



PRC unfair competition law

CLARIFICATION FROM THE SUPREME PEOPLE'S COURT

The supreme people's court's interpretation on issues regarding the application of the law in civil trials of unfair competition cases became effective as of 1 February 2007. It provides guidance on how to conduct trials of civil cases involving unfair competition, protect the legal interests and rights of business operators and maintain orderly market competition, and focuses on three main areas: counterfeiting, misleading or false publicity and trade secret infringement.

The PRC supreme people's court (the SPC) promulgated its interpretation on selected issues relating to the application of the law in civil trials of unfair competition cases (the Interpretation) on 12 January 2007. The Interpretation, which is effective as of 1 February 2007, provides guidance on how to conduct trials of civil cases involving unfair competition, protect the legal interests and rights of business operators and maintain orderly market competition.

It focuses on three main areas: counterfeiting, misleading or false publicity and trade secret infringement.

Counterfeiting

Use of name, packaging or trade dress

Article 5(2) of the unfair competition law of the PRC (the Unfair Competition Law), prohibits a business operator from any unauthorised use of a name, packaging or trade dress (ie get up or decoration) unique to well-known products and of a name, packaging or trade dress similar to that of well-known products that may cause purchasers to mistake the products for such well-known products. Under article 1 of the Interpretation a commodity will be recognised as 'well-known' if it has a certain market reputation in China and is well-known among the relevant members of the public. When determining whether a commodity is well-known, the people's court will consider factors such as sales period, sales region, sales amount and sales target, and duration, extent and geographic region of promotional activity undertaken, as well as any evidence

that the commodity has been recognised as a well-known commodity by the relevant authorities. The burden of proof lies with the plaintiff to establish that its commodity has a market reputation.

Article 2 of the Interpretation clarifies what constitutes an unfair competition act. It sets out circumstances in which the people's court will not recognise a name, packaging or trade dress as being unique to a well-known commodity, largely relating to descriptive and non-distinctive features.

Article 4 of the Interpretation explains that acts sufficient to cause relevant members of the public to mistake the origin of a commodity will be deemed as 'causing confusion' with a well-known commodity. These include misrepresenting the relationship or association between business operators, such as suggesting licensing relations or corporate or business affiliations with business operators of well-known commodities. It will also be deemed as causing confusion if a commodity uses names, packaging or trade dress that create a visual impression that it is the same as, or basically no different from, that of a well-known commodity.

In addition, article 5 of the Interpretation provides that names, packaging or trade dress that do not qualify for protection under article 10(1) of the trademark law of the PRC (being national symbols and immoral designs) will not be protected under article 5(2) of the Unfair Competition Law.

Use of enterprise name or personal name

Under article 5(3) of the Unfair Competition Law, a business operator is prohibited from any unauthorised use of the enterprise name or personal name of another party that may cause people to mistake its products for those of another party. Article 6 of the Interpretation states that the following will be recognised as ‘enterprise names’:

- names registered with the enterprise registration authority (this protects Chinese language names only);
- names of foreign enterprises for commercial use in China; and
- names of shops that have a certain market reputation and are known by the relevant members of the public – we assume this would extend to foreign language, as well as Chinese, names.

Names of natural persons, as well as the pen names or stage names of natural persons that have a certain market reputation and are known by relevant members of the public, will be recognised as personal names.

Misleading or false publicity

Article 9 of the Unfair Competition Law strictly prohibits the creation of misleading or false publicity by way of advertisement, or any other means, with respect to matters such as quality, components, functions, usage, producers, duration of validity or origin of a product. Article 8 of the Interpretation sets forth a list of activities that will be treated as misleading or false promotional acts, including unfair product comparisons and unfounded performance claims. However, mere ‘puffery’ is not illegal. Article 8 also provides some factors that the people’s court will consider when determining whether a promotional activity is misleading or false.

Trade secret infringement

Under article 10 of the Unfair Competition Law, a trade secret is infringed if a business operator obtains, uses or discloses trade secrets of others in a particular manner. ‘Trade secret’ is defined as any technical or business information that is not known to the public, that is capable of bringing economic benefits to the owner of the rights, that has practical applicability and that the

owner of the rights has taken measures to keep secret. Article 13 of the Interpretation states that client lists are specifically recognised as trade secrets.

