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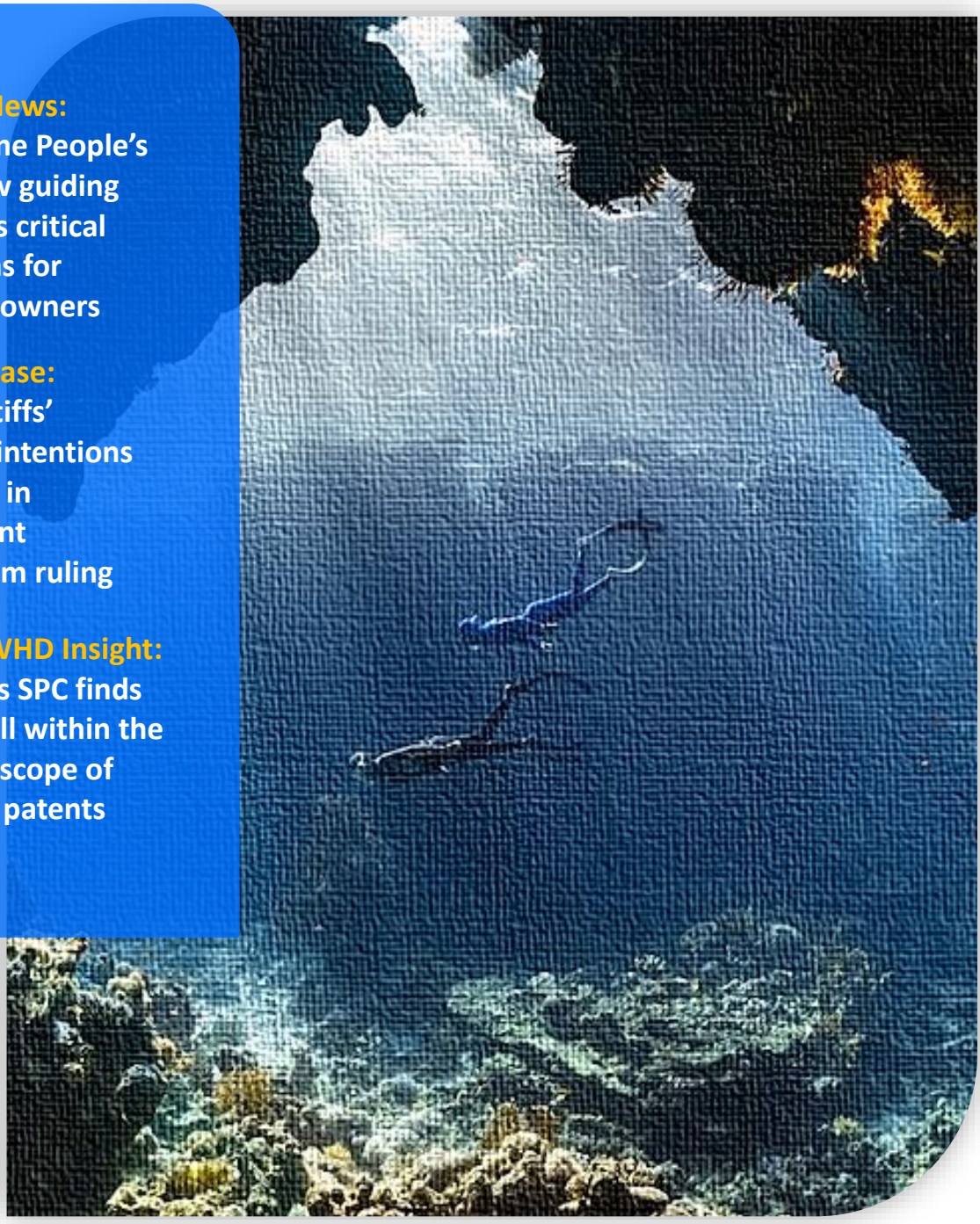

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n° 22 News: IP | Supreme People's Court's new guiding opinion has critical implications for trademark owners

Zhigang Zhu, Paul Ranjard, Hui Huang, 30 August 2023, first published by *IAM*

On 28 July 2023, the Supreme People's Court issued a Guiding Opinion on the Determination of Jurisdiction Concerning Elevation of Jurisdiction and Retrials of Cases. As indicated in the title, this opinion addresses two topics: elevation of jurisdiction and retrials.

Elevation of jurisdiction

Elevation of jurisdiction refers to the transfer of jurisdiction – a characteristic of the Chinese legal system – outlined in the second chapter of the Civil Procedure Law about judicial organization Organization (the Administrative Procedure Law has similar rules). Generally speaking, the judiciary is organised into four levels:

- basic people's courts;
- intermediary people's courts;
- high people's courts (one per province); and
- one Supreme People's Court.

