. Sub-Licensing Without Permission. Another common issue is sub-licensing without permission. A licensee may grant sublicenses to third parties without the licensor's consent. This act allows these third parties to use the IP in ways that are not authorized by the original license agreement. The situation can lead to a loss of control over the IP's use and damage the brand's reputation.

²² For example, (2022) Hu 0115 Min Chu No. 676 Peanut Comics Co., Ltd. v. Ningbo Zhongrui Ruyi Import and Export Co., Ltd. et al., and (2017) Zhe 0110 Min Chu No. 5841 Qierte Co., Ltd. v. Zhengzhou New Magic Bean Children's Products Co., Ltd. and Guangzhou Magic Bean Children's Products Co., Ltd.

²³ China National Intellectual Property Administration (CNIPA) *Judging Criteria for Trademark Infringement* Article 8 "Without permission of the trademark registrant" include the circumstances (1) permission has not been obtained; (2) the goods or services are beyond the category, term or quantity of the permitted goods or services.

The overlapping of breach of contract and infringement of IP rights can have severe consequences for both parties involved. It can damage brand reputation, erode consumer trust, and lead to lost sales and diminished brand equity. Moreover, it can create confusion in the marketplace, making it difficult for consumers to distinguish between genuine and counterfeit products.

Q52: 【Intellectual Property Rights Protection】 What other rights protection options do IP licensors have?

A52: In the vast market of IP licensing, licensors typically generate revenue primarily through licensing fees, focusing on enhancing the value of their intellectual property and creating popular IP, rather than engaging in physical operations such as production and sales. Under this business model, even when the licensee is in breach, in most instances, the licensor is often reluctant to initiate legal actions immediately. Instead, licensors typically prefer to resolve issues through negotiation first. The approach is based on mutual benefit, and the licensor's awareness of their licensing market is especially relevant. For instance, a potential consequence of pursuing legal action is deterring potential partners.

However, in certain extreme cases where the licensee's behaviour is particularly egregious that it cannot be overlooked, it becomes imperative to initiate enforcement actions through the appropriate legal channels to address the situation. While arbitration and civil litigation can be effective for obtaining compensation and relief, they often come with significant time costs. If the goal is to address and stop the infringement quickly, administrative and criminal actions may be more suitable options.

Q53: 【Difficulties in Administrative Investigations and Criminal Crackdowns on Intellectual Property Infringement Cases Between IP Licensors and Licensees】 What challenges do IP licensors face in administrative investigations and criminal actions against licensees for intellectual property infringement, and how can these challenges be overcome?

A53: The clarity of contract stipulations is particularly crucial for the option of administrative and criminal actions. In practice, if the contractual provisions are vague, or if the infringement by the IP licensee is complex, concealed, and contentious, it can be challenging for law enforcement authorities to determine whether the relevant actions exceed the categories, durations, and quantities of the licensed goods or services. As a result, the authorities may dismiss the case as a civil matter or conclude that no administrative/criminal offense has been committed, thereby undermining the efficacy of the enforcement measures.

For instance, in the case of (2018) Zhe 07 Criminal Final No. 1205, the suspect Boshun Co. pleaded that it had signed a trademark licensing agreement with Bosideng Co. However, the agreement signed by both parties clearly excluded thermal shirts from the scope of authorization. The court found that the evidence on record was sufficient to prove that Boshun Co. used the registered trademark in question beyond the authorized scope without the right holder's permission, and that the amount of illegal gains was substantial, constituting a particularly serious case. As a result, Boshun Co. was convicted of the crime of counterfeiting registered trademarks.

In another example, in the case of (2019) Zhe 0782 Criminal No. 835, the Yiwu Market Supervision Bureau seized 5,436 pieces of underwear, 200 women's tops, 36 coats, and 1,200 warm shirts from Zhejiang Renzhi Technology Co., Ltd. The Yiwu City Price Certification Center appraised the total value of these goods at 224,316 yuan. The seized items exceeded the quantity authorized by the rights owner. The People's Court of Yiwu City determined that the defendant, Chu XX, had commissioned the production of counterfeit registered trademark logos without permission and affixed them to the goods, constituting the crime of counterfeiting registered trademarks.

It is evident that when specific conditions are clearly stipulated in a contract, , and the licensee's breach and infringement can be proven, the IP licensor can pursue administrative and criminal actions to stop the infringement. Based on our practical experience in enforcement actions, we believe that a licensor can explicitly define certain breach scenarios as constituting IP infringement, reserving the right to pursue administrative penalties and/or criminal liability.

CHAPTER VI

Intellectual property issues in the transformation of scientific and technological achievements

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Q54: What intellectual property rights are involved in the transformation of scientific and technological achievements?

A54: According to the Law of the People's Republic of China on Promoting the Transformation of Scientific and Technological Achievements, the term scientific and technological achievement refers to outcomes that contain practical values produced through scientific research and technological development. The transformation of these achievements involves follow-up experimentation, development, application, and promotion aimed at improving productivity levels, ultimately leading to the formation of new technologies, processes, materials, and products, as well as the development of new industries. During the process of scientific and technological achievement transformation, intellectual property rights are protected by law. These rights primarily include the following aspects:

(I) Patent rights: These include inventions, utility models, and designs. By applying for a patent, rights owners may secure exclusive legal protection for their innovative technical solutions. During the transformation of these achievements, the commercial utilization of technology can be realized through the implementation, licensing, and transfer of patent rights.

(II) Computer software copyright: This copyright guarantees the protection of intellectual property rights for computer software technologies. It helps developers clarify their ownership of software. The protection afforded by this copyright allows software developers to enjoy exclusive rights to their creations, including the right to copy, distribute, rent, and more.

(III) Exclusive rights of the layout design of integrated circuits: This right protects intellectual property rights in the field of integrated circuit design and is mainly applicable to the layout design of such circuits in the electronic components, chips, and semiconductor industries.

(IV) Rights for new plant varieties: This protects the rights of breeders of new plant varieties as they demonstrate novelty, specificity, consistency, and stability. In agriculture, forestry, and other fields, breeders can obtain exclusive rights to

propagation materials of their new varieties by applying for this right, allowing them to authorize others to use or transfer them.

(V) Exclusive trademark rights: This right grants trademark owners the exclusive right to use their registered trademark on designated goods or services, along with the rights to use, license, prohibit, transfer, and pledge the trademark.

In addition to the main types of intellectual property rights mentioned above, the transformation of scientific and technological achievements may also involve other forms of intellectual property rights, including but not limited to:

(VI) Trade secrets: This refers to undisclosed technical or business information that holds commercial value. Protecting trade secrets during the transformation of scientific and technological achievements is crucial for enterprises or institutions to maintain their competitive advantages.

(VII) Technical secrets: This refers to undisclosed technical information that is not known to the public, has commercial value, and has been kept confidential by the rights holder. Technical secrets are a type of trade secret. Protecting this type of information helps enterprises prevent technology leakage and maintain a leading position in the market.

(VIII) Data intellectual property rights (in pilot): This refers to the intellectual property rights held by data holders or processors of undisclosed data collections that are legally collected and processed and possess commercial value. After registering for this right, the right holder has the authority to own, use, trade, and benefit from the registered data.

In the context of scientific and technological innovation, providing comprehensive intellectual property protection for scientific and technological achievements is an important topic. In principle, it is necessary for enterprises to apply for patents and other certified intellectual property rights as soon as possible to improve their internal systems and protect their unregistered intellectual property rights. That said, enterprises should comprehensively consider the characteristics of different intellectual property rights. By formulating a comprehensive intellectual property protection strategy,

organizations can enhance the value of scientific and technological achievements as well as reduce the intellectual property risks emerging along with their transformation.

Q55: How to determine the ownership of intellectual property rights in the process of transformation of scientific and technological achievements?

A55: The common ownership of intellectual property rights in the process of transforming scientific and technological achievements is based on the following four categories:

(I) Ownership of the rights to scientific and technological achievements funded and developed by the state:

According to Article 32 of the Law of the People's Republic of China on the Progress of Science and Technology (Revised in 2021), a project undertaker is authorized to obtain relevant intellectual property rights for scientific and technological achievements resulting from projects funded by the state in accordance with the law as long as they can prove that their undertakings do not compromise national security, national interests, and major social public interests. The project undertaker may invest in the transformation individually, transfer it to others, collaborate with others on the transformation, license others to use it, or make investments at a price. Therefore, the ownership of scientific and technological achievements funded by the state generally belongs to the project undertaker.

Additionally, if the intellectual property rights obtained by the project undertaker are not implemented within a reasonable time period and without justifiable reasons, or if the state requires the intellectual property right for national security, national interests, or major social public interests, these rights may be implemented free of charge or licensed to others for either paid or free implementation.

(II) Ownership of rights to post-service scientific and technological achievements:

According to Article 6 of the Patent Law, an invention-creation that is made in the execution of tasks assigned by the entity or primarily utilizes the entity's material and technical resources shall be deemed as a service invention-creation. The right to apply for a patent for a service invention belongs to the entity. Upon approval of the application, the entity acts as the patentee who may dispose of its right to apply for a patent and the patent rights for a service invention in accordance with the law as well as promote the implementation and utilization of the relevant invention- creation.

(III) Ownership of rights to entrusted development of scientific and technological achievements:

According to Article 859 of the Civil Code of the People's Republic of China, the right to apply for a patent for an invention-creation made through entrusted development belong to the research and development party (i.e. the entrusting party) unless otherwise stipulated by law or agreed upon by the parties. If the entrusting party obtains the patent right, the entrusted party may implement the patent in accordance with the law. Therefore, the ownership of rights to entrusted scientific and technological achievements shall follow any agreement reached by the parties; in the absence of such an agreement, the rights belong to the entrusting party.

(IV) Ownership of rights to cooperatively-developed scientific and technological achievements:

According to Article 860 of the Civil Code of the People's Republic of China, unless otherwise agreed by the parties, the right to apply for a patent for an invention or creation completed through cooperative development belongs jointly to the parties involved in the cooperative development. This provision establishes the basic principle regarding the ownership of rights to the cooperatively developed scientific and technological achievements, namely, unless otherwise agreed upon by the parties, the scientific and technological

achievements resulting from cooperative development shall be deemed as jointly owned by all parties involved.

In practice, disputes over the ownership of intellectual property rights often arise in situations such as inadequate intellectual property systems among technological innovation entities, ambiguous contract stipulations, and the mobility of technological innovation personnel. To address these issues, applicable preventive measures may include: (1) anticipating potential ownership disputes and pre-emptively addressing institutional loopholes; (2) retaining evidence of intellectual property origin and ownership as well as improving the disclosure and registration of job-related scientific and technological achievements; and (3) strengthening contract review and personnel management related to intellectual property to ensure clarity in intellectual property ownership, explicit rights and obligations among all parties involved in the transformation of scientific and technological achievements, and well-defined boundaries between ownership and usage rights of scientific and technological achievements, thereby facilitating smooth implementation of the transformation of scientific and technological achievements.

Q56: 【Existing Patents】 How to screen valuable existing patents in universities and scientific research institutions?

A56: In the ‘Special Action Plan for the Transformation and Utilization of Patents (2023-2025)’ issued by the General Office of the State Council and the ‘Work Plan for the Revitalization of Existing Patents in Universities and Scientific Research Institutions’ jointly issued by the China National Intellectual Property Administration, ‘sorting out and revitalizing the existing patents in universities and scientific research institutions’ is identified as the primary task. That said, it is crucial to set clear requirements for incentivizing the transformation of patents in universities and scientific research institutions and improving the patent industrialization rate.

At the operational level, universities and scientific research institutions organize the screening of patents with potential market value by relying on the unified online registration and archiving on the National Intellectual Property Operation

Service Platform system, namely the National Patent Navigation Integrated service platform (www.patentnavi.org.cn). These institutions may also conduct inventories through their own platforms and upload the inventory results to the integrated service platform in a standardized format.

Screening valuable existing patents in universities and scientific research institutions is a crucial aspect of this process.

Firstly, the primary task of the screening work is to clarify and refine the screening criteria to establish a comprehensive evaluation framework that encompasses technology maturity, alignment with market demand, economic growth potential, and industrialization feasibility. Specifically, the work should focus on patent projects that are technologically advanced, have positive market responses, have significant expected economic contribution, and are easy to industrialize, as such patents often carry higher transformation value and social benefits.

Secondly, it is essential to fully utilize authoritative data resources such as the National Patent Navigation Integrated Service Platform to comprehensively and accurately understand the actual situation of the existing patents so that institutions may leverage big data and artificial intelligence technology for in-depth mining and intelligent analysis of patent information. This approach not only helps quickly identify potential high-value patent candidates but also provides solid data support for subsequent evaluation and transformation work.

In addition, the evaluation stage is a critical part of the screening process. Universities and scientific research institutions should establish a multi-level evaluation system that includes self-evaluation by inventors, internal evaluations within the entity, and external expert assessments, ensuring that the screening results align with technological development trends and closely follow market demand, thereby enhancing the scientificity and authority of the screening results.

Lastly, for the screened high-value patents, detailed transformation plans should be formulated to outline the transformation path, target market, and timeline. At the same time, attention should be paid to improving policy guidance and incentive mechanisms to create a more favorable external environment for patent transformation.

In practice, adopting a mature and market-oriented methodology for screening high-value patents is a key to identifying high-value existing patents, especially considering the following three aspects: (I) comprehensive screening dimensions, including technology, market, and legal assessments, as well as multi-party perspectives such as internal, competitive environment, and third-party views; (II) clear segmentation criteria for patent portfolios which defines reasonable segmentation granularity, priority levels, and executable action logic; and (III) reasonably setting weights between dimensions to avoid subjectivity in the screening process and the omission of key factors.

Q57: 【Open Licensing】 What factors shall be considered for the transformation of scientific and technological achievements utilizing patent open licensing?

A57: The Patent Law, implemented in June 2021, introduced the system of patent open licensing. Patent open licensing refers to a situation where the patentee submits a declaration of open licensing to the China National Intellectual Property Office (CNIPA) after the patent is granted which specifies the method and standard for paying licensing fees. Upon notifying the patentee in writing and paying the licensing fee according to the announcement, others may obtain a license to implement the patent.

Patent open licensing is an effective means to facilitate the circulation and commercial transformation of scientific and technological achievements. It generally requires consideration of various key factors to ensure the rationality and effectiveness of decision-making.

Firstly, it is necessary to conduct an in-depth assessment of the patented technology to determine the appropriateness of the patent open licensing. In particular, attention should be paid to its technological maturity, practicality, innovation, market positioning, as well as legal status, stability, enforceability, and application prospects of the patent intended for open licensing, ensuring that the patented technology has competitive advantages and transformation potential in the market.

Secondly, the costs and benefits of patent open licensing should be considered. On the one hand, it is important to fully account for the research and development costs, maintenance expenses, and licensing fees of patented technologies, among other input factors. On the other hand, maximizing economic benefits through reasonable pricing strategies and licensing models is crucial. Specifically, reference can be made to the Guidelines for Estimating Patent Open Licensing fee (Pilot) issued by the CNIPA in October 2022.

(1) Regarding the licensing rate, different scenarios can be considered: if the patented technology has been implemented, reference can be made to the patented product revenue, patent licensing statistics in the same industry, or the general international licensing rate. If the patented technology has been licensed to others for implementation, reference can be made to the ordinary license contract signed for that patent. If the patented technology has not been implemented, reference can be made to patent licensing statistics in the same industry or the general international license fee. If the patentee is the developer of the patented technology and has access to financial data from the R&D process, the cost method in asset valuation may be considered to estimate the open licensing fee.

(2) It is worth noting that the statistical data on ordinary patent licensing contracts published by the CNIPA over the years provide a reference basis for calculating open licensing fees.

(3) In terms of payment methods, options include a one-time lump sum payment, installment payments within the total payment amount, royalty payments, or a combination of upfront fees and royalties, or milestone payments.

(4) Regarding the licensing model, the patentee may consider reducing the initial burden on the licensee to promote the success of open patent licensing. For example, they can evaluate whether to set a threshold fee, offer a free license, or implement a pay-as-you-go model such as a model featuring post-payment, zero threshold fee, and revenue sharing.

Third, in terms of operation, it should be noted that patents in specific legal states are not eligible for open licensing. These include patents under exclusive

or sole licensing agreements, those suspended due to disputes over ownership, patents subject to preservation measures ordered by the people's court, patents with overdue annual fees, and pledged patent rights without the pledgee's permission.

Fourth, it is necessary to consider dispute resolution for the implementation of patent open licensing. According to the Measures for the Mediation of Disputes over the Implementation of Patent Open Licensing (for Trial Implementation) issued by the State Intellectual Property Office in July 2024, parties may voluntarily submit a written request for mediation to the State Intellectual Property Office. For patent owners, improving the terms and conditions of patent open licensing contracts will help prevent future disputes.

Q58: 【Foreign-related Transformation】 What intellectual property issues need to be paid attention to in the transformation of foreign-related scientific and technological achievements?

A58: The transformation of foreign-related scientific and technological achievements requires special attention to the following issues related to intellectual property:

I. Transformation of foreign-related scientific and technological achievements related to technology export

According to the Regulations on the Administration of Technology Import and Export, technology export refers to the transfer of technology from within China to abroad through trade, investment, or economic and technological cooperation. Such cooperation includes the transfer of patent rights, patent application rights, patent exploitation licenses, technology secrets, technical services, and other forms of technology transfer. Technologies are categorized into those that are free to export, those that are restricted from export, and those that are prohibited from export. The export of free technology must be registered and filed after the fact, while the export of restricted technology requires an application for a technology export license, with reviews based on the Catalogue of Technologies Prohibited and Restricted by China for Export.

It is important to note that foreign-related patent assignments and licensing involving Hong Kong, Macao, and Taiwan must also comply with technology export requirements. According to Section 6.7.2.2 of Chapter 1 of Part I of the Guidelines for Patent Examination, if a patent application for an invention or utility model is transferred by an individual or entity in the Mainland to a foreigner, foreign enterprise, or other foreign organization, a ‘Technology Export License’ or ‘Technology Export Contract Registration Certificate’ issued by the competent department of commerce under the State Council is required. Additionally, a transfer contract duly signed or sealed by both parties is required.

When an entity or individual within China implements an open patent license and foreigners, foreign enterprises, or other foreign organizations wish to implement it, they must also comply with the relevant provisions of the Regulations on the Administration of Technology Import and Export and the Administrative Measures for the Registration of Technology Import and Export Contracts.

II. National science and technology secrecy system

Article 106 of the Law on the Progress of Science and Technology stipulates that the State shall implement a system of secrecy in science and technology, strengthen the capacity for managing scientific and technological secrecy, and protect scientific and technological secrets related to national security and interests. The Provisions on the Confidentiality of Science and Technology detail the scope and level of state scientific and technological secrets, as well as the processes for their determination, alteration, dismissal, and management.

In the transformation of scientific and technological achievements, compliance with national scientific and technological secrecy requirements is essential. For example, according to Article 29 of the Provisions on the Confidentiality of Science and Technology, personnel involved in secrets must report to their respective organizations and units before participating in foreign scientific and technological exchanges, cooperation, and foreign-related business activities. They must also complete confidentiality review procedures before publishing papers, applying for patents, participating in academic exchanges, or engaging in other public acts.

III. Foreign-invested R&D centers

The Notice on Several Measures to Further Encourage Foreign Investment in the Establishment of R&D Centers, issued in January 2023, stipulates that R&D data from foreign-invested R&D centers shall flow across borders in accordance with the law. Additionally, it emphasizes the optimization of the administrative process for the foreign transfer of intellectual property rights and the import and export of technology. The management of technology import and export should be optimized, and facilitation arrangements for cross-border technology transfer within multinational enterprise groups should be studied.