Article 9 of the Interpretation establishes that the following will be treated as information not falling within the scope of a trade secret:

- general knowledge or information known to a particular industry;
- information on size, structure, materials and parts that can be obtained by the public through observation of a product;
- information that has been publicly disclosed in publications, through lectures or exhibitions or by other media; and
- information that can be obtained free of charge.

Article 11 of the Interpretation provides some factors that the people’s court will consider in determining whether an owner has taken adequate measures to maintain its trade secret. In particular, it highlights that certain measures such as the adoption of a lock system, confidentiality mark, cipher or code; the imposition of confidentiality requirements; or the restriction of access will be upheld as being adequate for preventing the disclosure of trade secrets.

Article 12 of the Interpretation confirms that any trade secrets obtained through self-development and research or reverse engineering will not constitute a trade secret infringement.

Article 14 of the Interpretation provides that a claimant bears the burden of proving that the trade secret in question complies with the statutory requirements, that the infringer is using information identical (or substantially identical) to the trade secret and that the infringer has obtained the trade secret by improper means.

Regarding who has standing to sue in relation to a trade secret infringement, article 15 of the Interpretation states that:

- where an exclusive licensee has a right of use to the exclusion of all other persons, including the licensor, such licensee will have standing to sue for infringement;
- where an exclusive licensee has a right of use to the exclusion of all other persons other than the licensor,

- either (i) the licensee and the licensor will jointly have standing to sue for infringement or (ii) the licensee may solely bring a lawsuit for such infringement; and
- a non-exclusive licensee will, upon obtaining authorisation from the licensor, have standing to sue for infringement.

The Interpretation seems to have incorporated most of the provisions relating to infringement of trade secrets contained in the judicial interpretation on questions regarding the application of law in unfair competition disputes issued by the SPC in a draft form for public comment on 18 November 2005 (the Draft Judicial Interpretation). However, it is worth noting that the Interpretation does not incorporate some of the following important provisions of the Draft Judicial Interpretation, which were intended to lessen the burden of proof on the plaintiff in such cases; these omissions may be disadvantageous to a proprietor of trade secrets in establishing his case:

- under the Draft Judicial Interpretation, a plaintiff would have been deemed as having satisfied its burden of proof regarding its claim that it owned information that qualified as a trade secret if it presented certain evidence – if the defendant denied the above, the burden of proof shifted to the defendant;
- article 27 of the Draft Judicial Interpretation is omitted – it was intended to lessen the plaintiff’s burden of proving that the defendant had obtained the trade secret through illegal means; and
- article 38 of the Draft Judicial Interpretation is omitted – it provided that the court could obtain an expert opinion on technical issues and stated that the questions of whether the information in dispute constituted a trade secret and whether an infringement was established were legal issues that should not be the subject of an expert opinion.

Legal liability

The legal liability of a business operator who has committed an act of unfair competition is dealt with under part four of the Unfair Competition Law. Article 25 of the Unfair Competition Law states that a fine ranging from RMB10,000 to RMB200,000 may be imposed on a trade secret infringer. Article 17 of the

Interpretation further provides that the amount of compensation for damages arising from such act will be determined in accordance with the method for determining the amount of compensation for damages arising from a patent infringement. The method for determining the amount of compensation for damages caused by an infringement of an exclusive registered trademark will apply to the other unfair competition acts under articles 5, 9 and 14 of the Unfair Competition Law.

As the Unfair Competition Law does not stipulate the scope of jurisdiction of each people’s court, the Interpretation now provides that first trial civil cases of unfair competition will be handled by the intermediate people’s court. Upon approval by the SPC, a high people’s court may appoint several people’s courts to hear first trial civil cases involving unfair competition with respect to its own geographic area of jurisdiction.

Conclusion

The Interpretation gives some further helpful guidance on how the courts should implement certain aspects of the Unfair Competition Law. It includes details on how information will be assessed to determine if it is a trade secret. It also includes guidance on calculation of damages in such cases and confirms the burden of proof is on the claimant. In addition, the Interpretation features provisions dealing with permissible reverse engineering and solicitation of customers and misappropriation of customer lists and misleading and deceptive conduct regarding unauthorised use of names, packaging and trade dress of well-known commodities and names of well-known enterprises.

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