Procedures may go through three successive levels of jurisdiction:

- first instance;
- appeal; and
- retrial.

In principle, whether a case should begin at the basic, intermediate, high court or even Supreme Court level depends on the case's impact on the territorial jurisdiction covered by the court. Some courts have a special competence on certain matters, such as the four IP courts in Beijing, Shanghai, Guangzhou and Hainan. However, the current system is quite flexible: Article 39 of the Civil Procedure Law provides for the possibility of adjustments (eg, a case filed at a certain level may either be moved to a lower level or elevated to a higher level). The Supreme People's Court's recent guiding opinion now clarifies when a case can be moved to a higher level.

This is particularly critical for trademark owners. In April 2022, the Supreme People's Court issued a circular about the jurisdictional threshold of basic courts, which resulted in the vast majority of trademark litigation to be initiated at the basic level. Consequentially, appeals were handled by the intermediate court and retrials by the high courts; the Supreme People's Court was out of reach for most trademark infringement cases.

This new interpretation allows certain trademark infringement cases to be elevated

to the intermediate level, which brings them within reach of the Supreme People's Court for a possible retrial.

Retrial

Retrial is part of the general supervision of cases, which is dealt with in Chapter 16 of the Civil Procedure Law.

Article 205(2) states:

Where the Supreme People's Court discovers an error in a judgment, ruling or mediation of a Local People's Court at any level which has come into legal effect or where a High People's Court discovers an error in a judgment, ruling or mediation of a lower-level People's Court which has come into legal effect, it shall have the right to retry or order the lower-level People's Court to re-try the case.

While there is no time limit for this, the occurrence of such a retrial ordered by the Supreme People's Court or a high court is incredibly rare. The most frequent situation is one where a litigant, unhappy with the appeal-level decision, asks the higher-level court (ie, the Supreme People's Court – if the appeal decision was rendered by a high court) to retry the case. This request must be filed within six months.

Article 207 of the Civil Procedure Law outlines no fewer than 13 causes for retrial. Most of these concern evidence; only one concerns a possible error in the application of the law.

With the number of civil litigations on the rise, the Supreme People's Court became overwhelmed with retrial applications. In May 2021, the court issued a pilot programme for improving the four levels' court trials, which narrowed down the number of acceptable causes for retrial. The court would now only accept cases if:

- there was no objection on evidence or procedure;
- if the dispute focused on a point of law; or
- if the decision had been made by the judicial committee of a high court, which is a special panel that deals with important cases.

However, this made it almost impossible to obtain a retrial by the Supreme People's Court. Therefore, this programme is no longer active and in the new guiding opinion, the Supreme People's Court has re-opened its door to retrial applications.

Article 15 of the guiding opinion states that high courts shall, in principle, retry cases that are eligible for retrial unless the reasons for retrial are mostly due to procedural defects, in which case the high court may order the lower people's court – that issued the judgment – to retry.

Article 16 further provides that, except where the law and judicial interpretations justify an elevation of jurisdiction, the Supreme People's Court will retry a case if it meets one of the following circumstances:

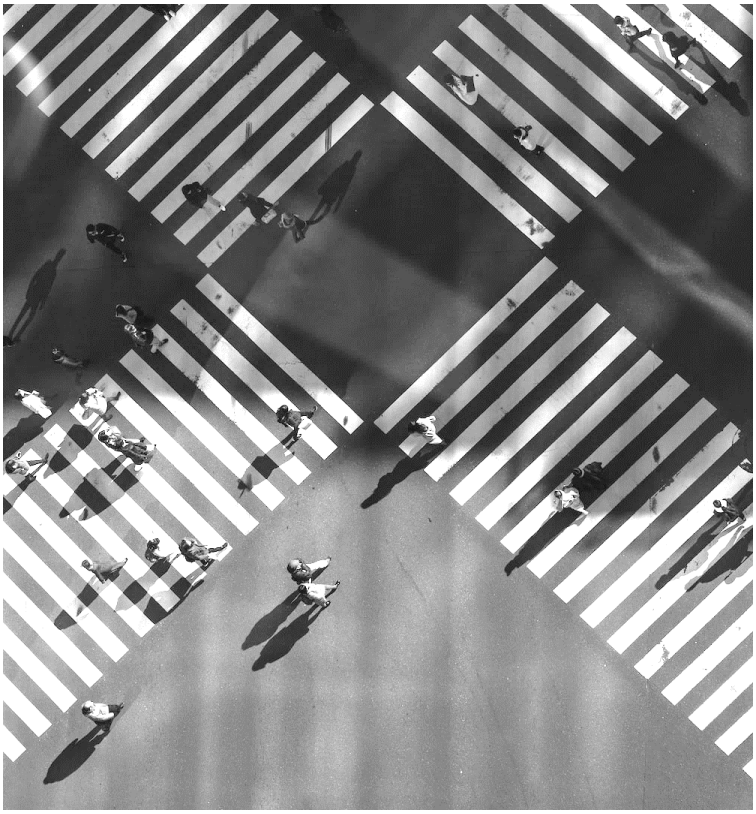
- it has a significant nationwide impact;