IV. Compliance risks related to the export of intellectual property-related data

It is also crucial to pay attention to the compliance requirements for the export of intellectual property-related data that may be involved in the transformation of foreign-related scientific and technological achievements. These requirements include assessing whether the intellectual property-related data involves national scientific and technological secrets, whether it constitutes important data under the Data Security Law, whether it involves personal information, and whether it is necessary to comply with the data regulatory requirements of specific industries.

Q59: 【Pre-application Evaluation】 How to improve the pre-application evaluation of the transformation of scientific and technological achievements?

A59: Pre-application evaluation is an important prerequisite and key link for the transformation of scientific and technological achievements. It involves a multi-dimensional analysis of inventions and creations, improving the quality of patent applications, and facilitating the transformation and utilization of patents.

The Guidance issued by the General Office of the State Council on Improving the Evaluation Mechanism of Scientific and Technological Achievements, issued in August 2021, clearly aims to accelerate the reform of the evaluation of national scientific and technological project achievements. The acceleration involves

establishing a pre-application evaluation system for patents, increasing the evaluation weight of high-quality patent transformation and application performance, incorporating the strategic patent layout of enterprise patents into the evaluation scope, and moving away from simply considering the number of applications and grants as evaluation indicators. The Ministry of Education, the China National Intellectual Property Administration, and the Ministry of Science and Technology have also identified the establishment of a pre-application evaluation system as a key task to promote the transformation and utilization of scientific and technological achievements.

The main components of the pre-filing evaluation include:

1. Patent layout assessment: Analyze the development status and trends of the industry and technology related to the invention, identify hotspots and gaps in the technology field, and develop a hierarchical patent layout strategy.
2. Patentability assessment: Evaluate whether the technical solution has the potential for patent granting based on its novelty, inventiveness, and practicality.
3. Evaluation of technological advancement: Assess the industry status and technical value of the technical solutions within the relevant field.
4. Market-oriented prospect assessment: Consider industrial policy, market environment, industrialization prospects, industrial maturity, and expected economic benefits.
5. Evaluation procedure: Establish an evaluation team, submit technical information, conduct the evaluation, and formulate evaluation opinions.
6. Application of evaluation results: Use the evaluation results for patent application decision-making, patent layout planning, application document preparation, and implementation of transformation and application.
7. Relevant requirements: Include system requirements, scientific validity and applicability, confidentiality, and cost considerations.

In practice, the quality of patents in universities often presents a bottleneck that affects the transformation of scientific and technological achievements. Evaluating patent quality based solely on the number of applications or authorizations is insufficient. For instance, low-quality patents that are granted by merely stacking features can have their scope of protection easily circumvented by others using alternative technical means. Such patents cannot be legally enforced for rights protection and hold no economic value. Therefore, the key to pre-filing evaluation is to filter out low-quality patents while providing feedback to enhance the creation of high-quality applications.

In summary, the purpose of pre-application evaluation is to select high-quality patents with industrialization prospects for promotion and application, prevent the indiscriminate filing of patent applications, and ensure the maximization of patent value. This process requires not only technical considerations but also a comprehensive analysis from market and economic perspectives. Through such evaluations, the success rate of patent conversion can be effectively improved, and the commercial value of patents can be realized.

Reference:

Guidelines for Pre-application Evaluation of Patent Applications in Chongqing (1.0) issued in August 2024

Q60: 【Risk Management】 How to screen and manage intellectual property risks related to the transformation of scientific and technological achievements?

A60: The transformation of scientific and technological achievements is a complex process that moves from scientific and technological development to commercialization. This process spans a significant time frame and involves multiple parties, encompassing various aspects of intellectual property risks, which are as follow:

I. Risk of no intellectual property protection: The lack of protection for patents, trade secrets, and other intellectual property makes scientific and technological achievements susceptible to imitation and unauthorized use.

II. Ownership risk: Unclear ownership of scientific and technological achievements can lead to disputes over rights.

III. Stability risk: The legal status of intellectual property rights, such as patents, may be unstable and subject to invalidation.

IV. Risk of being circumvented: The scope of protection for intellectual property rights, such as patents, may be too narrow, allowing others to bypass them through alternative technological means.

V. Infringement risk: Scientific and technological achievements may fall within the scope of existing patents, exposing them to infringement lawsuits and potential compensation claims.

VI. Risk of unclear rights of action: If the ownership of the right of action is not clearly defined in the contract, there may be no recourse to sue in the event of a dispute.

To address these potential intellectual property risks, it is essential to conduct due diligence on the scientific and technological achievements slated for transformation which involves a comprehensive review of the patents, trademarks, copyrights, and other intellectual property rights associated with the achievements, thus confirming their legal status, ownership, and any potential legal disputes. For the transformation of foreign-related scientific and technological achievements, attention must also be paid to the regionality of intellectual property rights, the patent portfolio layout, and the protection status in different countries. Additionally, evaluating the technical stability of the scientific and technological achievements is crucial, including the stability of patents and the confidentiality of trade secrets.

In terms of risk management, it is important to enhance the relevant clauses in contracts for the transformation of scientific and technological achievements.

Key terms, such as ownership, usage, and transfer rights of intellectual property should be clearly defined to ensure that the rights and interests of both parties are adequately protected. Furthermore, a risk-sharing mechanism should be established to clarify responsibilities in the event of infringement or patent invalidation, thereby reducing potential legal risks. Additionally, when transforming scientific and technological achievements that involve trade secrets, confidentiality clauses should be strengthened in the contract to ensure that these secrets remain undisclosed.

Q61: 【Value Evaluation】 What should be paid attention to in the evaluation of patent value in the process of transformation of scientific and technological achievements?

A61: In the process of transforming scientific and technological achievements, accurately evaluating patent value is crucial to ensure transformation efficiency and maximize outcomes.

The National Standard of the Guidelines for Patent Evaluation, issued in September 2023, provides a systematic set of methods and indicators for assessing the legal, technical, and economic value of patents. These guidelines are applicable to patent evaluations conducted by enterprises, universities, scientific research organizations, financial institutions, and other entities in contexts such as patent license transfer, finance, financial reporting, infringement relief, and management. The document clarifies the general principles of assessment, which include scientificity, systematicity, operability, and expansibility principles. It elaborates on the composition of the evaluation index system, including first-level indicators (legal value, technical value, economic value) and second-level indicators, along with corresponding third-level indicators and extended indicators. The guidelines also provide methods for index selection and weight determination, such as expert judgment and the analytic hierarchy process, along with specific evaluation methods and index weight design examples for different application scenarios.

Additionally, the national standard includes formulas for calculating patent value and outlines the application methods of patent value in asset valuation using the

income method, cost method, and market method. The appendix contains examples of patent value analysis and evaluation indicators, examples of index weight design, and illustrations of patent value applications, which serve as references for practical operations.

In practice, the evaluator must ensure the legality, validity, and clarity of the patent's scope of protection by verifying the patent's grant status, checking for factors that may could potentially invalidate the patent, examining any ongoing invalidation lawsuits or infringement disputes, clarifying the protection scope defined by the patent claims, and assessing the potential for design circumvention. Ensuring that the patent's exclusive rights are effectively protected is essential to avoid potential invalidation and infringement risks. Only legally stable patents can provide a reliable foundation for subsequent commercialization.

Moreover, the evaluator needs to analyze the advancement, innovation, and market demand of the patented technology to determine its market competitiveness and application value. It is also important to consider factors such as technology substitution risks and market development trends to predict the future prospects of patented technologies. Only patents that align closely with market needs can provide a viable path for transforming scientific and technological achievements and yield significant economic benefits.

Additionally, the appraiser must avoid misconceptions about patent valuation. When applying asset valuation methods, such as the income method, cost method, and market method to patent valuation, it is crucial to fully consider the technological advancement and irreplaceability of the patented technology within its field. Failing to do so can lead to significant valuation discrepancies. Therefore, assessing patent value within the competitive landscape of patents, technologies, and market segments, as well as selecting the most relevant indicators for the patents being evaluated, will enhance the accuracy of patent value assessments.

Q62: 【Income Distribution】 What is the role of intellectual property rights in the distribution of income from the transformation of scientific and technological achievements?

A62: Income distribution is a crucial aspect of the transformation of scientific and technological achievements. After the transformation, a certain proportion of rewards and remuneration should be allocated to the individuals or teams responsible for these achievements. In practice, there are two main approaches to distributing benefits: empowerment before transformation or transformation before reward. For example, the notice of the ‘Pilot Implementation Plan for Giving Scientific Research Personnel the Ownership or Long-term Right to Use Scientific and Technological Achievements,’ issued by nine departments including the Ministry of Science and Technology, outlines the following main tasks:

(I) Give scientific research personnel the ownership of scientific and technological achievements.

The outcomes of this empowerment should have the following components: clear ownership, defined application prospects, clearly-identified undertaking entities, and a strong willingness among researchers to pursue transformation. The types of achievements include patent rights, computer software copyrights, exclusive rights related to integrated circuit layout designs, rights to new plant varieties, new varieties of biomedicine, and trade secrets. The pilot unit and the individuals or teams responsible for the scientific and technological achievements must sign a written agreement that specifies the income distribution proportions from the transformation, the decision-making mechanisms for transformation, the sharing of transformation costs, and the maintenance of intellectual property rights. This agreement should clarify the rights and obligations of all parties involved and ensure that any ownership changes or related formalities are handled promptly.

(II) Give scientific research personnel the long-term right to use scientific and technological achievements.

Pilot units can grant scientific research personnel the right to use these achievements for a minimum of 10 years. The pilot unit and the individuals or

teams involved must sign a written agreement to reasonably outline the income distribution and other terms. Under the condition that the researchers fulfill the agreement, demonstrate positive advancements in the transformation, and generate favorable income, the pilot unit may extend the term of the long-term usage rights.

(III) Implement distribution policies aimed at increasing the value of knowledge.

Pilot units should establish and enhance the income distribution mechanism for the transformation of scientific and technological achievements by ensuring that the income of scientific research personnel aligns with their actual contributions to these transformations.

The role of intellectual property rights in the income distribution from the transformation of scientific and technological achievements is reflected in the following aspects:

(I) Clear ownership boundaries: As legal rights, intellectual property rights provide clear ownership boundaries for scientific and technological achievements. Through the application and authorization process, creators and holders can establish clear ownership, reduce disputes and enhance transformation efficiency.

(II) Recognition of value: Acquiring intellectual property rights often signifies recognition of the technological advancement and market value of scientific and technological achievements. Such achievements are more likely to attract market interest and investor attention, thereby increasing their market valuation and competitiveness.

(III) Valuation as a basis for distribution: The valuation of intellectual property rights provides a scientific basis for income distribution from the transformation of scientific and technological achievements. Fair and reasonable benefit distribution is a key concern for all parties, and the valuation of intellectual property rights is essential in addressing this challenge.

(IV) Promoting cooperation and win-win outcomes: The use of intellectual property rights facilitates cooperation and win-win scenarios during the

transformation of scientific and technological achievements. By transferring, licensing, investing in, or collaboratively developing intellectual property rights, enterprises can attract more partners to participate in the transformation process, thus enabling resource sharing, complementary advantages, and collaborative innovation to ultimately promote a win-win mechanism among all parties involved.

Q63: 【Application Methods】 What are the application methods of intellectual property rights generated by the transformation of scientific and technological achievements?

A63: Article 16 of the Law of the People's Republic of China on Promoting the Transformation of Scientific and Technological Achievements stipulates that holders of scientific and technological achievements may adopt the following six methods to transform these achievements:

(I) Implement transformation through self-investment.

Enterprises or research institutions can directly invest in the transformation process by turning scientific and technological achievements into actual products or services. This approach ensures the efficiency of transformation and the market competitiveness of the achievements. Typically, the intellectual property rights of these achievements remain with the original holders, allowing them to realize the productization or servitization of their innovations through their own investment and, thereby, maintain control and potential economic benefits.

(II) Transfer the scientific and technological achievements to others.

Through contractual agreements, the ownership, usage rights, or income rights of scientific and technological achievements can be transferred to others, with or without compensation. This method maximizes the value of the achievements through optimal allocation of technical resources. The transfer may involve the ownership of intellectual property rights, including patent rights and copyrights. During the transfer process, a contract should be signed to clarify ownership, usage scope, and transfer pricing to protect the rights and interests of both parties.

(III) License others to use the scientific and technological achievements.

Holders of scientific and technological achievements can enter into licensing agreements to authorize others to use their innovations by facilitating widespread application and enhancing economic benefits without relinquishing ownership. The holder authorizes others the right to use their intellectual property rights through a licensing contract, such as the right to use patents, allowing others to utilize the achievements under specific conditions while retaining ownership and potentially receiving licensing fees.

(IV) Use scientific and technological achievements as a condition for cooperation, jointly implementing transformation with others.

Enterprises or research institutions can seek partners to collaboratively transform scientific and technological achievements. Through cooperation, all parties can share resources, mitigate risks, leverage their respective strengths, and enhance the conversion rate and market competitiveness of the achievements. In the cooperative transformation process, all parties may share or cross-license the intellectual property rights involved, facilitating resource integration and complementary advantages, thereby accelerating the transformation of achievements.

(V) Invest the value of scientific and technological achievements to convert them into shares or capital contributions.

Enterprises can convert scientific and technological achievements into shares or capital contribution ratios, forming new economic entities or increasing capital and shares with other investors. This method not only capitalizes on the scientific and technological achievements but also injects new momentum into the development of enterprises. The intellectual property rights can be treated as intangible assets and converted into shares or capital contributions, necessitating an evaluation of the intellectual property rights and clarification of their value and usage conditions in the cooperation agreement.

(VI) Other methods determined through consultation.

Methods such as franchising, exhibitions, conferences, and technical consulting also provide additional options for transforming scientific and technological achievements. These uses may involve non-exclusive rights, display, or consulting services related to the intellectual property, with the scope, duration, and costs needing to be specified in the contract.

In all these transformation methods, the management and protection of intellectual property rights are central to ensuring that the value of scientific and technological achievements is realized and maintained. The transformation process involves not only the technology itself but also the legal and compliant use of intellectual property rights.

CHAPTER VII

Standard Use and Legal Maintenance of Registered Trademarks

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Q64: 【Symbolic Use】 If a registered trademark encounters a cancellation raised by other party based on the mark's non-use in 3 consecutive years, can the registration be maintained if the mark was used in advertisements or exhibitions for a small amount during the specified three-year period?

A64: Paragraph 2 of Article 49 of the Trademark Law and Article 66 of the Regulations for the Implementation of the Trademark Law prescribe that if a registered trademark has not been used for three consecutive years without valid reasons, any individual or entity may apply to the Trademark Office to cancel its registration.

Furthermore, according to the relevant provisions outlined in the Guidelines of the Beijing High People's Court regarding Trademark Authorization and Confirmation Cases, as well as the Guidelines for Trademark Examination and Adjudication 2021, the symbolic use intended solely to maintain a trademark registration does not qualify as "use" under the Trademark Law; and the claim for maintaining the registration on that basis shall not be upheld.

In practice, if a registered trademark is only used in a limited number of advertisements or exhibitions during the specified period, with no other collaborative evidence, the administrative and judicial authorities tend to cancel the registration because such manners and frequency of use cannot effectively identify the source of the goods in the market and do not constitute authentic commercial use, but rather a "symbolic use" aimed solely to maintain the registration.

For maintaining a trademark registration, the contracts and invoices for making advertisements or attending exhibitions, as well as the brochures and samples for marketing purposes, together with the materials showcasing the mark use on products, containers, packages, labels and sales documents, can serve as a valid proof for the use from multiple angles.

Q65: 【Use inconsistent with registration - on goods】 If a registered trademark receives a non-use cancellation filed by another party but the goods actually sold by the registrant are inconsistent with the goods approved for registration by the Trademark Office, can the registration be maintained?

A65: Article 22 of the Trademark Law prescribes that when applying for registration, an applicant should follow the regulated goods subclassification system and use appropriate categories and names of goods.

Article 23 of the Trademark Law specifies that a separate application for registration should be submitted if a registrant wants to obtain exclusive rights for use beyond the approved goods.

Additionally, as outlined in relevant provisions of the Trademark Law, the Guidelines from the Beijing High People's Court Concerning the Trial of Cases Involving Trademark Rights, and the Guidelines for Trademark Examination and Adjudication 2021, the registrant is required to use its trademark within the scope of registration.

The goods that the registrant advertises and sells under a trademark must align with the scope approved at the time of its registration. If the trademark is used on part of the approved goods only, the registration can be maintained on the specific part of goods and on the approved goods similar to the ones in use. The similarity of goods is determined from their functions, purposes of use, production department, sales channels and target consumer groups which are commonly conveyed in *the Classification Book of Similar Goods and Services*. Should any updates on the book lead to any change in the assessment of goods similarity, the principle of benefiting the registrant shall apply, and the version of Classification Book that supports the maintenance of registration will be adopted.

It can be deemed a use of the approved goods if the goods in actual use are not standard commodity names listed in the *Classification Book*, resulting in surface inconsistency with the approved goods, but are essentially of the same kind or

nature with the approved goods, or if the goods in use are subordinate concepts of the approved goods. Instances of such an event include "lubricating oil versus lubricants" and "Chinese patent medicines" versus specific names of Chinese medicines.

If the goods in actual use are not of the same kind as and are not subordinate concepts of the approved goods, their use does not constitute a valid trademark use on the approved goods, even if the goods in use are similar to the approved ones.

The criteria for determining the use of approved services of service trademarks are fundamentally similar to those for commodity trademarks.

Regarding "promotion/sale of goods/services for others" in Subclass 3505 of Class 35 in the *Classification Book*, it is important first to clarify that if a goods provider sells products directly to consumers (either by itself or through distributors), the trademark in use is the commodity mark, other than a relevant service mark on "sales/promotion for others". Furthermore, according to the Guidelines from the Beijing High People's Court on the Trial of Cases Involving the Grant and Confirmation of Trademark Rights, as well as the Guidelines on the Application for Registration and Use of Service Marks in Class 35 issued by the State Intellectual Property Office, the following conditions are set:

- "Promotion/Sale for others" refers to providing services such as advice, planning, promotion, and consultation to facilitate the sale of goods or services to other parties. The target receivers of these services should be the providers and distributors of goods or services. This definition excludes the situation where the goods or services are sold directly to consumers through retail or wholesale channels so that profits are derived from price differences.
- In conjunction with the evidence presented in cases, if shopping malls, supermarkets, and other business entities can prove that they cooperate with commodity suppliers by providing venues and other forms of support, and also offer promotional plans, promotional posters, press promotional advertisements, and relevant consultation services, where their advice, planning, promotion, and consultation services to the commodity suppliers

can be confirmed, their activities are considered a lawful trademark use under the Trademark Law.

Q66: 【Use inconsistent with registration - on trademark】 In a non-use cancellation (in), if the trademark image in actual use differs from the sign approved for registration, can the registration be maintained?

A66: According to Article 24 of the Trademark Law, if a registrant wants to change the sign of its registered trademark, a new application for registration shall be filed.

Paragraph 1 of Article 49 outlines that if a registrant alters the registered trademark, the registrant's name or address, or any other registration details while using the mark, the local administrative department for industry and commerce will require the registrant to make rectifications within a specified timeframe. If the registrant fails to correct the issues within the period, the Trademark Office should cancel the trademark registration.

Based on this, the actual representation of the trademark used by the registrant should be the same or substantially similar to the form that was approved at the time of registration.

At the same time, according to the relevant provisions of the Beijing High People's Court on Several Legal Issues Requiring Attention in Current Intellectual Property Adjudication, the purpose of establishing the non-use cancellation system is to encourage and supervise registrants' trademarks use as well as return idle trademark resources to the public domain rather than punishing the registrants. Therefore, the principle of preponderance of evidence should be adhered to, and the examination of evidence of use shall not be too stringent.

The current administrative and judicial practice on case review is consistent with the interpretation of this legislative purpose. Article 26 of the Provisions of the Supreme People's Court on Several Issues Concerning the Trial of Administrative Cases Involving the Grant and Confirmation of Trademark Rights clearly states

that "if the difference between the registered form and the sign in use is minor so that the distinctive features of the registration do not change, it shall be regarded a valid use of the registered mark". In addition, according to the relevant provisions of the Guidelines for Trademark Examination and Adjudication 2021 on non-use cancellation, the following circumstances shall not be regarded as a lawful trademark use under the Trademark Law:(3) the use that alters the dominant part and distinctive features of a registered trademark.

In other words, under the non-use cancellation system, the requirements for the form of use of a registered trademark are relatively tolerant; and minor adjustments that do not change the dominant part and distinctive characteristics of a registered mark will be regarded as a legal use of the mark. However, once the distinctive part of the registered mark is changed and the change leads to significant visual differences, it does not constitute a valid use of the original registered mark.

When the Beijing Administrative Final No. 3983 cancelled the trademark "NATURONE" in 2018, the Beijing High People's Court held that the trademark actually used by the registrant was "'Infinite Energy' in Chinese & NATURONE", with the Chinese part "Infinite Energy" as its distinctive identifier; and that it would be difficult for consumers to associate the sign in use with the disputed mark and the same source of goods. The registrant's use changed the main distinctive part of its registered mark, and the registration was thus cancelled.

Based on all the above, enterprises should apply for registration using the trademark images that they plan to use. The actual manners of use shall be consistent with the registered forms. Subsequently, if the trademark reproductions need to be significantly changed, a new application for registration should be submitted in a timely manner.

Q67: 【Non-public Use – Preparatory Stage】 With a non-use cancellation (in), if the registrant made continuous preparations for its trademark use in the disputed 3 years but started the trademark use after that, can the registration be maintained?

A67: According to the relevant provisions and rulings of the Beijing High People's Court on the Trial of Trademark Grant and Confirmation Cases and the Guidelines for Trademark Examination and Adjudication 2021, the internal preparatory activities that are only carried out by the registrant for production, sales, and publicity purposes, within the specified time limit which are unknown to the relevant public is not an open commercial use and, thus, cannot play the role of distinguishing the providers of goods/services. Such a use does not constitute a valid trademark use under the Trademark Law.

In addition, Article 26 of the Provisions of the Supreme People's Court on Several Issues Concerning the Trial of Administrative Cases Involving the Grant and Confirmation of Trademark Rights stipulates that if the trademark owner has a genuine intention to use the trademark and has made the necessary preparations for its actual use, but has not actually used the mark due to other objective reasons, its legitimate reasons can be accepted.

According to the relevant provisions of the Guidelines of the Beijing High People's Court on the Trial of Cases Involving the Grant and Confirmation of Trademark Rights and the comments of the Beijing High People's Court in Beijing Administrative Final Judgement No.1531 of 2020, if the evidence of use is limited during the disputed period of time but the case evidence can prove a genuine intention to use and necessary preparations already made for use, and especially if there is continuous and abundant trademark use post the disputed period, the authorities can have a comprehensive examination on the evidence of use during and after the period to decide whether it constitutes a valid commercial use.

In practice, preparatory activities for the use of a trademark during the specified period may include product research and development materials related to the registered trademark, purchase materials of raw materials/containers or

packaging materials of the goods, product quality testing reports, product launch records or approval documents, venue rental documents required for products manufacture, promotion or sales activities, pre-publicity advertisements for new products or services, and other media platforms' introductions to the products. Another intrinsic requirement of the "necessary preparations" is that the registrant can prove, with valid evidence of use, its authentic, open and legal commercial use after the disputed period of time.

Q68: 【Non-public Use—Transaction with Related Parties】 With a non-use cancellation in, if the registrant used its trademark in transactions with its related entity and kept the transaction proof, can the registration be maintained?

A68: Article 48 of the Trademark Law stipulates that the lawful use of a trademark refers to the use of a trademark on products, packages or containers, and commodity transaction documents or the use of a mark in advertising, exhibitions, and other commercial activities to identify the source of goods.

The "trademark use" defined in this law refers to public, authentic, legal, and commercial use of a mark that enters the market circulation field and can distinguish the source of goods or services. Accordingly, it is difficult for the registrant to prove that the trademark is accessible to the relevant public; nor can it prove that the trademark actually serves to distinguish the source of goods/services, and so the registration cannot be maintained. In Beijing 73 Administrative 1st instance Judgement No. 4685 of 2019 which cancelled the trademark "LETTS", the Beijing Intellectual Property Court stipulated the following points: the registrant acted as both the supervisor of the seller and the legal representative and shareholder of the buyer in the same transaction; and the sales documents per se could not prove that the disputed mark had entered the commercial circulation, and thus could not prove the public use regulated by the Trademark Law. As a result, the registration of the disputed mark was cancelled accordingly.

Q69: 【Trademark License or Assignment during the Dispute Period】

With a non-use cancellation in, if the registrant licensed or assigned the disputed mark to others during the disputed 3-year period, can this maintain the registration?

A69: According to Articles 48 and 49 of the Trademark Law, the evidence of trademark use submitted by the registrant in non-use cancellation cases should be able to prove that the trademark was put in public, authentic, and legal commercial use in the disputed period, and indeed plays the role of distinguishing the source of goods and services.

The Guidelines for Trademark Examination and Adjudication 2021 also stipulate that the following circumstances shall not be regarded as valid trademark use under the Trademark Law:(4) there is only a trademark assignment or license but no actual trademark use.

Therefore, if only trademark license or transfer documents are submitted and there is no evidence proving actual trademark use, the registration cannot be maintained.

Further, if the disputed mark was licensed or transferred to others in the disputed period of time:

- If the trademark licensor (registrant) and the assignor (original registrant) have lawful trademark use during the dispute period, the relevant evidence can be used to maintain the registration of the trademark.
- The evidence of the licensee's use during the dispute period, if any, shall be submitted by the registrant together with the relevant License Agreement, the Approval Notification of License issued by the Trademark Office, or other authorization documents to form a complete chain of evidence. Relevant provisions of the Guidelines for Trademark Examination and Adjudication 2021 stipulate that: the burden of proof is on the registrant, and the use of the disputed mark by other entities shall be permitted by the registrant or not

contrary to the will of the registrant, and in case of a trademark license, the registrant should be able to prove the existence of a license relationship. Thus, if the registrant only submits the evidence of its licensee's use with no authorization documents, the use may still be considered irrelevant with the registrant or not permitted by the registrant.

- After the assignment of the disputed mark, the assignee (the current registrant) shall bear the burden of proof and submit the evidence for trademark use. The current registrant can also obtain relevant evidence of use made by the previous registrant during the dispute period, if any, and submit it altogether.

To sum up, enterprises should reserve proof of trademark use in case of trademark license or assignment and coordinate all relevant parties to perform collective evidence collection and response filing if they receive a non-use cancellation against their mark.

Q70: 【Impact of Trademark Non-use Cancellation on the Plaintiff's Rights to Sue】 If a registered trademark is cancelled due to "non-use for three consecutive years", can the trademark owner still sue others for trademark infringements?

A70: Paragraph 2 of Article 49 of the Trademark Law of the People's Republic of China specifies that where a registered trademark becomes a generic name of the commodities for which it is approved, or that a registered trademark has not been used for three years consecutively without any valid justification, any entity or individual may apply to the Trademark Office for the cancellation of the said mark. Article 55 of the Trademark Law of the People's Republic of China specifies that upon expiry of the statutory period, where the concerned party does not apply for a review of the decision of the Trademark Office on cancellation of a registered trademark, or does not file a lawsuit against the review decision made by the Trademark Review and Adjudication Board, the cancellation decision or review decision shall take effect. The cancelled registered trademarks shall be gazetted by the Trademark Office, and the exclusive rights of the registered trademarks shall be terminated as per the gazette date.

Unlike a registered trademark that is declared to be invalid, when a registered trademark is cancelled due to “non-use for three consecutive years”, the effect of the exclusive right to use the trademark is not invalid *ab initio*, but rather is terminated as per the date of the "cancellation gazette" by the Trademark Office. In other words, if the Trademark Office has not yet made a decision on the "application for cancellation of non-use for consecutive three years", or if the trademark owner has filed a cancellation review or an administrative lawsuit against the aforesaid decision, **there is still a legal basis for the trademark owner to claim the exclusive rights of the registered trademark, enjoy the right to file a lawsuit against others' trademark infringements, and even enjoy the right to require the infringers to cease infringements and pay compensation under certain conditions so long as the Trademark Office has not made a "cancellation gazette".**

In the retrial case of "Miao Fang Qingyan Trademark Dispute"²⁴, the Jiangsu Higher People's Court held that, “Although the Trademark Office decided to cancel the “Miao Fang Qing Yan” registered trademark due to its non-use for three consecutive years, the trademark owner refused to accept the decision and filed an application of cancellation review, which was accepted by the Trademark Review and Adjudication Board, and the disputed trademark has entered the review stage of trademark cancellation. Therefore, the cancellation decision made by the Trademark Office has not taken effect. Before announcing the cancellation gazette, the trademark owner still has the right to file a lawsuit. Even if the “Miao Fang Qing Yan” registered trademark has not actually been put into commercial use, the trademark owner still enjoys the right to request the infringers to cease infringements.”.

Similarly, in the retrial case of "Honeysuckle Trademark Dispute"²⁵, the Zhejiang Higher People's Court held that, "since the No. 603857 'Honeysuckle' mark, which was the basis of Bili Company's litigation rights in this case, had been cancelled by the Trademark Review and Adjudication Board at the time of its lawsuit and had taken legal effect, Bili Company lacked factual and legal basis for filing this lawsuit, and its litigation claim cannot be supported."

24 (2019) Su Min Shen No. 3375 Civil Judgment

25 (2023) Zhe Min Zai No. 89 Civil Judgment

It is worth noting that even if the infringement lawsuit filed by the right holder is accepted by the court since the asserted trademark has not been cancelled with a "cancellation gazette", when the asserted trademark is eventually cancelled during the subsequent trial process, it means that the right holder has lost its right base. Even if the accused infringement is still ongoing at the time, it is difficult for the court to support the right holder's claim to stop the infringement because the right holder will no longer enjoy any exclusive right to the trademark in the future.

In this situation, the right holder needs to comprehensively assess the risks of the cancellation of the asserted trademark and its actual needs, and decide whether to apply for a "backup trademark" of the same class in a timely manner. If the "backup trademark" is successfully registered before the cancellation of the aforesaid asserted trademark, the right holder may, before the expiration of the time limit for presenting evidence, or at the latest before the end of the court debate, change the claim and add the "backup trademark" as the legal basis to claim the infringer to cease the infringement.

Q71: 【Impact of Trademark cancellation on Compensation claims for Infringement】 If a registered trademark is cancelled due to "non-use for three consecutive years", can the trademark owner claim compensation against the infringements committed during the validity period of the trademark?

A71: Article 64 of the Trademark Law of the People's Republic of China stipulates that "if the trademark owner claims compensation, and the alleged infringer raises a defense on the ground that the asserted trademark has not been actually used, the court may require the trademark owner to provide evidence of the actual use of the registered trademark within the previous three years. If the trademark owner fails to provide evidence to prove the asserted trademark has been used within the previous three years, nor can it prove that it has suffered other losses due to the infringement, the alleged infringer shall not be liable for compensation."

There are different interpretations of the starting point of "preceding three years" in the above-mentioned clauses in China's judicial practice. One is that the "before" term refers to the date on which the court accepted the first-instance lawsuit or the date on which the lawsuit was filed, and another one is the "before" term refers to the date on which the infringement occurred.

In the retrial case of "MLS and Figure Trademark Infringement Dispute"²⁶, the Supreme People's Court held that, "the three years provided for in Article 64 of the Trademark Law that the registered trademark has not been used for three years, and the accused infringer shall not be liable for compensation shall be counted from the time of the infringement. If the registered trademark owner has not used the registered trademark in the previous three years at the time of the infringement, the accused infringer shall not be liable for compensation." In the second-instance case of "Kweichow Moutai Trademark Infringement Correction"²⁷, the Guangdong Higher People's Court held that "since the right holder did not provide evidence to prove that it used the asserted trademark within three years before the filing of this case, nor could it prove other losses suffered by it due to the infringement, the alleged infringer does not need to be liable for compensation for the infringement of the trademark in question."

"The life of a trademark lies in its public use, and the value of a trademark lies in its public circulation." In the daily operation of the trademark owner, it should first maintain the true and standardized use of its registered trademark. In addition, before filing a lawsuit against others, the right holder should carefully assess whether its right base is stable, whether or not it has fully understood the use of the right trademark, and retains effective evidence of use, to deal with the risk of "three-year non-use cancellation" that may be raised by others.

If, in the course of the litigation, the applicant applies for "non-use cancellation", the right holder should play a "combination punch", actively organize use evidence for effective defense, cancellation review and administrative litigation, and, in the meantime, consider the necessity to apply for a "backup trademark" in a timely manner in light of the cancellation risk and actual business needs. That

26 (2021) Supreme Law Min Shen No. 3058 Civil Judgment

27 (2019) Yue Min Zhong No. 2618 Civil Judgment

way, it may not only keep the legal rights in a valid and stable status of the registered trademark, but also realize its own legitimate rights protection and effectively deal with the "maliciously" cancellations of others.

Q72: 【Bad Faith Trademark Cancellation Claim】 Can the registered trademark owner claim compensation for the damage suffered by others who abuse the trademark administrative procedure to file for trademark cancellation maliciously?

A72: China adopts the trademark registration acquisition system, that is, the application and registration of trademarks do not need to prove that the trademark has been put into use or the applicant has the intention to use it, the mark is registered by the entity that first filed the application, which also causes a large amount of hoarding and waste of trademarks. As of June 2024, the number of valid registered trademarks in China reached 4,590,900. To clear registered trademarks that have not been used for a long time, the second paragraph of Article 49 of the Trademark Law of China stipulates the "non-use cancellation for consecutive three years" system.

The original intention of the trademark "non-use cancellation" system is to encourage and urge trademark owners to use registered trademarks and avoid idle trademark resources actively. However, in some cases, the system may become a tool for others to "abuse the non-use cancellation" to "retaliate" against the right holder. In addition, China's trademark law does not set too many requirements or restriction conditions on the filing of "non-use cancellation", and any entity or individual can apply for cancellation of the trademark after three years of registration. Compared to the "effortless initiation of the non-use cancellation of the third party", the right holder needs to invest more time and money to collect actual use evidence and make a defense, and if it encounters a continuous large-scale "retaliation" revocation by others, it will be even more difficult to deal with it. Then, when others abuse the non-use cancellation, does the trademark owner have the right to claim that this act constitutes infringement and claim compensation?

In the trademark infringement dispute case of Brita GmbH ("Brita") v. Shanghai Kangdian Industrial Co., Ltd. ("Kangdian"), the ²⁸ Court held that Kangdian's malicious preemptive registration of similar trademarks and multiple rounds of opposition and invalidation against Brita's trademarks constituted an act of unfair competition of "malicious preemptive registration and abuse of opposition procedures", and accordingly, for Brita's direct economic losses incurred by these unfair competition acts, the court supported the compensation amount as appropriate. In the case of Emerson Electric Company v. Xiamen Hemeiquan Drinking Water Equipment Co., Ltd. and Wang Yiping, the ²⁹ Court held that the defendant had applied for the registration of trademarks identical or similar to the plaintiff's trademark for a long time, but had no real intention to use it. The infringement had obvious malice, resulting in the plaintiff needing to continuously protect its legitimate rights through trademark opposition, invalidation, and even administrative litigation, as well as investing a lot of time and money. The defendant's acts also interfered with the plaintiff's production and operation to a certain extent, violated the principle of good faith, and disrupted the market competition order. The Court finally ordered the defendant to stop the preemptive registration of the same or similar trademark against the plaintiff's trademark and fully considered the costs incurred by the plaintiff to stop the malicious preemptive registration when awarding compensation. By analogy, can the trademark owner claim that the "abuse of the non-use cancellation" by others constitutes unfair competition and claim compensation?

Firstly, one of the prerequisites for unfair competition is that both parties are competitors in the same industry or have a competitive relationship in the market. Secondly, the defendant must have committed acts that infringe on the plaintiff's competitive rights and interests. As pointed out in the judgment of Brita case, , "the defendant's malicious preemptive registration and abuse of opposition procedures are part of its large-scale and comprehensive infringement acts, which serve the overall purpose of infringement, and its essence is to free-riding the goodwill of the plaintiff and its brand, and to set up obstacles to interfere with the plaintiff's normal business activities with other infringing acts, to destroy the plaintiff's competitive advantage and establish its own competitive advantage".

28 (2017) Hu 0112 Min Chu No. 26614 Civil Judgment

29 (2021) Min Min Zhong No. 1129 Civil Judgment

In the Emerson case, the judgment also referred to the defendant's infringement of the temporary use of a preemptively registered trademark on its website. The Beijing High People's Court further clarified in the "Afton" case³⁰ that litigation claims brought against simple trademark squatting do not fall within the scope of civil litigation. It is thus suggested that the current mainstream view is still that simple malicious squatting does not belong to unfair competition regulated by the anti-law.

When the above-mentioned cases are applied by analogy to the case of "abuse of the non-use cancellation procedures", it is also necessary to analyze the facts of the case as a whole and the other tortious acts of the non-use cancellation applicant. If the other party only keeps initiating the non-use cancellation for "retaliation", but there is no other infringement or act of freeriding the goodwill of the trademark holder or destroying its competitive advantage, there are still great challenges in the current judicial practice to claim unfair competition and claim compensation for such a single act of non-use cancellation. However, even so, when the right holder encounters the "retaliatory non-use cancellation" of others, to protect the normal operation of the enterprise and the use of the right trademark from continuous interference, it can still try to file a lawsuit with the court to seek a breakthrough and protect its legitimate rights and interests to the greatest extent.

Q73: 【Overall Strategy for Coping with Non-use Cancellations】 How to reduce the risk of non-use cancellations? And how to effectively cope with non-use cancellations filed by others?

A73: Since any entity or individual may apply to the Trademark Office for cancellation of a registered trademark that has not been used for three consecutive years in accordance with Paragraph 2 of Article 49 of the Trademark Law and Article 66 of the Regulations for the Implementation of the Trademark Law, registrants cannot prevent others from filing an application for cancellation, but can reduce the risk of the trademark being cancelled through legal use and active maintenance initiatives.

30 (2021) Jing Min Zhong No. 497 Civil Judgment

The first of such initiatives is to plan ahead for the registration and use of their trademarks. Before submitting the application for registration, the specific form of use of the trademark and the specific goods/services designated should be clarified, and the consistent trademark image and goods/services should be used in the application filing. The corresponding evidence of use should be preserved after registration.

The second measure is to set up an internal evidence collection process. Under the current non-use cancellation mechanism, the most important evidence is the sales and advertising documents, and the completeness of the evidence chain is critical. It is recommended to do the following: coordinate the legal, marketing, sales, accounting, and logistics departments within the enterprise; archive the advertising, exhibition, sales, trade and logistics evidence related to the trademark, and; pay attention to the matching and correlation between the materials of different departments.