- it clarifies general guidance when it comes to the application of the law;
- if the point of law in question involves a major disagreement within the court;
- if the point of law in question involves a significant divergence of views among different high courts (provincial level) that are adjudicating similar cases;
- where the case is more conducive to a fair trial; and
- if the Supreme People's Court deems that it should be brought to trial.

In addition, the guiding opinion reiterates the aforementioned provision of Article 205(2) of the Civil Procedure Law, which enables the Supreme People's Court to retry cases ex officio, where it finds – on its own initiative – that there is an error in a civil or administrative judgment and ruling of local people's courts at any level.

Looking forward

This opinion re-enables the Supreme People's Court to hear more retrial cases, as crucial cases can now start at an intermediate court after elevation of jurisdiction. This is especially critical for the many cases filed with the Beijing IP Court following decisions made by the China National IP Administration, which are subject to appeal before the Beijing High Court and then to the Supreme People's Court for retrial. Whether – and how – the Supreme People's Court will use its ex officio power to harmonise the application of the law will be vital.



n° 20 Case: TM | Plaintiffs' subjective intentions underlined in infringement counterclaim ruling

Jiang Nan and Paul Ranjard, 13 September 2023, first published by *IAM*

A decision rendered by the Putuo District Court of Shanghai in October 2022 has been freshly published by IPHouse, bringing it centre stage once more. In this, court dismissed a trademark infringement suit and partially upheld the defendant's counterclaim by awarding 70,000 yuan in attorney fees. This decision is a crucial one because it highlights that the courts are paying increasingly close attention to plaintiffs' subjective intentions.

Case details

Shanghai Yi Kun Building Materials is the exclusive licensee of the 樱花 & DEVICE trademark (the Chinese characters mean 'cherry blossom'), which is registered in Class 19 (refractory materials).

Shanghai Yi Kun Building Materials

Shanghai ABM Rock Wool is the owner of the 樱花 trademark, which is also registered in Class 19 but for rockwool products. These two Chinese characters are the same as those appearing on Yi Kun's mark.

樱花

Shanghai ABM Rock Wool

On 13 September 2021, Yi Kun sued Shanghai ABM Rock Wool and its subsidiary before the Putuo District Court of Shanghai, alleging that ABM's use of the mark 樱花 on its rockwool products infringes upon Yi Kun's 樱花 & DEVICE trademark and requesting cessation of trademark infringement, destruction of infringing goods and damages of 1 million yuan.

ABM categorically denied the infringement allegations. First, it argued that rockwool products are not refractory materials even if they both require a fire resistance test. Second, ABM showed that the two trademarks are not similar: Yi Kun's mark is a device representing a cherry blossom – with the two Chinese characters occupying a very small part of the space – while ABM's trademark is made up of only these two characters. Therefore, ABM not only denied any wrongdoing but also responded with a counterclaim for its attorney fees (100,000 yuan) and requested that Yi Kun be responsible for the legal costs.

The court decision

The court sided with ABM on both fronts.

On the infringement matter, the courtfound that ABM uses its registered trademark with the product name "Rock Wool" prominently displayed on the goods designated by the registration, which constitutes proper use. The court then held that even if rockwool products undergo a fire resistance test, which is a common feature with refractory products, they do not belong in that category. Therefore, trademark infringement could not be established.

With regard to ABM's counterclaim, the court decided that Yi Kun had abused its right to sue, based on the following findings:

- Yi Kun had intentionally isolated the '樱花' part of its mark and used this sole element on rockwool products, which are not even designated by the mark; and
- Yi Kun had attempted – and failed – to register marks similar to ABM's 樱花 trademark, showing an intention to freeride on ABM's goodwill.