After receiving the Notice of Providing Evidence of Use for Non-use Cancellation from the Trademark Office, the following conditions may apply:

- If the registrant decides to maintain the trademark, it shall respond to the Trademark Office within the statutory time limit (two months from the date of receipt of the notice) by either explaining the justifiable reasons for non-use during the dispute period (usually objective reasons such as force majeure, policy restrictions, bankruptcy liquidation and relevant supporting materials) or submitting relevant evidence for actual use of the mark.
- If the disputed mark is important but the evidence of use is insufficient, it is still necessary to collect relevant evidence of use in preparation for responding to the Trademark Office. It is also recommended to conduct background check against the counterparty and seek a possible amicable settlement where the circumstances allow.
- Upon receipt of the Notice, an internal check should be conducted. If the disputed mark is found no longer in use, a further check should be performed into the pending legal cases. The registrant can refrain from responding to the

Trademark Office if the disputed mark is not cited in any live cases. As a result, the disputed mark will be cancelled.

CHAPTER VIII

Practical difficulties in the recognition of well-known trademarks

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Q74: 【Principle of On-demand Recognition of Well-known Trademarks】 How do we understand the ‘principle of on-demand recognition’ of well-known trademarks? What are the situations in which the Trademark Office adheres to the ‘principle of determination on demand’ in its daily trial?

A74: The three principles for recognizing well-known trademarks are the principle of individual identification, the principle of recognition on demand, and the principle of good faith. The ‘principle of recognition on demand’ states that if a party's trademark necessarily requires protection as a well-known trademark under Article 13 of the Trademark Law, the trademark registration authority may assess whether the trademark is indeed well-known. However, if other provisions of the Trademark Law are applicable to protect the party's trademark based on the available evidence, or if the registration and use of the disputed trademark will not confuse or mislead the public—thus potentially causing harm to the party's interests—the registration authority is not obligated to determine whether the trademark is well-known. In essence, recognizing a well-known trademark should be necessary for ‘handling the case’, and not for any other reason.

As practices surrounding the recognition and protection of well-known trademarks have become more standardized, understanding the ‘on-demand recognition’ principle has deepened. The concepts of ‘necessary for the case’ and ‘necessary for handling the case’ have been increasingly emphasized, aligning the interpretation of ‘need’ with the intent of the well-known trademark recognition system. A consensus has emerged in trademark authorization and confirmation practices: implementing the ‘on-demand recognition’ principle should be both protection-oriented and results-driven. In recognizing well-known trademarks, it is essential to adhere not only to the premise of ‘necessary to handle the case’ and ‘meeting statutory requirements’ criteria but also to the ‘no relief can be achieved after exhausting all other means’ criterion.

During the examination of trademark opposition cases, non-registration reviews, and invalidation cases, if parties claim that the disputed trademark and their previously registered or applied trademark are similar on identical or related

goods or that the disputed trademark was obtained through improper means. They further assert that the disputed trademark is a copy, imitation, or translation of a well-known trademark registered in China; the Trademark Office examiner will assess whether or not the evidence on record can be protected under other provisions of the Trademark Law. If the evidence supports the protection of the concerned party's trademark through these other provisions, the examiner does not need to determine whether the trademark is well-known.

Q75: 【Use of well-known trademarks】 Can a well-known trademark be used in advertising? What is a factual statement about a well-known trademark?

A75: Paragraph 5 of Article 14 of the Trademark Law states that ‘producers and operators shall not use the words ‘well-known trademark’ on goods, packaging or containers, nor in advertising, exhibitions, or other commercial activities.’ Additionally, Article 53 of the Trademark Law specifies that ‘anyone who violates the provisions of paragraph 5 of Article 14 of this Law shall be ordered to correct the violation by the local administrative department for industry and commerce and may be fined up to 100,000 yuan.’ Clearly, the term “well-known trademark” cannot be used in advertising or other commercial activities, including when a third party is entrusted with such publicity. Violating this rule constitutes a ‘general trademark violation’, but this does not mean that the term ‘well-known trademark’ cannot be used at all.

In 2016, the Trademark Office of the former State Administration for Industry and Commerce (SAIC) clarified in its response regarding the use of the term ‘well-known trademark’ on enterprise websites by stating that ‘if an enterprise makes a factual statement on its website or in other business activities regarding the expanded protection of a well-known trademark, without prominently featuring the term ‘well-known trademark,’ it does not constitute an illegal act under Article 14.5 of the Trademark Law.’ In 2019, the State Intellectual Property Office issued a notice emphasizing the need to regulate the recognition, application, and use of well-known trademarks in a limited manner, stating that ‘enterprises may make factual statements about their trademarks’ well-known status in their business activities.’

However, there is no clear definition of what constitutes a factual statement regarding a well-known trademark, making it challenging to delineate boundaries in practice. A less controversial approach would be to provide a truthful account of the facts surrounding the determination of well-known status and the content of any relevant judgment documents, without emphasizing the term ‘well-known trademark’. However, any attempt to use the term ‘well-known trademark’ as an honorary title and prominently feature it to promote the enterprise or its goods or services, or to mislead consumers about the quality and characteristics of the products, exceeds the legal boundaries of factual statements or fair use.

Q76: 【Whether the trademark is registered and the time of use】 Can a trademark be protected if it has not been applied, has just been applied for, or has just been registered?

A76: According to paragraphs 2 and 3 of Article 13 of the Trademark Law, unregistered (including unapplied or newly applied) and registered (including newly registered) trademarks can apply for recognition and protection of well-known trademarks. In practice, there have been several cases in which unregistered well-known trademarks have been protected, such as the trademark infringement and unfair competition dispute between The Commercial Press Co., Ltd. and Chinese Language Teaching Press Co., Ltd. heard by the Beijing Intellectual Property Court³¹, and the trademark infringement dispute between Château Lafite Rothschild and Shanghai Baozu Industrial Development Co., Ltd. heard by the Shanghai Intellectual Property Court³².

However, the time for evidence of trademark use requested for unregistered and registered trademarks differs. For an unregistered trademark or a newly registered trademark that applies for well-known trademark protection, the actual continuous use of the trademark is necessarily longer, and the form of evidence of use is more stringent in practice, as stipulated in Article 9 of the Provisions on the Recognition and Protection of Well-known Trademarks and Q78 of this part.

31 (2016) Jing 73 Min Chu No. 277

32 (2015) Hu Zhi Min Chu Zi No. 518

Q77: 【Recognition Channels】 What are the ways to apply for recognition of well-known trademark protection?

A77: According to paragraphs 2, 3, and 4 of Article 14 of the Trademark Law, there are two primary channels for requesting recognition of well-known trademarks: administrative recognition and judicial recognition.

Administrative recognition measures include: (1) trademark registration examination procedure, which specifies that the Trademark Office of the State Intellectual Property Office will recognize requests for well-known trademark status in trademark opposition cases and subsequent non-registration reviews; (2) administrative investigations of trademark infringement cases which specify that the intellectual property management department at or above the municipal level will conduct a preliminary review of the well-known trademark identification materials submitted by the applicant. If the requirements are met, the case will be filed and submitted to the provincial intellectual property management department for verification and review. If it passes, a written request will be sent to the State Intellectual Property Office for confirmation, which will then make the decision, and (3) trademark disputes, which specify that the Trademark Office of the State Intellectual Property Office will determine requests for well-known trademark status in trademark invalidation cases during disputes.

Meanwhile, judicial recognition measures include (1) trademark civil litigation, which requires that requests for recognition of a well-known trademark must be made to a court with jurisdiction as designated by the Supreme People's Court; (2) trademark administrative litigation, which specifies that in cases of administrative litigation related to non-registration reviews and invalidation, requests for well-known trademark recognition are handled by the Beijing Intellectual Property Court, the Beijing High People's Court, and the Supreme People's Court during first-instance, second-instance, and retrial procedures, respectively.

In practice, the recognition of well-known trademarks follows the principle of 'case-by-case recognition and passive protection.' To promote the public's understanding that 'recognition of a well-known trademark does not confer a

specific honor upon the trademark, nor does it guarantee the quality of the associated products or services,' the emphasis on the term 'well-known trademark' is gradually reduced in registration examination and dispute resolution procedures. Instead, protection is generally provided directly under well-known trademarks' legal provisions, specifically Article 13 of the Trademark Law.

Q78: 【Evidentiary Requirements for the First Recognition of a Well-known Trademark】 How long does it take to provide evidence of trademark use when seeking recognition of a well-known trademark? How do you provide evidence of use for promotions, sales, etc.?

A78: Paragraph 1 of Article 14 of the Trademark Law stipulates that a well-known trademark shall be determined as a fact that needs to be determined in handling a trademark case at the parties' request. The following factors shall be considered in determining a well-known trademark: (I) the degree of awareness of the trademark by the relevant public; (II) **the duration of use of the trademark**; (III) the duration, extent, and geographical scope of any publicity work performed for the trademark; (IV) a record of the trademark being protected as a well-known trademark, and; (V) Other factors that make the trademark well-known.

Regarding evidence of the duration of trademark use, Article 9 of the Provisions on the Recognition and Protection of Well-known Trademarks specifically stipulates the duration of the continuous use of a trademark. The stipulation specifies that the right holder is required to provide evidence of the use of the trademark for no less than five years, with the time nodes being as follow: before the date of the application for registration of the trademark that is opposed, before the date of the application for registration of the trademark for which the request for invalidation was filed, before the infringement occurred, and before the date of the request for protection of other well-known trademarks.

Although there are no special **provisions regarding the determination of civil cases**³³, the right holder will generally submit evidence of trademark use for at

33 《Interpretation of the Supreme People's Court on Several Issues Relating to Laws Applicable to Trial of Civil Dispute Cases Involving Protection of Well-known Trademarks》 Article 5 Where a party concerned claims that its trademark is well known, it

least five years. In case of special circumstances, the court will, depending on the specific circumstances of the case, point out the following: that the factors stipulated in Article 14 of the Trademark Law should be comprehensively considered; that the characteristics of the goods and industries involved in the well-known trademark should be objectively and comprehensively determined, and; that the Provisions on the Recognition and Protection of Well-known Trademarks on the duration of three or five years should not be applied mechanically³⁴ **For publicity and sales evidence**, the right holder may submit the following types of evidence materials based on its own circumstances, including but not limited to audit reports, sales contracts and invoices, market share reports, industry rankings, media publicity reports, contracts and bills related to celebrity endorsements, advertising investment, content, awards and recognitions, protected records, etc.

In practice, it is not advisable for the right holder to pile up evidence based on the quantity alone but should pay attention to the relevance of the above different types of evidence to the trademark, and emphasize that the evidence can corroborate each other, and that it is **appropriate to reflect the publicity or sales of the trademark**. If conditions permit, the right holder may prepare relevant special audit reports and provide tax payment vouchers for the trademark claiming well-known protection, which is in a direct form and is highly recognized by the court.

shall provide the following evidences according to the specific circumstances of the case to prove that its trademark was already well known at the time of occurrence of the accused trademark infringement or unfair competition act:

- (I) market share, sales territory, profits and taxes, etc. of the commodities for which the trademark is used;
- (II) time of continuous use of the trademark;
- (III) means, duration, degree, capital contribution and territorial scope of the publicity or sales promotion activities of the trademark;
- (IV) records that the trademark has been protected as a well-known trademark;
- (V) market reputation of the trademark; and
- (VI) other facts that prove that the trademark is already well known.

The time, scope and method of the use of the trademark as mentioned in the preceding paragraph shall include the continuous use of the trademark prior to the approval of registration.

With regard to such evidences as the length of time of use of the trademark, its ranking in the industry, market survey report, market value assessment report, and whether it has been recognized as a well-known trademark, the People's Court shall objectively and comprehensively examine such evidences in the light of other evidences confirming that the trademark is well known.

34 Beijing High People's Court (2017) Jing Xing Zhong No. 802; Jiangsu Provincial High People's Court (2019) Su Min Zhong No. 1316

Q79: 【Evidentiary Requirements for Recognized Well-known Trademarks】 If a registered trademark has been recognized as a well-known trademark, how to prove the continuity of the well-known status when a new case involves recognition?

A79: Well-known trademarks need to follow the principle of recognition on a case-by-case basis, and the prior well-known trademark recognition conclusion is not automatically applicable to new cases but can be submitted as a ‘record of protection of well-known trademarks’ as referred to in Article 14.1.4 of the Trademark Law.

To prove the continuation of a well-known trademark, the right holder should at least provide evidence of the following: the use of the trademark between the time when the trademark has reached the well-known status and the time node of the current request for protection; that the type of evidence is basically the same as the requirement for the first request for protection, and; that the volume can be determined according to the specific circumstances. In practice, if a registered trademark has been recognized as a well-known trademark, the court or trademark administration authority will also appropriately lower the requirements for the size of evidence of a well-known trademark, depending on the circumstances.

If it has been a long time (more than three or five years) since the last time it was determined to be well-known, or there is a substantial change in the content of the case, the right holder should organize the use of evidence in a more comprehensive way to prove the continuity of the mark’s well-known status.

Q80: 【Recognition of well-known trademarks for similar goods or services】 If the infringing/disputed goods/services are identical or similar to the goods/services on which the prior registered trademark is relying, can protection be obtained through the recognition of a well-known trademark?

A80: The second paragraph of Article 13 of the Trademark Law only stipulates that ‘if a trademark applied for registration in respect of identical or similar goods is a

copying, imitation, or translation of a well-known trademark not registered in China by another person, which is likely to cause confusion, it shall not be registered and its use shall be prohibited'. In contrast, paragraph 3 only stipulates that 'a trademark applied for registration of non-identical or dissimilar goods is a copying, imitation, or translation of a well-known trademark already registered in China by another person, to mislead the public'. If the registration may harm the interests of the registrant of the well-known trademark, it shall not be registered, and the mark's use shall be prohibited. When it comes to registered trademarks, there was once a controversy surrounding the question of whether Article 13 of the Trademark Law is applicable to the same or similar goods. However, this ambiguous area has gradually become clear with the deepening of economic development and judicial practice.

Furthermore, there are several cases in judicial practice where the well-known trademark is recognized on identical or similar goods/services, thus breaking through the limitation of recognition of well-known trademark on dissimilar goods/services only. In such cases, the court will, based on the legislative intent and principles of the Trademark Law, consider that Article 13 of the Trademark Law should be regarded as a means for the following: to protect 'the scope of non-registration and prohibition of the use of the Trademark Law for copying, imitating, or translating the well-known trademarks of others, which is likely to cause confusion; to protect identical or similar goods for unregistered trademarks, and; to extend to dissimilar goods for registered trademarks'.³⁵ Therefore, if the copying, imitation, or translation of a well-known trademark registered by another person on identical or similar goods is likely to confuse, it should also be disapproved for registration and have its use prohibited.

However, recognition of well-known trademarks on identical or similar goods should be under special circumstances, and the corresponding necessity needs to be satisfied. In most cases, if the right holder can obtain protection through ordinary provisions such as Articles 30 and 57 of the Trademark Law, there is no need to initiate the recognition of a well-known trademark. On the other hand, if the Court, after comprehensively considering all the elements of the case, finds

35 (2018) Hu 73 Min Chu No. 862

that the trademark cannot be fully protected³⁶ if it is not recognized as well-known, it is more likely to obtain recognition of well-known trademarks on identical or similar goods. Currently, two common scenarios for such a condition exist:

- **In trademark administrative cases, it is necessary to break through the time limit for invalidation of trademarks registered in bad faith**

According to Article 45 of the Trademark Law, if a registered trademark violates the provisions of Paragraphs 2 and 3 of Article 13, Article 15, Paragraph 1 of Article 16, Article 30, Article 31, and Article 32 of the Trademark Law, the prior right holder or interested party may request the Trademark Review and Adjudication Board to declare the registered trademark invalid within **five years from the date of registration of the trademark. In the case of bad faith registration³⁷, the owner of a well-known trademark is not subject to a five-year time limit.**

For example, in other first-instance administrative judgments of Nike Innovation Limited Partnership by the Trademark Review and Adjudication Board of the State Administration for Industry and Commerce³⁸ which involved recognition of well-known trademarks on identical or similar goods, the Court pointed out that ‘the time when Nike filed the request for invalidation..... Although it has been more than five years, Nike's cited trademark is a well-known trademark, and Luojiang Chaosheng Shoes Co., Ltd.'s application for registration of the disputed trademark has subjective malice, so Nike's request of the Trademark Review and Adjudication Board to declare that the invalidity of the disputed trademark should not be subject to a five-year time limit’, ‘The relevant provisions of Article 13 of the Trademark Law are intended to give well-known trademarks a stronger protection than ordinary registered trademarks. Well-known trademarks should also be protected accordingly on identical or similar goods’.

- **In civil infringement cases, the need to counter a registered trademark**

In the case of ordinary trademarks, if the right holder files a lawsuit on the ground that the registered trademark used by another person on the approved goods is identical or similar to its prior registered trademark, the people's Court shall,

36 (2014) Jing Zhi Min Chu Zi No. 143

37 Bad faith registration is also one of the preconditions for breaking through the five-year time limit to raise an action after one mark's registration. This part mainly discusses the recognition of well-known trademarks on identical or similar, so discussion on bad faith registration will not be expanded

38 (2015) Jing Zhi Xing Chu Zi No. 4577

following the provisions of Article 111 (3) of the Civil Procedure Law, inform the plaintiff to apply to the relevant administrative authority for resolution³⁹. In other words, the right holder must first resolve the issue of registering the trademark later through the trademark administrative procedure.

However, if the trademark of the right holder is well-known, the right holder would not be bound to the above requirement. According to the relevant provisions of Article 11 of the Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Civil Dispute Cases Involving the Protection of Well-known Trademarks, if the registered trademark used by the defendant violates the provisions of Article 13 of the Trademark Law by copying, imitating, or translating the plaintiff's well-known trademark, which constitutes infringement of the trademark right, the people's Court shall, at the request of the plaintiff, make a judgment to prohibit the defendant from using the trademark per law. In the trademark infringement dispute between Aimer Co., Ltd. and Guangdong Aimu Underwear Co., Ltd.,⁴⁰ the Court directly conducted a civil trial under the above-mentioned provisions. It recognized the well-known status on identical or similar goods.

Q81: 【Consideration of ‘Substantial Connection’ in the Recognition of Well-known Trademarks】 What factors should be considered in the determination of ‘substantial degree of connection’ between goods and services in the determination of well-known trademarks?

A81: Paragraph 3 of Article 13 of the Trademark Law stipulates that ‘if a trademark applied for registration on non-identical or non-similar class is a replication, imitation, or translation of a well-known trademark already registered in China by another person, which is likely to cause confusion, it shall not be registered and its use shall be prohibited’. This clause is the most widely used in practice to request the protection of well-known trademarks. According to this provision, the application for registration of the disputed trademark must apply to trademarks that ‘mislead the public and cause the interests of the registrant of the well-known trademark to be harmed’.

39 Paragraph 2 of Article 1 of the Provisions of the Supreme People's Court on Several Issues Concerning the Trial of Civil Dispute Cases Involving Conflicts between Registered Trademarks, Enterprise Names and Prior Rights

40 (2017) Jing 73 Min Chu No. 1741; (2020) Jing Min Zhong No. 194

The main circumstances of confusion and misleading include: (1) the relevant public misidentifies the source of the goods or services due to the belief that the goods or services marked with the trademark at issue are produced or provided by the owner of the well-known trademark; (2) there is some kind of connection between the producer of the goods or the provider of the service that reminds the relevant public of the trademark at issue and the owner of the well-known trademark, such as an investment relationship, licensing relationship or cooperative relationship; (3) it is sufficient to make the relevant public believe that the trademark at issue has a considerable degree of connection with the well-known trademark of others, and weakens the distinctiveness of the well-known trademark; (4) the registration and use of the trademark at issue may detract from the market reputation of the well-known trademark, and; (5) the registration and use of the trademark at issue may improperly exploit the market reputation of the well-known trademark. Among them, (1) and (2) are the main manifestations of 'substantial degree of connection', and (3), (4) and (5) are the possible consequences of 'substantial degree of connection'.

To determine whether the use of the trademark at issue is sufficient to cause the relevant public to believe that it has a considerable degree of connection with the well-known trademark, thereby misleading the public and causing possible damage to the interests of the registrant of the well-known trademark, the following factors should be comprehensively considered: (1) the degree of similarity between the trademark at issue and the well-known trademark of others; (2) the originality of the well-known trademark of others; (3) the popularity of the well-known trademark of others; (4) the degree to which the trademark at issue is related to the goods or services used by the well-known trademarks of others, and; (5) Other factors that may cause confusion or misleading.

Based on the above provisions, recognizing a well-known trademark involves many considerations. The two most important factors are as follows: one involves determining the popularity of the cited trademark, which needs to examine whether it has reached the level of well-known; the other is that the disputed trademark must have a 'substantial degree of connection' with the well-known trademark in question to mislead the public and harm the interests of the registrant of the well-known trademark.

Generally speaking, the consideration of a trademark's popularity is mainly reflected through evidence. A 'substantial degree of connection' does not mean that the disputed trademark is entitled to cross-class protection in all classes as long as the evidence submitted by others can prove that the trademark enjoys the

high social popularity enjoyed by a well-known trademark. Only on the premise that the goods or services designated by the disputed trademark have a 'substantial degree of connection' with the goods or services designated by the trademark of others, the well-trademark of others may enjoy cross-class protection. If, based on the general perception and daily life experience of the relevant public, the goods or services designated by the disputed trademark are far from the goods or services designated by the trademark of others. There is little overlap in terms of functional use, sales channels, consumer targets, etc., it is difficult for the trademark of others to be recognized as a well-known trademark and, thus, enjoy cross-class protection.

The scope and strength of cross-class protection for well-known trademarks must be commensurate with their distinctiveness and popularity. Paragraph 2 of Article 9 of the Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Civil Dispute Cases Involving the Protection of Well-known Trademarks clarifies this element. In judicial practice, there are objectively different degrees of well-known registered trademarks between them, and it is not possible to require the same scope of cross-class protection for registered trademarks with different degrees of well-known reputation. The scope of cross-class protection of well-known trademarks should be commensurate with the degree of well-known trademarks, and in general, the two are proportional to each other. In other words, **the recognition of a well-known trademark does not require a uniform degree of popularity, but the scope and intensity of protection of a well-known trademark should be commensurate with its distinctiveness and popularity. That is, trademarks with higher distinctiveness and popularity should be granted a wider protection scope (which covers more classes) and stronger protection.**

Q82: 【The relationship between the distinctiveness and popularity of a well-known trademark】 The relationship between the 'popularity' and 'distinctiveness' of a trademark when a well-known trademark is recognized

A82: Distinctiveness is a crucial characteristic of a trademark. Whether or not a trademark possesses distinctiveness, along with its overall strength, directly impacts its eligibility for protection through registration. The law provides special protection to well-known trademarks because the public is highly aware of them. For a trademark to be recognized as well-known, it must demonstrate relatively

high inherent distinctiveness and consistently enhance its distinguishing role in the marketplace to facilitate public recognition.

In addition to relative distinctiveness, a well-known trademark must also maintain or strengthen its distinctiveness through long-term use. This is why international treaties and China's Trademark Law consider the duration of trademark use a key factor in recognizing well-known trademarks. Continuous use boosts a trademark's popularity and reinforces its distinctiveness, making it easier for the public to associate the trademark with its owner, thus creating a unique referential relationship.

The extent of cross-class protection for well-known trademarks should align with their distinctiveness and popularity. A trademark that is both highly distinctive and widely recognized will have broader protection. The greater the likelihood that the public associates the disputed trademark with the well-known trademark, the more it risks diluting such a unique association. Therefore, it is essential to carefully assess the scope of cross-class protection for well-known trademarks based on the specific circumstances of each case, particularly concerning whether it misleads the public or could potentially harm the interests of the well-known trademark holder.

CHAPTER IX

Practical considerations regarding the crime of counterfeiting registered trademarks

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Q83: 【Types of Trademark Crimes】 What types of registered trademark infringement are subject to criminal liability?

A83: According to Article 67 of the Trademark Law of the People's Republic of China, “if the use of a trademark identical to a registered trademark on the same goods occurs without the permission of the trademark registrant, it constitutes a crime. In such cases, in addition to compensating the infringed party for their losses, criminal liability will be pursued in accordance with the law.” If the forgery or unauthorized manufacture of another person's registered trademark logo, or the sale of a forged or unauthorized trademark logo, constitutes a crime, criminal liability will also be pursued in accordance with the law, in addition to compensation for the infringed party's losses payable. Furthermore, if the sale of goods known to bear counterfeit registered trademarks constitutes a crime, the infringer will be subject to criminal liability as well as required to compensate the losses of the infringed party.

The Criminal Law of the People's Republic of China defines three types of criminal acts related to the infringement of trademark rights. First, **the Crime of Counterfeiting Registered Trademarks** refers to using an identical trademark on identical goods without having a license issued by trademark owner. Second, **the Crime of Selling Goods with Counterfeited Trademarks** refers to knowingly selling goods that bear counterfeit trademarks. Third, **the Crime of Illegally Manufacturing or Selling Illegally Manufactured Logos of Registered Trademarks** refers to forging or manufacturing registered trademark logos without authorization or selling such forged or illegally manufactured logos. The statutory penalties for these three crimes are categorized into two tiers: the first tier, ‘**serious circumstances**,’ carries a penalty of “imprisonment of not more than three years and a fine or a fine only” while the second tier, ‘**especially serious circumstances**,’ carries a penalty of ‘imprisonment of not less than three years nor more than ten years and a fine.’

Q84: 【Definition of the Crime Amount in Trademark Related Crimes】 What are the definitions and differences between ‘illegal business amount’, ‘sales amount’ and ‘value of goods’ with respect to the Crime of Counterfeiting Registered Trademarks?

A84: The criminal liability tied to the Crime of Counterfeiting Registered Trademarks is determined using three key terms: illegal business amount, sales amount and value of goods. These terms and their specific methods of calculation are defined in Article 12 of the *Interpretation of the Supreme People's Court and the Supreme People's Procuratorate Concerning Some Issues on the Specific Application of Law for Handling Criminal Cases of Infringement upon Intellectual Property Rights*. Firstly, **illegal business amount** means the value of the infringing products which the infringer has manufactured, stored, transported or sold in the process of infringing upon the intellectual property rights. In practice, it is usually calculated by including both the sales amount and the value of goods. Secondly, **sales amount** means the value of the sold infringing products. It is be calculated at the actual sales price. Thirdly, **value of goods** means the value of the manufactured, stored, transported or unsold infringing products. It is calculated at the marked price, or at the average actual sales price of the infringing products that has been identified, and if no price is marked on the infringing products or the actual sales price is unable to be determined, the said value shall be calculated at the average market price of the infringing products.

In the case of (2023) Yue 17 Xing Zhong No. 111 at the Yangjiang Intermediate People's Court of Guangdong Province, the court addressed the calculation of the defendant's illegal business amount, holding that the sold counterfeit goods quantum was the criminal object of this case and thus it should be included in the criminal amount. In addition, according to the judicial interpretation, the yet-to-be-shipped counterfeits should also be included in the illegal business amount. The court found that the seized account book recoded the quantity of both the sold and yet-to-be-shipped counterfeit casual pants, corroborated with other evidence such as confessions from other defendants, fabric cutting list, receipt books and shipping account books. Recognizing that the quantity marked

as shipped contradicted the evidence at hand, the court held that the criminal liability in this case should be determined based on the account book. According to the records in the account book, the unauthorized and unverified amount should be deducted from the illegal business amount. In addition, although the amount of seized counterfeit pants should be included in the illegal business amount, it was already included in the account book records and so should not be re-counted.

Q85: 【Determination of ‘Identical Goods’】 How to determine the nature of ‘identical goods’ with respect to the Crime of Counterfeiting Registered Trademarks.

A85: Article 5 of the *Opinions on Several Issues concerning the Application of Law in Handling Intellectual Property Right Infringement Criminal Cases* jointly issued by the Supreme People's Court, the Supreme People's Procuratorate and the Ministry of Public Security, provides that goods with the same name or goods with different names referring to the same thing may be determined as ‘identical goods’. Specifically, the Article provides that ‘goods with different names referring to the same thing’ means goods identical or essentially identical in such respects as functions, purposes, major raw materials, target consumers and sales channels and generally deemed the same thing by the relevant public. Furthermore, in the determination of ‘identical goods,’ comparison shall be made between the approved goods using the registered trademark of the right holder and the goods actually produced or sold by the infringer.

In the case of (2014) *Shen Zhong Fa Zhi Xing Zhong Zi No. 56* heard in the Shenzhen Intermediate People's Court of Guangdong Province, the product involved was a USB flash drive. The goods approved for use by the rights holder's registered trademark was ‘disks and various peripheral and terminal devices for data processing systems.’ When determining whether the two constituted the identical products, the court elaborated that the ‘disks and various peripheral and terminal devices for data processing systems’ and the USB flash drive are essentially identical in terms of function, purpose, major raw materials, target consumers, and sales channels, and would generally be deemed as identical goods by the relevant public, and the two therefore constitute identical goods. The court thus

held that the defendant Chen using a mark identical to the registered trademark No. 531724 on the USB flash drive constituted the act of using an identical trademark on identical goods.'

Q86: 【Determination of 'Identical Trademark'】 How to determine an 'identical trademark' with respect to the Crime of Counterfeiting Registered Trademarks

A86: Article 1 of *Interpretation (III) of the Supreme People's Court and the Supreme People's Procuratorate of Several Issues Concerning the Specific Application of Law in the Handling of Criminal Cases Involving Infringements upon Intellectual Property Rights* specifies the circumstances under which a trademark can be identified as 'identical to the registered trademark of the rights holder.' These circumstances include: I) changing the font, letter case, or horizontal or vertical layout of characters of the registered trademark, so that it essentially has no difference from the registered trademark; II) changing the space between characters, letters or figures, among others, of the registered trademark, so that it essentially has no difference from the registered trademark; III) changing the color of the registered trademark without affecting the distinctive features of the registered trademark; IV) adding to the registered trademark the factor lacking distinctive features such as the common name or model of the goods only without affecting the distinctive features of the registered trademark; V) having essentially no difference from the three-dimensional mark and graphic element of the stereoscopic registered trademark; and VI) any other trademark that has essentially no difference from the registered trademark or is sufficient to mislead the public.

In the case of (2011) *Hu Er Zhong Xing Zhong Zi No. 459* heard in Shanghai Second Intermediate People's Court, the court held that although the word 'Australia' was added to the trademark 'UGG(a variant version) + Australia', 'Australia' was a foreign country name and did not constitute a part of the trademark. Therefore, it was the 'UGG(a variant version)' that should be considered as the main body of trademark and compared with the registered trademark 'UGG.' The text of the 'UGG(a variant version)' differed only slightly from the registered trademark 'UGG' in terms of font, letter case, and arrangement, which did not change the

distinctive features of the 'UGG' trademark. As a result, the overall visual effect was essentially the same, which was sufficient to mislead the public, thereby constituting an 'identical trademark' as prescribed by the Criminal Law.

Q87: 【Evidentiary Attributes of Verification Opinion】 What are the evidentiary attributes of the verification opinion issued by the trademark owner?

A87: The verification opinion regarding the authenticity of goods issued by the trademark owner serves as key evidence in criminal cases of trademark infringement. Although it is referred to as 'expert opinion', it should be deemed as **a 'victim's statement'** under the statutory category of evidence. The verification opinion is considered presumptively valid, unless there is sufficient evidence to the contrary.

In the *Criminal Trial Reference* published by the Supreme People's Court, the No. 860 introduces the case of 'Gu Juan and Zhang Lifeng Involving the Crime of Selling Goods with Counterfeit Registered Trademarks,' stating that the trademark owner held the position of a victim in criminal trademark infringement cases whose identification of the authenticity of counterfeit goods or trademarks should be regarded as a 'victim's statement' rather than an 'expert opinion', and therefore, no appraisal qualifications are required. Further, regarding the determination of the authenticity of the goods involved in the case, a verification opinion issued by the trademark owner is presumptively valid, unless disproven by contrary evidence. The content of a verification opinion should be assessed comprehensively alongside other evidence, considering the extent of corroboration with all the evidence in the case. It is also essential to review any rebuttal evidence provided by the defense.

Q88: 【Nature of the act of refurbishment of second-hand goods】 Does 'refurbishment of second-hand goods' constitute the Crime of Counterfeiting Registered Trademarks?

A88: According to relevant provisions and judicial practice, determining whether an act of refurbishment constitutes the Crime of Counterfeiting Registered Trademarks, it mostly depends on whether the infringer's 'use of the registered trademark' impairs the registered **trademark's function of indicating the source of the goods**.

Generally, some simple cleaning, such as dusting or polishing, to old products, will not result in a Crime of Counterfeiting Registered Trademarks, provided if it does not impair the involved trademark's indication function or cause consumer's confusion. Conversely, if a 'substantial transformation' is made to the products through refurbishment activities—such as dismantling, reassembling, replacing key components, or modifying the product's performance parameters—resulting in brand new products completely different from those from the rights holder, it will very likely constitute a trademark infringement which could be subject to criminal prosecution.

Q89: 【Review of the defense of brushing orders】 How to approach the defense of 'brushing orders'?

A89: 'False brushing orders' refers to the practice of artificially inflating product sales, reviews, and other data through fictitious transactions to deceive consumers and e-commerce platforms. It is commonly seen on online platforms and can directly impact the prosecution and sentencing of trademark related crimes.

Firstly, when calculating the defendant's total sales amount, as the sales data generated by false orders should be deducted as it does not reflect actual sales amount, the amount from these fraudulent transactions Secondly, it's the defendant who bears the burden of proof when raising the defense of brushing orders. It cannot be raised verbally but should be supported by other firm evidence, such as chat records and transaction receipts. Finally, judicial authorities must conduct a thorough and objective review of the evidence, carefully determining and excluding any amounts related to fraudulent transactions.

In *the 16th batch of Guiding Cases* released by the Supreme People's Court in 2017, the No. 87 Case, involving Guo Mingsheng and Guo Mingfeng concerned the Crime of Counterfeiting Registered Trademarks. The decision affirmed key points that, the illegal business amount and the illegal gains from the Crime of Counterfeiting Registered Trademarks shall be determined based on broad evidence, such as the defendant's confession, witness testimony, victim statements, data from online platform, the defendant's bank account records, delivery notes, computer records from delivery companies, and account book kept by the defendants. If the defendant claims that there are false transactions in the online sales records but fails to provide supportive evidence, the defense won't stand.

CHAPTER X

Punitive damages for intellectual property rights

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Q90: 【Application of Punitive Damages】 Under what circumstances can the right holder claim the application of punitive damages?

A90: Paragraph 1, Article 1 of the Interpretation of the Supreme People's Court on the Application of Punitive Damages in Hearing Civil Cases of Infringement upon Intellectual Property Rights (hereinafter referred to as the 'Punitive Damages Interpretation') states: 'Where a plaintiff claims that the defendant intentionally infringes upon the intellectual property rights that the plaintiff is entitled to in accordance with the law and the circumstances are serious, and requests to order the defendant to assume punitive damages liability, the people's court shall examine and handle the case in accordance with the law.'

As a result, when a right holder identifies that the infringer meets both criteria of 'intentional infringement upon intellectual property rights' and 'serious circumstances of infringement,' the right holder may require the infringers to bear the liability of punitive damages. However, notably, that the right holder must proactively apply for punitive damages in court. In the absence of an explicit request, the court will not actively apply punitive damages, even if the facts of the case fulfil both requirements mentioned above.

Q91: 【Time Limit Requirements for Punitive Damages Claims】 How much time does a right holder have to file a punitive damages claim?

A91: Article 2 of the Punitive Damages Interpretation states: 'Where a plaintiff claims for punitive damages, it shall specify at the time of action the amount of damages, the calculation method as well as the facts and reasons on which the claim is based. Where punitive damages claims are added by the plaintiff before the end of the court debate in the first instance, the people's court shall allow such addition; where punitive damages claims are added in the second instance, the people's court may conduct mediation between the parties concerned on a voluntary basis, and notify the parties concerned to file a separate lawsuit if the mediation fails.'

For example, the Supreme People's Court, in cases involving software copyright infringement such as a Qingdao Software Technology Co., Ltd., a Suzhou Metrology Technology Co., Ltd., etc.⁴¹, ruled that the court shall not hear the issue during the second instance considering the plaintiff in the first instance did not claim the application of punitive damages when filing the case, but claimed punitive damages with reference in the second instance and did not agree to mediation.

Thus, it is recommended that the right holder should submit punitive damages claim before the conclusion of the court debate in the first instance at the latest. At the same time, they must clarify the calculation base, method of determining the base, multiple, calculation method and total amount of punitive damages, as well as the facts and evidence of the case on which the claim is based. In addition, if the right holder needs to change the calculation method and basis of punitive damages that has been clarified before, it must also be submitted before the court debate in the first instance.

For cases involving the second instance, refer to Articles 5.1 and 5.2 ⁴²of the Guidelines of the Beijing High People's Court on the Application of Punitive Damages in Hearing Civil Cases of Infringement upon Intellectual Property Rights.⁴² If the right holder requests punitive damages in the first instance and changes the calculation base, method of determining the base, multiple, calculation method or total amount of punitive damages after appeal, the court will support it. However if the total amount of the amended claim exceeds the litigation claim and mediation fails, the excess part will not be supported. Further, if the right holder fails to submit sufficient evidence during the first-instance

41 The Supreme People's Court (2022) Zui Gao Fa Zhi Min Zhong No. 2478 Civil Judgment

42 Articles 5.1 and 5.2 of The Guidelines of the Beijing High People's Court on the Application of Punitive Damages in Hearing Civil Cases of Infringement upon Intellectual Property Rights: [Submission or Modification of Claims] Where the right holder submits or modifies the base, method of determining the base, calculation method, multiple and total amount of punitive damages, it shall be submitted or modified before the conclusion of the debate in the court of first instance. Where the right holder submits punitive damages in the first instance and modifies the base, method of determining the base, calculation method, multiple or total amount of punitive damages of punitive damages after appeal, it is generally supported, but if the amount of the amended claim exceeds the litigation claim and mediation fails, the excess part is not supported. [Consequences of Failure to Submit Evidence for Calculation in the First Instance] If the right holder claims punitive damages in the first instance, and holds the calculation method and corresponding evidence of the method of determining the base amount of punitive damages asserted by the right holder, and refuses to submit evidence without justifiable reasons, resulting in its claim for punitive damages not being supported, the second instance will generally not support it.

without justifiable reasons, resulting in the denial of punitive damages claim, the second-instance court will generally not support it. Therefore, it is recommended that the right holder fully collect and submit relevant evidence on punitive damages during the first instance. This includes clarifying the calculation base, method of determining the base, multiple, calculation method and total amount of punitive damages, so as to avoid the risk of frustration of the application of the punitive damages system due to the addition of new evidence or the change of the amount during the second instance.

Q92: 【Proof of the ‘Intent’ Element in Punitive Damages:】 How can the right holder prove that the infringer ‘intentionally’ infringed its intellectual property rights?

A92: Regarding the difference between ‘intentionally’ and ‘maliciously’, the Trademark Law and the Anti-Unfair Competition Law use ‘maliciously’, while the Civil Code, Patent Law and Copyright Law use ‘intentionally’. Regarding this, the paragraph 2, Article 1 of the Punitive Damages Interpretation⁴³ stipulates that ‘intentionally’ includes ‘maliciously’ as provided in the Trademark Law and the Anti-Unfair Competition Law.