Further, the court noted that in June 2020, Qingpu District Administration for Market Regulation of Shanghai had imposed a 50,000 yuan fine on Yi Kun for the infringing use of ABM's 樱花 mark, and Yi Kun had not challenged the decision. Finally, the court found that by using only one part of its registered trademark (without the device representing a cherry blossom) on its own products, Yi Kun was not actually using its mark as it is, as outlined in the Trademark Law, but was using a sign that was almost identical to ABM's trademark.

In essence, the court found that Yi Kun had weaponised the suit to disrupt its rival's business operations, thus breaching the principle of good faith. This caused prejudice to ABM's legitimate interests, wasted judicial resources, undermined judicial authority and constituted abuse of rights.

The court awarded ABM the attorney fees of 70,000 yuan. The decision has now entered into force.

Analysis

The court was looking at a situation that the Supreme People's Court mentioned in its Judicial Interpretation of April 2008 about conflicts between registered trademarks and prior rights. According to Article 1 of the interpretation, a court shall not accept an action initiated by the owner of a registered trademark against another registered trademark and shall direct the plaintiff to request that the accused mark be invalidated by the administrative authority. There are only two exceptions to this rule:

- where the said trademark is significantly modified; or
- if the mark is used on goods other than those approved by its registration.

This is why the court insisted that the defendant was using its trademark exactly as registered and on the very products for which it was approved.

The logical consequence could have been a straightforward dismissal and a recommendation to file an invalidation application, but the court wanted to sanction the plaintiff's attitude. The infringement claim and abuse of rights were fully examined.

There is a key lesson to be taken from this case. The courts are paying closer attention to plaintiffs' subjective intentions and are drawing clearer distinctions between trademark owners that legitimately believe that their trademarks are being infringed (although a court may still not find infringement and dismiss the case), and those that use their rights in bad faith against competitors.

n° 51 WHD Insights: PT | China's SPC finds hydrates fall within the protection scope of compound patents

Wu Xiaoping, 31 July 2023, first published by *MIP*

Under China's patent regime, patents for chemical compounds are most desirable for pharmaceutical companies, as they offer broad coverage and strong protection over the patented technology. A hydrate refers to a chemical compound with crystalline water in its structure. In practice, opinions vary as to whether the hydrates of a patented chemical compound fall within the latter's protection scope.

The initial ruling in Yangtze River v HIPI

On May 25, 2023, the Intellectual Property Court of the Supreme People's Court (SPC) elucidated this matter in its decision re Yangtze River Pharmaceutical (Group) Co., Ltd. et al. v HIPI Corporation Ltd. et al.

This case originates from the dispute over abuse of dominant market position which was brought by Yangtze River Pharmaceutical (Group) Co., Ltd. and its subsidiary (collectively referred to as Yangtze River) against HIPI Corporation Ltd. (HIPI) et al. before the Nanjing Intermediate Court in 2019. Yangtze River requested, among others:

- The cessation of monopolistic practices;
- The indemnification of RMB 90 million (approximately $12.5 million) for the losses arising from the monopolistic conducts; and
- The reimbursement of reasonable costs of RMB 500,000.

On March 18, 2020, the Nanjing Intermediate Court ruled in favour of the plaintiffs and awarded damages of over RMB 68 million. HIPI and its subsidiary appealed before the SPC.

At the core of the suit is a compound invention patent, 'ZL02128998.0' ('Patent 998'), covering specific kinds of desloratadine polyacid-base metal or alkaline-earth metal complex salt, such as desloratadine citrate disodium, which is an antihistamine registered eponymously with the National Medical Products Administration as a new drug. The invention patent is owned by HIPI's subsidiary.

In 2006, Yangtze River signed a technology transfer contract with HIPI in exchange for the latter's production approval and production technology of desloratadine citrate disodium tablets, which Yangtze River marketed as BEIXUE.

According to the contractual terms, HIPI was obligated to provide Yangtze River with the active pharmaceutical ingredient (API). Nevertheless, the technology transfer contract neither covered HIPI's production technology of the API nor the hard capsules of desloratadine citrate disodium, which were later marketed as RUIPUKANG by HIPI's subsidiary. The collaboration started to fall apart as bitter legal wrangling broke out due to the steep rise of the API price and the rivalry between

the BEIXUE tablets and RUIPUKANG capsules.

Of the allegations made by Yangtze River, one pivotal issue concerned whether the API at issue fell within the protection scope of 'Patent 998'. If the API at issue were found to be covered by 'Patent 998', the monopolistic allegation was unlikely to stand because unless licensed by the patentee, other entities are not allowed to implement the patent and the alleged monopolistic practice would be nothing but legitimate execution of a valid invention patent.