In addition, Article 3 of the Punitive Damages Interpretation⁴⁴ stipulates the criteria for determining ‘intentionally’, that is, the determination of ‘intentionally’

43 Paragraph 2, Article 1 of the Punitive Damages Interpretation: For the purpose of this Interpretation, "intentional" includes malice as specified in Paragraph 1, Article 63 of the Trademark Law and Paragraph 3, Article 17 of the Anti-unfair Competition Law.

44 Article 3 of the Punitive Damages Interpretation: In the determination of intentional infringement upon intellectual property rights, the people's court shall comprehensively consider such factors as the type of object of the infringed intellectual property rights, the status of the rights and the popularity of the relevant products, and the relationship between the defendant and the plaintiff or interested parties.

Under any of the following circumstances, the people's court may preliminarily determine that the defendant has the intention to infringe upon the intellectual property rights:

- (I) where the defendant continues to commit the infringement after being notified and warned by the plaintiff or interested parties.
- (II) where the defendant or its legal representative or administrator is the legal representative, administrator or actual controller of the plaintiff or interested parties.
- (III) where the defendant and the plaintiff or interested parties have labor, service, cooperation, licensing, distribution, agency or representative relationships, etc., and have had contact with the infringed intellectual property rights.
- (IV) where the defendant has business with the plaintiff or interested parties, or has held negotiations for the conclusion of a contract, etc., and has had contact with the infringed intellectual property rights.
- (V) where the defendant has committed acts of piracy or counterfeiting of a registered trademark; or

requires comprehensive consideration of factors such as the type of object of the infringed intellectual property right, the status of the right and the popularity of the relevant product, and the relationship between the infringer and the right holder. This article lists in detail the circumstances under which the infringer can be preliminarily determined to have intent to infringe. Based on the experience of specific cases, the right holder may collect evidence of ‘intentionally’ from the following perspectives

The first case, the infringer continues to infringe after receiving a valid notice/warning. It mainly includes the situation where the infringer continues to commit infringement even after receiving an infringement notice or warning from the right holder and its authorized agent, or the administrative department of intellectual property.

It should be noted that the notice/warning issued by the right holder must be a valid notice/warning, and the valid notice/warning must have the following key points: 1. The notice/warning indicates the true identity information of the right holder; 2. The notice/warning contains prima facie evidence that the alleged act constitutes infringement, enabling the infringer to reasonably access whether the alleged act constitutes infringement; 3. Notices/warnings, whether issued by letter, fax, e-mail or other means, must be effectively served on the infringer. It is recommended that the right holder keep the evidence of effective service in the form of time stamps.

The second case, the infringer is aware of the intellectual property rights of the right holder due to the contractual, cooperative or other relationships with the right holder. Typical behaviors include: 1. Continuing to use the previously authorized subject matter after the expiration of the licensing agreement; 2. The infringer or its legal representative or manager used to be the legal representative, manager or actual controller of the right holder, of which the manager includes senior management personnel and ordinary management personnel who have access to the infringed intellectual property rights; 3. There is a relationship between the infringer and the right holder such as labor, service, cooperation,

(VI) Other circumstances that may be determined as intentional.

licensing, distribution, agency, representative, etc., and has been in contact with the infringed intellectual property rights; 4. The infringer and the right holder have business dealings or negotiations for the conclusion of a contract, and have been in contact with the infringed intellectual property rights.

The third case, the infringer commits the infringement even after learning about the intellectual property rights of the right holder through judicial, administrative, arbitration and other procedures. Typical behaviors include: 1. Knowing the trademark right of the right holder during the trademark authorization and confirmation procedure yet continuing to infringe; 2. Continuing to use intellectual property rights after it has been improperly acquired and subsequently invalidated or revoked; 3. Repeating the same or similar infringements after being subject to administrative penalties, court rulings, or arbitral tribunal awards for infringement, or has reached a settlement or mediation with the right holder.

The fourth case, the infringer has committed acts of piracy or counterfeiting of intellectual property rights. Here, if the infringer has committed a targeted infringement of the right holder's intellectual property rights, it can be directly determined that the infringer's subjective state is that the infringer is aware and actively pursuing the infringement result. In this case, the right holder may provide evidence from the aspects of product quality, anti-counterfeiting marking, detail design, sales price, sales method, etc., to prove that the alleged infringing product is a pirated or counterfeit product, and that the infringer has the intent to infringe, for example, to cover or remove the right mark when advertising or providing infringing goods or services.

The fifth case, infringement of well-known intellectual property rights such as well-known trademarks and well-known film and television works. This includes the use of the right holder's registered well-known trademark on the same or similar goods, the bad faith pre-emptive registration and use of the right holder's well-known trademark, etc. The right holder can presume that the operator in the same region and industry should know and bear a higher duty of avoidance and care by proving that its intellectual property rights have a high reputation, and thus the infringer has subjective intent.

Q93: 【Proof of the ‘Serious Circumstances’ Element in Punitive Damages】 How can the right holder prove that the infringer's infringement is ‘serious’?

A93: Article 4 of the Punitive Damages Interpretation ⁴⁵ stipulates the criteria for determining ‘serious circumstances’, that is, the determination of ‘serious circumstances’ must comprehensively consider factors such as the means and times of infringement, the duration, territorial scope, scale and consequences of the infringement, , and the acts of the infringers in the litigation and other procedures. This article lists in detail the circumstances that can be determined to be serious, and based on the experience of specific cases, the right holder's evidence on the elements of serious circumstances can be carried out in the following aspects:

I. The means, methods, and times of infringement

Typical behaviors include: 1. After the infringer is found to be infringing by an administrative penalty or administrative ruling, the infringer commits the same or similar infringement again; 2. After the infringer is found to be infringing by an effective judgment, mediation document or arbitration award, the infringer commits the same or similar infringement again; 3. The infringer commits the same or similar infringement again after confirming the infringement in the settlement agreement voluntarily reached with the right holder; 4. The infringer

⁴⁵ Article 4 of the Punitive Damages Interpretation: In the determination of the seriousness of the infringement upon intellectual property rights, the people's court shall comprehensively consider such factors as the means and times of infringement, the duration, territorial scope, scale and consequence of the infringement, and the acts of the infringers in the litigation, etc.

Under any of the following circumstances, the people's court may determine that the circumstances are serious:

- (I) where the defendant has committed the same or similar infringement again after having been given an administrative penalty or held liable by a court due to infringement.
- (II) where the defendant has committed infringement upon intellectual property rights as a business.
- (III) where the defendant has forged, destroyed or concealed the infringement evidence.
- (IV) where the defendant has refused to perform the ruling on preservation.
- (V) where the defendant has made huge gains from the infringement, or the right holder has suffered huge losses; or
- (VI) where the infringement may endanger national security, public interests or personal health; or
- (VII) Other circumstances that may be determined as serious.

commits or continues to commit the same infringement again by means of establishing an enterprise, changing the name of the enterprise, changing the legal representative, or using an affiliated enterprise; 5. There are multiple channels and types of infringement methods.

II. The scale, duration, and territorial scope of the infringement

Typical behaviors include: 1. The infringer is engaged in infringing intellectual property rights as a business, and the right holder can provide evidence to prove that the infringement is its main business or constitutes a major source of profits. It should be noted that the main business should not be based on the business scope registered in the infringer's business license but should focus on its actual business; 2. The scale of infringing production or sales is large, the infringement lasts for a long time and involves a wide area; 3. The amount of profit from infringement is huge.

III. The consequence of the infringement

Typical behaviors include: 1. The number of products sold is huge, which has caused significant damage to the market share, commercial value and business reputation of the right holder; 2. Providing goods or services that infringe on the same intellectual property rights without authorization while being legally authorized to provide goods or services, commonly known as 'mixed sale of real and fake'; 3. The infringer's infringement causes the public disclosure of trade secrets; 4. Disseminating the infringing works without authorization prior to or during the early stage of the the right holder's public distribution of the work; 5. The infringement may endanger national security, public interest or personal health, such as the infringing product involves the field of food and drugs.

IV. The infringer's acts in infringement litigation and administrative investigation

Typical behaviors include: 1. The infringer forges, destroys or conceals evidence of infringement, which includes evidence of whether infringement is constituted and evidence that can prove the result of infringement damages; 2. The infringer uses violence, coercion or other improper means to obstruct state officials from

investigating and collecting evidence in accordance with law; 3. Refusal to perform on preservation rulings, including act preservation and evidence preservation; 4. Refusal to perform effective judgments, rulings, verdicts, etc. that determine infringement.

Q94: 【Calculation of the Amount of Punitive Damages】 How to calculate the total amount of compensation after the application of punitive damages.

A94: In April 2021, the judges of the Supreme People's Court wrote an article⁴⁶ explaining the calculation of punitive damages, that is, the amount of damages = the amount of compensatory damages (i.e., the base amount) + the amount of punitive damages = the amount of basic amount × (1 + multiple of punitive damages). Further, Shandong High People's Court also clarified in the adjudication guidelines that the calculation method and total amount of compensation, which are the calculation base for the punitive damages multiplied by (1 + multiple). In the trademark infringement and unfair competition dispute case of 'Baidu', a typical case of punitive damages for intellectual property rights released by the Beijing High Court in 2022⁴⁷, it was clarified that the calculation method of the amount of damages is the basic compensation × (1 + multiple of punitive damages).

It can be seen that the formula for calculating the total amount of compensation in a punitive damages case should be as follows:

Total amount of compensation = calculation base × (1 + multiple of punitive damages) + reasonable expenses

However, in practice, many rights holders or courts often calculate the total amount of compensation according to the method of 'calculation base × multiple of punitive damages + reasonable expenses.'

46 Lin Guanghai, Li Jian, Qin Yuanming. Understanding and Application of the Interpretation on the Application of Punitive Damages in Hearing Civil Cases of Infringement upon Intellectual Property Right [J]. People's Justice, 2021, (10).

47 Beijing High People's Court (2022) Jing Min Zhong No. 170 Civil Judgment

The difference between the two calculation methods mainly lies in whether the maximum amount of compensation that the right holder can obtain is 5 times or 6 times the calculation base. Since in practice, few courts apply a multiple of 5 times punitive damages to calculate the quantum of damages, the controversy over these two calculation methods has not had much impact on practice at present.

The core function of the intellectual property punitive damages system lies in punishment and deterrence, which is different from compensatory damages based on the principle of restitution. Although the determination of the amount of loss under the compensatory damages system determines the calculation base of the amount of punitive damages, the compensation function should not be confused with the function of the punitive damages system. Also, if the calculation base \times multiple is adopted, it is obvious that the role and significance of 1 times punitive damages are nullified. Therefore, we recommend that the **calculation formula of ‘total amount of compensation = calculation base \times (1 + punitive damages) + reasonable expenses’** should be adopted as far as possible in litigation to obtain higher compensation.

Q95: 【Determination of the Calculation Base of Punitive Damages (1)】 How to determine the basic amount of compensation for punitive damages, that is, the calculation base?

A95: Paragraphs 1 and 2 of Article 5 of the Punitive Damages Interpretation ⁴⁸ provide specific provisions on the calculation base of punitive damages, that is, the calculation base must be determined in the following three ways: (1) the actual losses suffered by the plaintiff due to the infringement; (2) the profits obtained by

⁴⁸ Paragraph 1 and 2, Article 5 of the Punitive Damages Interpretation: When determining the amount of punitive damages, the people's court shall, in accordance with relevant laws, take the actual amount of losses of the plaintiff, the amount of illegal gains of the defendant or the interests obtained from the infringement as the calculation base. The said base does not include the reasonable expenses paid by the plaintiff to stop the infringement; where the law provides otherwise, such provisions shall prevail. Where it is difficult to calculate the actual amount of loss, the amount of illegal gains and the interests obtained from the infringement as mentioned in the preceding paragraph, the people's court shall, in accordance with the law, reasonably determine such amounts by referring to multiples of the licensing fee for the right, and take such multiples as the calculation base for the punitive damages.

the defendant due to the infringement; and (3) a reasonable multiple of the royalty for the right. The corresponding calculation formula is as follows:

(1) The calculation formula for the actual loss suffered by the plaintiff due to the infringement (see Case 1-2 in the Annex).

Calculation base = actual loss of the plaintiff = reduction in sales of the plaintiff's products, or sales volume of infringing products × unit profit of the plaintiff's products

(2) The calculation formula for the profits obtained by the defendant due to infringement (see Case 3-8 in the Annex).

Calculation base = profits obtained by the defendant from the infringement = sales volume of infringing product × unit profit of the defendant's product or unit profit of the plaintiff's product

(3) The calculation formula for the multiple of royalties (see Appendix Cases 9-10)

Calculation base = a reasonable multiple of the royalty for the right

It is often difficult to determine the 'reduction in sales of the plaintiff's products', generally calculated based on the 'sales volume of the infringing products', the right holder can claim through the number of sales or evaluations of the infringing products on the online platform, the sales data of the infringing stores offline, the defendant's self-admission of sales volume in publicity, the defendant's sales channels, the situation of franchisees, and the number of infringing products that the defendant has been administratively investigated and punished and then conduct notarization, time stamp and other methods to enhance the proof of evidence. At the same time, depending on the circumstances of the case, apply to the court to obtain the background data of the e-commerce platform and collection platform.

‘Unit profit’ refers to the average profit of each product. and the profit margin is generally applicable to the operating profit margin, but the gross profit margin may be applied to the infringer who is engaged in infringement.

The ‘unit profit of the plaintiff's products’ is often proven by evidence such as the price of the plaintiff's products, the profit margin of the plaintiff's products, and the plaintiff's contract with a third party. In practice, the defendant generally does not disclose its account books and materials, making it difficult to know the defendant's profit margin, and the rights holder may collect evidence of defendant's profit in terms of the following aspects, such as relevant data disclosed or admitted by defendant or its affiliates in public channels, such as websites, self-media, promotional materials, annual reports, etc.; the sales volume data on which the defendant's tax payment and VAT issuance and certification are based; the flow of funds in the defendant's relevant special account, etc. In addition, if the ‘unit profit of the defendant's product’ cannot be ascertained, it may be calculated according to the ‘unit profit of the plaintiff's product’, In practice, it will also be calculated with reference to the average profit margin of similar products, including the profit rate of public information disclosure of listed companies in the same industry and the profit rate of the same or similar goods shown in statistical reports or industry reports issued by competent authorities, industry associations, third-party commercial platforms, etc.

The right holder may submit the following evidence to prove ‘Royalty of rights’, such as licensing agreement and payment voucher, the type of licensed rights, the licensing method and the scope of the license, the actual performance of the licensing agreement, the comparability of the licensed use with the infringing use, and the usual license fee standards of the same industry or related industries. It should be noted that the reasonable multiple of the royalty is the method of determining the calculation base, and it is not punitive in itself.

Q96: 【Determination of the Calculation Base of Punitive Damages (2)】 What are other factors to consider in the calculation base for punitive damages?

A96: The calculation base does not include reasonable expenses paid by the plaintiff to stop the infringement, nor is it discretionary statutory damages. In practice, the determination of the calculation base is often a difficult point in claiming punitive damages, and the right holder may not be able to fully prove the infringer's profits even if the necessary burden of proof has been exhausted because the evidence relating to the infringement is mainly in the hands of the infringers. In this case, the Paragraph 3, Article 5 of the Punitive Damages Interpretation ⁴⁹ provides the plaintiff may apply to the court to order the defendant to provide the account books and materials related to the infringement in its possession. However, defendants often refuse to submit or only submits part of the evidence that is significantly less than its actual profit for various reasons. It could also involve the defendant deliberately providing one-sided and false evidence to hinder the determination of the punitive damages calculation base. The plaintiff may apply to the court to determine the calculation base amount of punitive damages with reference to its claims and relevant evidence.

Further, when determining the calculation base of punitive damages using the defendant's infringement profits, some courts will also consider the contribution of intellectual property rights, that is, the degree or proportion of the right holder's intellectual property rights to the overall profit of the product. This is especially in patent cases, copyright cases or the cases involving the same infringing product simultaneously violates several intellectual property rights. There is no clear scope of criteria for the degree of contribution to intellectual property, and courts usually consider the following factors: 1. the inventiveness, originality and distinctiveness of the intellectual property of the right holder; 2. The R&D or

⁴⁹ Paragraph 3, Article 5 of the Punitive Damages Interpretation: Where the people's court orders the defendant to provide the relevant accounts books and materials in its possession in accordance with the law, but the defendant refuses to provide such accounts books and materials without justifiable reasons or provides false accounts books and materials, the people's court may determine the calculation base for the punitive damages amount with reference to the claim and evidence of the plaintiff. Where the circumstances specified in Article 111 of the Civil Procedure Law are constituted, legal liability shall be pursued in accordance with the law.

creation cost, value and popularity of the intellectual property rights of the right holder; 3. The quantity, proportion or importance of the infringing content in the infringing goods; 4. The contribution of the infringing content to the price or profit of the product, etc. For example, Cases 1 and 7 in the Annex.

Q97: 【Determination of the Multiple of Punitive Damages】 How to claim and determine the multiple of punitive damages, and how to increase the multiple of punitive damages.

A97: Article 6 of the Punitive Damages Interpretation stipulates the factors to be considered in the multiple of punitive damages, that is, ‘When determining multiples of punitive damages in accordance with the law, the people’s court shall take into account such factors as the degree of subjective fault of the defendant and the seriousness of the infringement.’ Clearly, the multiple of punitive damages will still be considered from the perspective of ‘intentionally’ and ‘serious circumstances’, and for those with a higher degree of intent to infringe and the circumstances are more serious, a higher multiplication will be applied, which requires the right holder to collect sufficient evidence to prove any assertions. In addition to the above-mentioned perspectives of ‘intent’ and ‘serious circumstances’, the right holder can also start from the following aspects to consolidate the evidence to obtain a higher multiple of the award: 1. The degree of intent to infringe, and whether the infringer has multiple circumstances of intent to infringe; 2. The number of intellectual property rights infringed, and whether the infringer infringed multiple intellectual property rights of the right holder at the same time; 3. The popularity and influence of the right holder and its intellectual property rights, such as the goodwill and market position of the right holder, the popularity and influence of the right trademark or right work, whether it is a high-innovation, high-value patent or trade secret, etc.

Notably, the court will usually make interval classification for the determination of the multiple, so as to achieve that the multiple of punitive damages is commensurate with the infringer’s intent to infringe and the severity of the circumstances. However, due to the differences in the level of economic development in different regions, it is not possible to present a relatively unified standard at present. Thus, rights holders are advised to pay attention to the

judgment of the multiple in the previous punitive damages cases of that court when choosing the competent court and find the most appropriate jurisdiction.

Q98: 【Punitive Considerations in Statutory Damages】 Can punitive damages be considered in statutory or discretionary damages?

A98: The applicable standard for punitive damages is high. The plaintiff needs to prove ‘subjective intent’ and ‘serious circumstances’, and also must provide evidence to prove a clear calculation base of punitive damages. In practice, it is typically challenging to ascertain the losses of the right holder and the profits of the defendant. Moreover, the available evidence, such as licensing fees, is rarely perfectly aligned with the type of infringement. As a result, it is complicated for the right holder to accurately calculate and claim the calculation base amount of punitive damages, and it is thus difficult for the court to apply punitive damages.