Yangtze River contended that the patented compound is desloratadine citrate disodium salt (Chemical Abstracts Service No. 1602766-05-1), while the API at issue is desloratadine citrate disodium salt dihydrate (Chemical Abstracts Service No. 1450805-34-1). Thus, qualitatively speaking, they are different compounds.

SPC decision

The SPC found that the disputes revolved around the definition of the relevant market, whether HIPI has a, and abuses its, dominant market position, and the legal liability thereof, which are highly relevant to whether the API of desloratadine citrate disodium tablets falls within the protection scope of 'Patent 998'. The court held the following:

- 'Patent 998' is a compound invention patent, the protection scope of which covers the complex salt of desloratadine citrate disodium.
- It is widely known to a person skilled in the art that desloratadine citrate disodium dihydrate is one of the crystal forms of desloratadine citrate disodium complex salt. It, of course, falls within the protection scope of 'Patent 998'.
- The instructions of BEIXUE tablets read: "The main ingredient of this product is desloratadine citrate disodium. Its chemical name is 8-chloro-6,11-dihydro-11 – (4-piperidinylidene)-5H-benzo[5,6]cyclohepta[1,2-b]pyridine citrate disodium salt dihydrate... Molecular formula: $C_{25}H_{25}ClN_2O_7Na_2 \cdot 2H_2O$." The statement should not be construed as a redefinition of desloratadine citrate disodium. The instructions of BEIXUE recognise desloratadine citrate disodium as its main component, and express the chemical name as complex salt dihydrate, which neatly illustrates that desloratadine citrate disodium existing in BEIXUE is in the crystal form of hydrate. Therefore, the instructions cannot be used as evidence to prove that desloratadine citrate disodium dihydrate does not fall within the protection scope of 'Patent 998'.
- The difference of desloratadine citrate disodium from its dihydrate in terms of physical and chemical properties does not negate the fact that desloratadine citrate disodium dihydrate falls within the protection scope of 'Patent 998'. It is perfectly normal for the physical and chemical properties of anhydrous and hydrate of the same compound to be different, which has no bearing on whether desloratadine citrate disodium dihydrate falls within the protection scope of 'Patent 998'.

The SPC thus concluded that the API at issue (desloratadine citrate disodium dihydrate) falls within the protection scope of 'Patent 998' and HIPI's exercise of its

valid patent did not constitute exclusion or restriction of competition in the sense of the Anti-Monopoly Law.

The parameters to be considered

The SPC's decision illustrates that the following parameters come into play in assessing whether the hydrates of a patented compound fall within the latter's protection scope.

Common knowledge in the art

'Patent 998' claims the complex salts, which shall cover all forms of the compounds, such as anhydrous, solvate, hydrate, amorphous, and polycrystalline.

Description of patent specification

'Patent 998' solves two problems vis-à-vis the prior art:

- The poor solubility of desloratadine; and
- The compatible stability of desloratadine with lactose.

The first problem could be solved by salting. As to the second problem, the brown products formed by lactose and desloratadine could cause degradation and lead to the stability problems of desloratadine.

Based on the description of the specification, the only reason the aforesaid problem could be effectively solved is that the formed complex salt significantly reduces the reaction activity of desloratadine with lactose. That is, 'Patent 998' manages to solve both problems of the prior art by forming complex salt. The therapeutic active ingredient desloratadine also originates from the release of the dissolved complex salt. And hydrates are not different from the complex salt in these respects.

Corroboration from other literature

In March 2015, Yangtze River's subsidiary patented an invention patent, 'ZL201310052197.9', titled 'Pseudopolycrystalline of desloratadine citrate disodium and the preparation method thereof'. The background technology of the patent states: "Under the influence of various environmental factors, during the process of crystallisation... substances could form different crystalline structures... There are also drugs that regularly introduce, during crystallisation, a second foreign molecule, especially a solvent molecule, into the crystalline structure of the compound, a phenomenon sometimes referred to as pseudopolycrystalline... When the second foreign molecule is a solvent molecule, the pseudopolycrystalline may also be called a solvate." The statement corroborates the fact that solvates, including hydrates, are merely a form of a substance that is covered by compound claims.

Final thoughts

The case is of empirical significance because the SPC uses it to expatiate on the distinction between a monopoly and the exercise of valid intellectual property rights.

In the event that the two are closely intertwined, the judiciary shall weigh in on the legal consequences stemming from the legitimate exercise of valid intellectual property rights, in assessing whether the alleged monopolistic behaviour gives rise to exclusion or restriction of competition.

Where the alleged effect of excluding or limiting competition is the inevitable result of the legitimate execution of intellectual property rights and such execution does not extend beyond the purview of the intellectual property rights, the Anti-Monopoly Law shall not apply.