In the case where the calculation base for punitive damages cannot be determined or where the right holder has not filed a claim for punitive damages, if the infringer has obvious intent to infringe and the circumstances are serious, the right holder may still refer to the above-mentioned method of calculating the calculation base to roughly calculate an amount, and request the court to take the amount and punitive factors as the considerations in determining the amount of damages, so as to determine a total amount of compensation higher than this amount. If the calculation result is higher than the statutory limit, and the evidence is sufficient, the court may determine the amount of damages above the statutory limit. For example, the High People's Court of Guangdong Province held in the trademark infringement dispute case of Guangdong Yongquan Valve Technology Co., Ltd., Yongquan Valve Co., Ltd., etc.⁵⁰ that if the infringer has obvious subjective malice and the circumstances of the infringement are serious, but punitive damages cannot be applied because the right holder has not clearly claimed the application of punitive damages or the calculation base of compensation cannot be determined, etc., the infringer's intent to infringe and the circumstances of the infringement may be taken into account as punitive consideration in light of the specific circumstances of the case. Within the scope

50 The High People's Court of Guangdong Province (2020) Yue Min Zhong No. 1588

of statutory compensation, the compensation must be heavier until the amount of compensation is determined according to the statutory ceiling. The final judgment was made that the infringer should bear a total of 10 million yuan in compensation for economic losses and reasonable rights protection costs.

Importantly, although it is often difficult to accurately determine the punitive calculation base, in some cases, the court did not impose too strict requirements on the accuracy of the calculation of the compensation base. On the basis that some of the data required for calculating compensation are supported by evidence, the court uses its discretion to determine other data required for calculating compensation according to the facts, determines a fair and reasonable calculation base, and applies punitive damages, which reduces the difficulty of rights holders in protecting their rights. For example, in a case of a dispute over infringement of the right to a new plant variety by a seed science and technology company in Liaoning, Linghai and an agricultural technology company in Qingdao, the Supreme People's Court⁵¹ changed the judgment of the court of first instance that it did not support the punitive damages claim of the seed science and technology company in Liaoning on the grounds that the compensation base could not be determined. Such, thus, changed the judgment to support the compensation claim of 3 million yuan for the seed science and technology company in Liaoning. This case clarified that the base amount of punitive damages can be determined based on the evidence in the case, and the statutory damages cannot be applied simply because it is difficult to calculate the base.

Moreover, when the full amount the base amount of punitive damages cannot be ascertained, some courts do not refuse to apply punitive damages on this basis, but coordinate the application of different methods of calculating damages in the same case: when part of the plaintiff's actual losses and the defendant's infringement profits can be ascertained, but the remaining part cannot be ascertained, punitive damages can be applied to the ascertained part as the basis for compensation, and the remaining part can be separately compensated. For example, the Shanghai Pudong New Area People's Court held in the trademark

51 The Supreme People's Court (2022) Zui Gao Fa Zhi Min Zhong No. 2907 Civil Judgment, Top 10 Intellectual Property Cases in Chinese Courts in 2023

infringement case of Zhejiang Jukai Sewing Technology Co., Ltd. v. JUKI Co., Ltd.⁵² that since punitive damages can be applied when the entire amount of the base amount is ascertained, punitive damages can also be applied when part of the base amount can be determined. The Shanghai Intellectual Property Court of the second instance also supported it.

Annex:

Based on the analysis of the above, we have presented the typical cases of punitive damages in recent years, summarized the factors considered by the court when determining the elements of ‘intentionally’ and ‘serious circumstances’, and listed the method of determining the calculation base, the multiples and the final total amount of damages

52 Shanghai Intellectual Property Court (2022) Hu 73 Min Zhong No. 187 Civil Judgment

No.	Case name	Case number	Court	Determination of 'intentionally'	Determination of 'serious circumstances'	multiple	Calculation base	Amount of damages (excluding reasonable expenses)
1	Dispute over infringement of invention patent rights between Babyzen Company and Yidatong Company, etc.	(2019) Jin 03 Zhi Min Chu No. 1262	Tianjin Third Intermediate People's Court	The legal representative of the infringer acted as an agent ad litem in another patent infringement case, the same patent as the object of rights in the present case.	The infringer manufactures and sells infringing products on a large scale, with a single transaction volume of nearly 2,000 units, a wide sales area, online and offline sales channels, and markets at home and abroad.	3 times	The plaintiff's actual loss = total sales of infringing patented products × profit of each patented product × contribution rate of the patent	1.5 million yuan
2	Dispute over copyright ownership and infringement of compiled works of historical documents between Xu and a book company Co., Ltd.	(2022) Jing 73 Min Zhong No. 4681	Beijing Intellectual Property Court	The infringer uses the work of the right holder without authorization after consultation with the right holder, but no agreement has been reached.	The infringer uses the work in a high proportion, makes huge profits, and has a wide impact.	1 time	The plaintiff's actual loss = the expenses specified in the application of the publishing fund project involved in the case × the proportion of the use of the right work	1.4 million yuan

No.	Case name	Case number	Court	Determination of 'intentionally'	Determination of 'serious circumstances'	multiple	Calculation base	Amount of damages (excluding reasonable expenses)
3	Dispute over trademark ownership between Fila Sports Co., Ltd. and Tang Qianqian, Nanjing Xinyue Qianqian Cosmetics Co., Ltd.	(2024) Su Min Zhong No. 590	Jiangsu High People's Court	The right holder's trademark has been recognized as a well-known trademark, and the right holder has many stores nationwide. The infringer, as an operator in the same industry, should be aware of it.	The amount of the alleged infringing goods is substantial, and the outsider who supplied the infringing goods has been found to constitute a criminal offense, and the criminal judgment also states that the infringer is a fugitive.	1.5 times	Defendant's profit from infringement = sales amount of infringing products × operating profit margin of the right holder	3
4	Dispute over trademark infringement between CHARLES & KEITH and CHERLSS & KEICH	(2023) Su Min Zhong No. 220	Jiangsu High People's Court	1. The right holder's trademark has a wide reputation, and the infringer, as an operator in the same industry, should be aware of it. 2. The infringer registers marks similar to the right holder's trademark in multiple classes.	1. Offline infringing stores are located in many places across the country, with a wide range of sales and long operating time; Online infringing stores have opened stores on multiple mainstream e-commerce platforms. 2. A number of	3 times	Defendant's profit from infringement = total sales of a single store × profit margin of the industry × number of stores	4

No.	Case name	Case number	Court	Determination of 'intentionally'	Determination of 'serious circumstances'	multiple	Calculation base	Amount of damages (excluding reasonable expenses)
				3. After being rejected for trademark registration or declared invalid by the trademark for several times, the infringer continues to sell infringing products on multiple mainstream e-commerce platforms.	news reports reflect that the infringing stores and franchise stores are operating well, and many consumers make purchases by mistake.			

No.	Case name	Case number	Court	Determination of 'intentionally'	Determination of 'serious circumstances'	multiple	Calculation base	Amount of damages (excluding reasonable expenses)
5	Dispute over trademark infringement and unfair competition between BURBERRY and BANE BERRY	(2022) Su Min Zhong No. 432	Jiangsu High People's Court	<p>1. The brand of the right holder is very well-known, and the infringer, as an operator in the same industry, is obviously aware of it.</p> <p>2. After the court of first instance made a ruling on act preservation, the infringer still did not stop the infringement.</p>	<p>1. The accused offline stores are in a state of rapid expansion and cover a wide range of regions, which highly overlap with the sales channels of the right holder.</p> <p>2. The accused online stores cover multiple mainstream platforms, and online dealers are located in 14 provinces.</p>	2 times	<p>The first calculation method: Defendant's profit from infringement = minimum unit profit of genuine products × average number of transactions in a single store × number of offline stores</p> <p>The second calculation method: Defendant's profit from infringement = profit margin of the industry × number of transactions in the store × average</p>	6 million yuan

No.	Case name	Case number	Court	Determination of 'intentionally'	Determination of 'serious circumstances'	multiple	Calculation base	Amount of damages (excluding reasonable expenses)
							transaction amount per order	
6	Dispute over trademark infringement and unfair competition between a winery and Nanjing Jin Liquor Co., Ltd.	(2022) Zui Gao Fa Min Zhong No. 313	The Supreme People's Court	<p>1. The awareness of the right holder's goods and brand are extremely high.</p> <p>2. The infringer applies for registration of a mark similar to the trademark of the right holder and continues to use the trademark after the trademark dispute is filed.</p> <p>3. The infringer continues to operate, continuously expands the scale of production and sales, and continues to free ride the</p>	<p>1. The infringer uses the alleged infringing mark for a long time.</p> <p>2. Each infringer has established a complete distribution system for importing, producing and selling the alleged infringing products, with relatively high profits from infringement and a wide range of influence.</p> <p>3. The alleged infringing product is a food related to the health of the people, and there are negative reports that the product</p>	2 times	Defendant's profit from infringement = sales of the accused product × profit margin of the defendant	79.17 million yuan

No.	Case name	Case number	Court	Determination of 'intentionally'	Determination of 'serious circumstances'	multiple	Calculation base	Amount of damages (excluding reasonable expenses)
				popularity of the right holder's products in publicity activities.	packaging is unqualified, which damages the goodwill of the right holder.			
7	Dispute over technical secret of new energy vehicle between Zhejiang Ji Holding Group Co., Ltd. and Zhejiang Ji Automobile Research Institute Co., Ltd., etc.	(2023) Zui Gao Fa Zhi Min Zhong No. 1590	The Supreme People's Court	The legal representative of the infringer used to be the vice president of the right holder, and he knew that there was a competitive relationship between the infringer and the right holder. In this case, the infringer induced nearly 40 people, including the employees of rights holder, to resign from their original company to take up a position with	1. The infringer induced nearly 40 people to leave their jobs on a large scale and join the infringer and its affiliates. Before leaving the company, the relevant employee also intentionally collected and downloaded relevant technical materials and documents in batches, and disclosed the technical secrets involved in the case to the infringer after working with the	2 times	Defendant's profit from infringement = sales volume × average sales price × profit margin on sales in the same industry × contribution rate of technical secrets	More than 640 million yuan

No.	Case name	Case number	Court	Determination of 'intentionally'	Determination of 'serious circumstances'	multiple	Calculation base	Amount of damages (excluding reasonable expenses)
				the infringer and its affiliates, and the above-mentioned departing personnel signed a confidentiality agreement or confidentiality contract with the right holder, and they were all aware that their conduct violated the confidentiality provisions of the original company.	infringer. Moreover, the alleged infringement of technical secrets has not been stopped after the right holder has filed a lawsuit. 2. The infringer has obtained a greater competitive advantage since using the technical secrets involved in the case, and the project construction agreement of the right holder cannot be continued to perform, resulting in huge losses.			

No.	Case name	Case number	Court	Determination of 'intentionally'	Determination of 'serious circumstances'	multiple	Calculation base	Amount of damages (excluding reasonable expenses)
8	Dispute over trademark infringement between Spin master Co., Ltd. and Yiwu Romeo E-commerce Co., Ltd., etc.	(2023) Zhe 07 Min Zhong No. 3033	Jinhua Intermediate People's Court, Zhejiang	1. The right holder's trademark has a high reputation and multiple registered trademarks have been infringed. 2. Repeated infringement and subjected to administrative punishment twice.	1. The infringement lasted for a long time, from 2019 to 2022. 2. The sales products have a wide territorial scope, and they are sold at home and abroad through cross-border e-commerce platforms.	2 times	Defendant's profit from infringement = sales amount × profit margin of infringing products	2 million yuan
9	Dispute over trademark infringement between the retrial applicant Opplé Lighting Co., Ltd. and the respondent Guangzhou Huasheng Plastic Products Co., Ltd	(2019) Yue Min Zai No. 147	Guangdong High People's Court	1. The trademark of the right holder is a well-known trademark, and the infringer, as an operator in the same industry in the same region, knowingly imitate or use multiple trademarks similar to the well-known	1. The infringer sells the accused products in multiple online shopping malls, with a huge number of sales and a long infringement period. 2. The infringer not only used the allegedly infringing trademark on the goods, but also operated under the name of 'Ou Pu Te Official Flagship	3 times	Reasonable multiple of the royalty = the average annual royalty of the trademark involved × the duration of infringement × the reasonable multiple	3 million yuan

No.	Case name	Case number	Court	Determination of 'intentionally'	Determination of 'serious circumstances'	multiple	Calculation base	Amount of damages (excluding reasonable expenses)
				<p>trademark involved and use them on the same goods.</p> <p>2. The infringer applied for a bad faith trademark and was rejected by the State Intellectual Property Office.</p>	<p>Store' on the website, and continuously expanded the production scale and established a new company.</p> <p>3. The infringement not only causes market confusion, but also the infringing products are punished because producing the unqualified products. The lamp products belong to the national compulsory certification products, and the unqualified product is very easy to cause safety accidents, damage the interests of consumers, and affect social and public safety.</p>			

No.	Case name	Case number	Court	Determination of 'intentionally'	Determination of 'serious circumstances'	multiple	Calculation base	Amount of damages (excluding reasonable expenses)
10	Dispute over trademark infringement and unfair competition between Guangdong Wanhe New Electric Co., Ltd., Guangdong Wanxian Electric Co., Ltd., Yang Mouhu and Nanning Hongjing Trading Co., Ltd.	(2021) Yue Min Zhong No. 4278	Guangdong High People's Court	1. The infringer deliberately imitates the well-known trademark of the right holder. 2. The infringer applies for the registration of a similar trademark and uses it on the same goods as the goods approved for use by the right holder's well-known trademark.	1. The infringer has carried out similar business activities in the same way for a long time and has been engaged in infringing intellectual property rights for a long time. 2. The infringer's infringement endangers personal safety and human health.	1 time	Reasonable multiple of the license fee = average annual trademark license fee × the infringement duration × the reasonable multiple	5 million yuan

CHAPTER XI

Software patent protection under the amended Patent Law

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Q99: 【Eligibility】 What kind of software can be protected by patents?

A99: The general definition of software encompasses the processes, procedures, rules, and related files, documents, and data that facilitate the operation of a computer system. According to the Guidelines for Patent Examination, a computer program product is described as ‘a software product that primarily implements its solution through a computer program.’ Traditionally, the computer program itself, along with abstract algorithms, calculation rules, and the software documentation, is not eligible for patent protection. However, the technical solutions implemented by software can be patented as computer program-related inventions.

With the revised Guidelines for Patent Examination taking effect on January 20, 2024, computer program products are now included in the patentable subject matter, representing a significant advancement in software patent protection. In earlier times, applicants sought software patent protection through claims related to systems, methods, or computer storage media. However, now that computer program products can be a directly patentable subject, the process for rights holders to assert their patent rights over software products has been simplified.

Under patent law, the eligibility of a software product for patent protection depends on it satisfying the following three conditions:

1. **Technical Solution Requirement:** According to Article 2 of the Patent Law, the subject of patent protection must be a technical solution that addresses technical problems and achieves technical effects through technical means.
2. **Compliance with Laws and Morality:** As per Article 5 of the Patent Law, software products must adhere to national laws, social ethics, and public interests. For instance, gambling software is ineligible for patent protection in China.
3. **Eligibility of Subject Matter:** Article 25 of the Patent Law provides that the technical solution of a software product must not fall within the categories

excluded from patent protection, such as the computer program itself, production management methods, or game entertainment rules.

The revision of the Guidelines for Patent Examination strengthens legal protection for software technology innovations across various industries and also highlights the importance of patent protection for cutting-edge technologies like artificial intelligence and big data. For businesses, it is crucial to identify which technical solutions generated by their R&D efforts are eligible for patent protection and to develop a robust patent protection strategy. This identification requires not only a deep understanding of the software technology itself but also a clear grasp of the relevant legal framework and current patent examination trends to ensure that the given innovations receive the maximum legal protection possible.

Q100: 【Granting Conditions】 What are conditions need to be met for a software patent to be granted?

A100: In China, computer program-related inventions can be protected by patents, commonly known as software patents. To be granted a software patent, the following conditions must be met:

1. Eligibility

First and foremost, the subject matter claimed in a software patent must be eligible for patent protection. Article 25 of the Patent Law provides that patents cannot be granted for mere rules of mental activity, such as pure algorithms, mathematical calculations, or game rules.

Secondly, the technical solution outlined in a software patent must utilize technical means to address technical problems and produce technical effects that align with the laws of nature. For instance, a patent application for an invention involving a computer program related to industrial process control, technical data processing, or enhancing the internal performance of a computer system typically qualifies for patent protection.

Lastly, the revised Guidelines for Patent Examination include specific provisions regarding the eligibility of software patents in particular technical areas. For software patents that involve artificial intelligence and big data algorithms, the conditions for patent approval may be met if they demonstrate improvements in hardware computing efficiency, processing speed, or reductions in data storage or transmission, as well as enhancements in the reliability or accuracy of big data analysis within a specific technical field.

2. Novelty, Inventiveness, and Industrial Applicability

Software patents are no exception when it comes to needing to satisfy the fundamental requirements for patentability.

First, a software patent must be novel, meaning that the claimed technical solution has not been made public in any prior art prior to the filing date.

Second, the software patent must also demonstrate inventiveness, meaning it is not something obvious to a person skilled in the art. Specifically, a three-step approach is used to assess the inventive step of a software patent application: 1) identify the closest prior art, 2) determine the distinguishing features of the invention and the technical problem it addresses, and 3) evaluate whether the claimed invention would be obvious to a person skilled in the art, based on its distinguishing technical features and the problem it solves.

During the inventive step examination for a patent application that includes technical features, algorithmic features, or business rules and methods, the algorithmic or business features should be considered in conjunction with the technical features. If an algorithm is applied within a specific technical field and enhances hardware performance, or if the implementation of business rules involves technical adjustments or improvements, these contributions should be factored into the inventive step evaluation. Likewise, if a better user experience can result from the synergy of technical features and associated algorithms or business rules, this improvement should also be taken into account when assessing inventiveness.

Finally, a software patent must have industrial applicability, meaning that the invention can be utilized in industry and to produce positive effects.

3. Substantive and Formal Requirements for Application Documents

The application must adhere to the specified substantive and formal requirements, which include a detailed description, claims, and any necessary drawings. The description should sufficiently disclose the technical solution of the invention, enabling a person skilled in the art to implement it, while the claims must be supported by the description.

In summary, when drafting and applying for software patents, it is essential to consider both the general requirements outlined in the Patent Law and the specific standards for software patents set forth in the Guidelines for Patent Examination. Particular attention should be paid to the technical means, the technical problems being addressed, and the resulting technical effects of the software patents to ensure that the criteria for eligibility and inventiveness are met. Additionally, the claims should be carefully constructed to maximize the scope of protection, ensuring that software innovations are effectively safeguarded by law.

Q101: 【Patent Drafting】 What should I pay attention to when drafting software patents?

A101: In practice, key considerations for software patent drafting include:

1. General requirements for patent drafting

The claims should be sufficiently supported by the description, which must unambiguously define the scope of the protection being claimed.

The description needs to provide a complete overview of the invention, detailing its background, technical solutions, technical effects, specific embodiments, and more. This approach ensures that a person skilled in the art can fully understand and implement the invention based on the description provided.

2. Drafting requirements for computer program-related inventions

The claims of a software patent can fall into four main categories: a method, a computer device/system, a computer-readable storage medium, and a computer program product. These categories should accurately represent the technical solution of the invention and should not merely describe the program's function.

For method claims, providing a detailed description of the method, flow, and functionality of the computer program, including specific steps and the implementation of the algorithm is essential.

In the case of device claims, outlining the hardware and software components of the device, their interrelationships, and how these components work together to achieve a technical solution is important.

Additionally, software claims can be framed as virtual device claims for patent protection in China. A virtual device is defined by program modules and should be understood as an architectural representation of program modules rather than a physical device with hardware components.

The specification of a software patent must include the overall design concept, technical features, and primary flow charts of the computer program, along with a description of the program's steps outlined in a flow chart. While the specification may include snippets of source code, providing the complete source code for a software patent application is not mandatory.

3. Drafting requirements for software patents involving features of algorithms or business rules/methods

The revised Guidelines for Patent Examination include provisions regarding the examination of software patents involving algorithms or aspects of business rules and methods. From a drafting perspective, there are several key points that require attention:

Synergy between technical features and algorithmic or business rule/method features: The claims should provide a detailed description of these

features, explaining in the description how the algorithmic features or business rule/method features interact with the technical features to produce a specific technical effect.

Concretization of technical domains: Abstract algorithms should be described in specific technical domains to ensure that they are closely related to the solution of practical technical problems.

User experience improvement: If the enhancement of user experience is an integral aspect of the technical effect, it must be described in detail within the specification, highlighting its relevance to the technical features.

In summary, when drafting software patents, it is vital to consider the varying requirements at different levels. A thorough understanding and accurate interpretation of legal standards and practices, such as the Guidelines for Patent Examination Guidelines, are crucial. This approach not only guarantees the quality of patent application documents but also significantly influences the patent's potential of granting, the reasonableness of its scope of protection, and its overall value.

Q102: 【Protection Strategy】 Is it better to protect software as a trade secret or with a patent?

A102: Strategies for protecting software intellectual property typically involve two primary legal instruments: trade secrets and patents. Each of these methods has its own unique strengths and limitations. When choosing the right protection strategy, it's crucial to consider the characteristics of the software, the business strategy of the company, the competitive landscape, and the desired outcomes of protection.

A trade secret is a form of intellectual property protection that does not require official examination. The category includes business and technical information that is not publicly known. Technical secrets fall under the umbrella of trade secrets. The key to safeguarding trade secrets lies in implementing sufficient confidentiality measures to prevent information leakage. One of the main pros of

trade secrets is that they do not have a fixed term of protection; as long as the secret remains undisclosed, protection continues. However, there are limitations. For instance, trade secrets do not prevent competitors from independently discovering or developing the same technology, nor do they stop the legal acquisition of secret technical information through reverse engineering. According to the Anti-Unfair Competition Law, reverse engineering involves disassembling, mapping, and analyzing products obtained through open channels to extract technical information, but illegally acquiring technical secrets does not qualify as reverse engineering.

In contrast to trade secrets, patent protection grants an officially recognized and exclusive right to a software technical solution. To obtain a patent, the technical solution must demonstrate novelty, inventiveness, and industrial applicability through a process of application, examination, and publication. For the same invention, the patent is awarded to the first person to file the application. The core advantage of patents is that they provide a clear scope of protection and legal exclusivity, allowing companies to share technology through licensing without forfeiting their intellectual property rights. Patent protection typically lasts for 20 years from the filing date. Determining patent infringement usually involves comparing the scope of protection outlined in the claims with the characteristics of the allegedly infringing product or process, applying doctrines of full coverage and equivalence.

In some cases, software may be better protected by trade secrets. For example, if the software contains algorithms or technologies that are difficult to uncover through reverse engineering, or if the company has a robust trade secret management system along with legal and technical safeguards, trade secrets may be the more suitable option. Additionally, if a company seeks protection for more than 20 years, trade secrets might better align with its needs.

In contrast, patent protection may be preferable for software technologies that can be easily reverse-engineered or in situations where there is high turnover among software developers, making it challenging to prove ownership of trade secrets. Patents provide clear proof of intellectual property ownership, even amid personnel changes, and offer legal recourse in cases of infringement.

A notable case⁵³ highlighting the importance of both technical secrets and patent protection involved Zhejiang J Holding Group Co., Ltd. vs. W Automotive Technology Group Co., Ltd. Zhejiang J claimed that W Automotive illegally obtained and used its technical secrets, involving 40 employees who changed jobs and applied for 12 patents based on those secrets. The Supreme People's Court ultimately ordered W Automotive to pay approximately CNY 640 million (~US\$ 90m) in compensation and mandated that it takes specific measures to cease the infringement. This case underscores the value of protecting technical secrets and illustrates the critical role of patents in safeguarding intellectual property, especially when employees transition between companies.

Ultimately, there is no one-size-fits-all answer to whether software is better suited for trade secret or patent protection. Companies must make decisions based on their specific circumstances and strategic objectives. Trade secrets and patents can be overlapping and complementary. In practice, many businesses adopt an 'all-round protection' strategy, utilizing both trade secrets and patents to safeguard their software products. For instance, a business might protect the core algorithm of its software as a trade secret while simultaneously applying for patent protection for key processes, modules, interfaces, and user interfaces. This approach allows companies to protect their technical secrets while ensuring exclusive rights to all aspects of their software.

Q103: 【Protection Strategy】 How many patents are appropriate for a given piece of software?

A103: Determining the right number of patents to file for a software product involves considering numerous factors. The following are some of the key points:

1. Identification of innovative points

First and foremost, it's essential to pinpoint the innovative aspects of the software. Major novel improvements may typically be the subject of separate patent

applications, as they often represent significant technological breakthroughs or unique solutions.

2. Granularity

For smaller innovative improvements, these can be included in the patent application as dependent claims. This approach allows multiple relevant innovations to be covered within a single patent document, while still maintaining focus on the scope of protection.

3. Avoid a unitary patent that covers everything

It's not advisable to bundle all innovative improvements into a single patent application. Doing so can lead to an overly narrow scope of protection and may hinder the effective safeguarding of each specific innovation.

4. Budget and resources

Filing for patents requires considerable investment. Companies should strategically plan the number and quality of their patent applications based on their budget and available resources.

5. Market strategy

The number of patent applications should align with the market strategy. For instance, if the software has market potential in multiple countries or regions, it may be necessary to secure patents in each of those areas.

6. Risk of irregular application

Avoid filing patents solely to meet a quantitative target, as this approach can lead to irregular filings and potential penalties.

A good example is NetEase Cloud Music, which has filed thousands of patents related to its graphical user interface, data retrieval, recommendation methods, natural language processing, machine learning, audio processing, and more.

Since 2014, it has applied for over 150 design patents for its graphical user interface (GUI). This demonstrates NetEase Cloud Music's commitment to the uniqueness and innovation of its software functions and interfaces, as well as its diverse patent protection strategy.

The number of patent applications should be guided by factors such as software innovation, market strategy, budget, and protection need. A software product may warrant anywhere from a few to dozens of patents, with the aim being to ensure that each patent effectively protects its unique innovative aspects.

Q104: 【Protection Strategy】 What are the considerations for software patents going overseas?

A104: In today's globalized business environment, international protection of software patents has become increasingly crucial. When developing a strategy for 'going global' with their patents, software companies must carefully consider several key factors to ensure their intellectual property rights are effectively protected worldwide. Here are some core elements to remember when it comes to the international protection of software patents:

1. Eligibility

Eligibility is the primary requirement for patent protection. In China, computer program-related inventions are generally considered eligible if they address technical problems and produce technical effects. However, in jurisdictions such as the United States, patent applications may face additional challenges under Section 101 of the U.S. Patent Act. Thus, the claims of a software patent must be meticulously crafted to ensure eligibility in the target countries.

2. Accuracy of language

Linguistic precision in patent application documents is essential for ensuring that the scope of patent protection is effective. In the United States, Section 112 of the U.S. Patent Act imposes strict requirements for adequate disclosure and clarity of claims. In Europe, patent examinations are even more stringent. When filing

overseas applications based on Chinese priority, issues often arise from ambiguous Chinese expressions, such as limitations in quantity and citations, which can lead to ambiguities in overseas applications and potentially affect the scope of protection of claims. Thus, international applications for software patents must ensure that the language used in their specifications and claims is accurate and meets the requirements of different jurisdictions.

3. Rules of Patent Examination

Patent examination rules vary across countries and regions, directly impacting the drafting and filing strategies for software patents. For example, China's Guidelines for Patent Examination explicitly support claims for virtual devices, while such claims would be classified as Means Plus Function under the U.S. examination rules. The discrepancy can cause issues, such as insufficient support for the description during the examination process and a narrower scope of protection in subsequent rights enforcement. Thus, when applying for patents overseas, companies should adjust their application documents according to the examination rules of the target countries to enhance the likelihood of patent approval.

In practice, software companies should consider the following strategies when applying for patents internationally:

- **Overseas Software Patent Drafting Plan:** Companies should develop patent drafting plans tailored to the patent laws and examination practices of different countries. This approach may involve reframing claims and adjusting the content of the specifications to ensure compliance with the target country's patent law.
- **Chinese-Style Drafting:** In China, patent application documents are drafted to emphasize the practical application of technical solutions for software inventions. When preparing these documents, companies should ensure they fully describe the technical features and practical application scenarios of the invention.

- **American-Style Drafting:** In the United States, it's vital to detail specific embodiments of various aspects of the software invention to avoid falling into abstract concepts or insufficient descriptions. Claims should be drafted to define the scope of protection to mitigate eligibility issues under Section 101.
- **European-Style Drafting:** In Europe, patent application drafting requirements are more stringent. Companies must ensure that their specifications provide enough detail to demonstrate the practicability of the invention, thus meeting the examination standards set by the European Patent Office.

In summary, software companies must consider the eligibility requirements, linguistic accuracy, and examination rules of their target countries when applying for patents abroad. By developing a well-structured patent filing strategy and documentation, companies can enhance the competitiveness and protection of their software patents in the international market.

Q105: 【Protection Strategy】 How to protect the business model through software patents?

A105: Protecting innovations in business models has become a significant legal concern in today's rapidly evolving business landscape, particularly with the swift advancement of software and internet technology. Based on the Guidelines for Patent Examination and relevant case law, the following are some key points to consider when it comes to safeguarding business models through software patents:

1. **Identify Technology Anchors:** While a business model may typically be viewed as a purely business method, patent law is designed to protect technical solutions. Therefore, the key to obtaining patent protection lies in integrating the model with its technical features. For instance, if a business model implements methods using computer programs that involve technical adjustments or enhancements, these relevant technical means can be presented as technical features in the patent application.

- 2. Incorporate Algorithmic Features:** In patent applications that include algorithmic features alongside business rules or methods, it's essential to provide a detailed description of how these algorithmic features interact with the technical aspects. The description should explain which technical problems are addressed and what technical effects are achieved. Additionally, the distinguishing features of the technical solution should not rely solely on the algorithm or business method. If they do, the application may be deemed to lack an inventive step, as it would not present a technical contribution to prior art.
- 3. Focus on Specific Technical Fields:** Patent applications for business models should demonstrate their applicability in specific technology domains, such as artificial intelligence, big data, or blockchain. The technical characteristics inherent in these areas can enhance the potential for patent protection for business models.
- 4. Ensure Sufficient Disclosure:** The patent specification must thoroughly detail the technical implementation of the business model, including aspects like system architecture, workflows, and data processing methods. This level of detail is necessary to meet the requirements for full disclosure.
- 5. Draft Claims Carefully:** Claims should define the scope of protection, encompassing the commercial methods as well as the technical features that enable them. The claims must articulate how the technical features interact with the business methods.
- 6. Include Non-Essential Technical Features:** In some instances, certain technical features may not be essential for realizing the business model but can still be included in the patent protection scope, provided they are closely integrated with the business model's implementation and address specific technical problems.
- 7. Responding to Office Actions:** During the patent examination process, applicants may face inquiries regarding whether their application meets the requirements of patent law. At this stage, it's vital for the applicant to prepare

robust arguments and evidence to demonstrate the technical features of their business model and how these features comply with patent law.

For example, consider QR code payments. By integrating QR codes with payment processing, a new payment method has been commercially realized. Although QR code payments do not, in themselves, constitute a technical solution, the underlying systems and methods, such as the collection and analysis of multi-field QR codes and technologies related to transaction processing and user account security, are indeed eligible for patent protection.

In summary, the key to protecting a business model through software patents lies in identifying and emphasizing the technical features within the business model implementation and illustrating how these features interact with business methods to solve technical problems and produce tangible effects. Precise and detailed descriptions in the patent application documents are required. A strong defense during the patent prosecution process also should be planned. By following these guidelines, innovations in business models can effectively be protected under patent law.

Q106: 【Graphical User Interface】 How to protect the software graphical user interface with patents?

A106: Software graphical user interfaces (GUIs) can be protected through a number of legal mechanisms, including design patents, invention patents, and copyrights, each offering distinct scopes of protection and requirements.

- 1. Design Patents:** Design patents provide a means to protect GUIs in China, particularly as regulations have gradually relaxed. According to Patent Law, a design patent safeguards the design of an industrial product, provided it is novel and significantly different from existing designs.
- 2. Invention Patents:** An invention patent protects a technical solution and requires that the solution be novel, inventive, and practical. Invention patents can cover the technical implementation and functionality of the GUI, including the technical solutions related to the user interface's functionality.

- 3. Copyright:** Copyright law protects original works of art, safeguarding the expression of ideas rather than the ideas themselves. Artistic elements within the GUI, such as icons and patterns, can be protected by copyright as artistic works.

In practice, there are several important considerations for protecting GUIs through design patents:

- **Eligibility for Design Protection:** According to the Guidelines for Patent Examination, certain elements, such as game interfaces, patterns displayed on devices unrelated to human-computer interaction, wallpapers, startup or shutdown images, and website layouts not involving human-computer interaction, are not eligible for design protection. For instance, an icon that merely displays a pattern unrelated to user interaction is not protectable, whereas an icon that facilitates user interaction, like an app launch icon, can be protected by a design patent.
- **Novelty Search:** Before applying for a GUI design patent, conducting a novelty search is essential to assess the patentability of the GUI.
- **Selection of Protection Options:** Companies must decide whether to protect the overall design, or specific parts of the GUI. Common categories for GUI design protection include:

Hardware-independent GUIs, such as graphical user interfaces, software interfaces, interactive interfaces, operating interfaces, and display panels for electronic devices.

GUIs tied to hardware, such as those for mobile phones, computers, tablets, TVs, monitors, and smartwatches.

Specific components of a GUI, including the main body, modules, display areas, and operational areas.

Preparation of Application Documents: The examination of GUI design patents in China, particularly for partial designs, is strict. When preparing application

documents, adhering strictly to requirements to ensure completeness and avoid losing rights due to issues with the scope of amendments is essential.

Design litigation cases can provide valuable insights into GUI design patent protection. For example, in the patent infringement dispute between Qihoo and Jiangmin Company,⁵⁴ the Beijing Intellectual Property Court ruled that the design patent in question was a product of a ‘computer,’ and since the alleged infringement involved providing software, it did not constitute infringement. This decision sparked significant discussion regarding the practical implications of GUI patent protection.

In another case⁵⁵, *Kingsoft v. TouchPal, Inc.*, concerning GUI design patent infringement, the Shanghai Intellectual Property Court found that providing app software was equivalent to manufacturing the primary component of the product containing the GUI, thus ruling in favor of infringement. The judgment reflects a recognition of the unique characteristics of GUI products and considers industry development trends, offering new perspectives on determining GUI design infringement.

Additionally, if the implementation of a GUI and its functions yield a technical effect, they can also be protected by invention patents. In the case of *Huawei v. Samsung*,⁵⁶ Huawei's GUI invention patent was upheld by the court, resulting in Samsung being ordered to cease the sale of 23 mobile phones and to compensate Huawei CNY 80 million (USD 11.2m) for economic losses and reasonable expenses.

In conclusion, the intellectual property protection of GUIs is a multifaceted issue. When developing GUIs, companies should consider various protection methods to ensure their innovations are fully and effectively safeguarded by law. By employing a well-thought-out legal strategy and adhering to a rigorous patent application process, businesses can minimize the risk of infringing on others' patent rights while ensuring their own intellectual property is protected.

54 (2016) Beijing 73 Civil Case First Instance No. 276

55 Shanghai IP Court (2019) Shanghai 73 Civil Case First Instance No. 398, 399

56 (2017) Fujian Civil Case Final Instance No. 501

Q107: 【Patent Protection】 Is it still worth applying if it is difficult to obtain evidence of software patent infringement?

A107: While obtaining evidence of software patent infringement can be more challenging compared to fields like mechanics, the reality does not imply that evidence cannot be collected or that software patents have lost their value. Several important aspects that highlight the value of a software patent application are described following:

- 1. Possibilities and Approaches to Evidence Collection:** Even though discovering software patent infringement may pose difficulties, gathering evidence is still possible. In some instances, the burden of proof can be shifted, meaning that the alleged infringing party may need to demonstrate that their actions do not constitute infringement. In a software patent infringement lawsuit, if the patent holder struggles to directly obtain evidence, they can request the court to reverse the burden of proof. Initially, the patent holder must present evidence suggesting a possibility of infringement, such as product information or expert testimony. If the court deems this evidence reasonable, the burden shifts to the defendant, who must then provide proof that their technology is not infringing or risk facing an unfavorable ruling.
- 2. The Non-Litigation Value of a Software Patent:** The value of a software patent extends well beyond its implications in litigation. Software patents can enhance an enterprise's intellectual property portfolio, boosting its market competitiveness and bargaining power. These patents can be licensed, transferred, or cross-licensed, generating direct economic benefits for companies. Furthermore, software patents can serve as valuable bargaining chips in technical collaborations and strategic alliances, fostering open innovation and technology exchange between businesses.
- 3. Strategic Value of a Patent Portfolio:** Building a portfolio of multiple patents can significantly increase a company's chances of realizing the value of its intellectual property. The size and diversity of a patent portfolio directly impact its potential for value realization. With a robust patent portfolio, businesses can strengthen their position in litigation and monetize their patents through

licensing and exchanges. Additionally, patent portfolios can act as effective marketing tools, enhancing a corporate image and boosting consumer and investor confidence.

While challenges exist in obtaining evidence of software patent infringement, these obstacles can be addressed with comprehensive strategies and legal approaches. Software patent applications protect a company's technological innovations and products and also unlock their value through various avenues, including non-litigation means. Therefore, applying for a software patent remains a worthwhile investment, crucial for the long-term growth and intellectual property strategy of the enterprise.

Q108: 【Infringement Risk】 How to avoid your own software products from infringing on the patent rights of others?

A108: In a highly competitive software market, avoiding infringement of others' patent rights is a key aspect of risk management. The following are some legal strategies to help ensure that your software products do not infringe on existing patents:

- 1. Software Infringement Search and Analysis:** To prevent infringing on others' patent rights, it is important to conduct a thorough software infringement search and analysis. When developing software, professional searchers should explore patent databases to compare existing patents with their own software features, ensuring there is no risk of infringement. Additionally, reviewing relevant precedents and analyzing court criteria for determining patent infringement is vital. A Freedom to Operate (FTO) report from a patent attorney can play a key role in this process, helping companies assess whether their software infringes on others' patents and thereby avoiding unintentional infringement.
- 2. Patent Infringement Risks from Third-Party Software:** In a software-integrated environment, the use of third-party code, modules, and tool libraries can increase the risk of patent infringement. Businesses must obtain the necessary authorizations or licenses for any third-party software they use. It is also important to review the agreements and related patents associated

with third-party software to confirm that their usage does not lead to patent infringement lawsuits.

- 3. Management of Technology Sources:** Companies should implement a robust technology source tracking system to document the development and use of technology. For new hires, it is crucial to review any service inventions from their previous employers to ensure that their new roles do not infringe on the trade secrets or patent rights of those companies. Additionally, employers should require employees to sign confidentiality and non-compete agreements to protect technical secrets.

In summary, to avoid infringing on others' patent rights with their software products, company operators need to conduct comprehensive patent searches and analyses before and during software development, use third-party software cautiously, and manage their technology sources diligently. By taking these measures, the risk of patent infringement can be significantly reduced, helping to prevent unnecessary losses.

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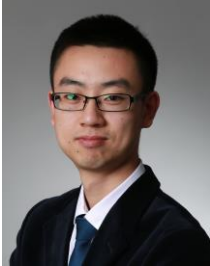
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