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CHINA IPR NEWS

1. Supreme Court releases Interpretation to standardize the level jurisdiction in Civil Lawsuit

Aiming at the correct cognizance of the disagreements on jurisdiction of civil cases, Chinese Supreme People's Court (Court) released on November 12, 2009 *the Provisions on the Several Issues Concerning Trials of Cases with Disagreement on the Jurisdiction* (Provisions), which shall take effect on January 1, 2010.

Article 38 of the current Civil Procedure Law states a jurisdiction objection system. However, in the practice of trials, the majority's understanding is that this article only applies to the territorial jurisdiction rather than the level jurisdiction, which leads to jurisdictional disputes between the parties and the courts (e.g. the patent infringement case of Schneider (Tianjin branch) VS. ZhengTai on August, 2006). To clarify these, Court released the above Provisions.

2. Court rules Microsoft infringed ZhongYi's font copyright

On Nov.16th, 2009, Beijing's No.1 Intermediate People's Court ruled that Microsoft Corp. infringed the copyright of a Chinese software company (Zhongyi) by going beyond the scope of a licensing agreement in using some of its fonts in Microsoft operating systems. But, the court rejected Zhongyi's claim that Microsoft infringed its relative software patent right for using Zhengma software, which enables computer users to type Chinese characters using Western keyboards.

Chinese font is protected as a work of art under Chinese Copyright Law. So far, some similar disputes of copyright has occurred in China including the case of Founder suing Blizzard Entertainment on August, 2007 and the case of Founder suing P&G (China) on August, 2008.

Source: <http://tech.163.com/09/1116/18/5O8TGN7O00093U5T.html>

3. From January 1st, 2010, Radio stations and TV stations should pay for broadcasting sound recordings

On November 17th, 2009, the State Council released *Interim Measures for Paying Remuneration for Broadcasting Sound Recordings by Radio Stations and TV Stations* (Measures), which specify measures for implementing Article 43 of the Copyright Law (A radio station or television station that broadcasts a published sound recording does not need to obtain permission from, but shall pay remuneration to the copyright owner, unless the parties concerned have agreed otherwise.).

According to the Measures, broadcasters should pay for royalty from January 1, 2010 and the following three methods of payment could be basis for agreement or negotiation: a fixed annual fee agreed between user and copyright collective management organization, a certain proportion received from advertising income, payment priced on actual recording time.

Source: <http://www.cipnews.com.cn/showArticle.asp?Articleid=14169>

4. Ministry of Commerce promulgated Measures on Prior Notification and Examination on Concentration of Undertakings

To implement the Anti-monopoly Law of the People's Republic of China and Provisions of the State Council on Thresholds for Prior Notification of Concentrations of Undertakings, Ministry of Commerce promulgated *Measures on Prior Notification on Concentration of Undertakings* (Notification Measures) on November 21, 2009 and *Measures on Examination of Concentration of Undertakings* (Examination Measures) on November 24, 2009, both of which shall be brought into force on January 1st, 2010.

The Notification Measures prescribes calculation of turnover, discussion before notification and examination on acceptance of the notification document; the Examination Measures prescribes the examination procedure, withdrawal of notification and restrictive conditions, etc. The promulgation of these two Measures will provide good guidance to prior notification of concentration of undertakings and regulate the antimonopoly examination of concentration of undertakings.

Source: <http://fdj.mofcom.gov.cn/aarticle/xxfb/200911/20091106639134.html>

LAW & PRACTICE

Consigner of Consignment Manufacturing is Manufacturer of the Accused Product

—Saint-Gobain VS. Guangzhou Jinpeng

By Shaohui Du

Plaintiff - Appellant: Saint-Gobain Gypsum Building Materials (Shanghai) Co., Ltd

Defendant - Appellee: Guangzhou Jinpeng Industry Co., Ltd.

The third party of first trial: Shanghai Fengou Industry & Trading Co., Ltd.

Appellate court: Shanghai Higher People's Court

File No.: (2009) HUGAOMINSANZHONGZI NO. 111

Ruling date: November 19, 2009

The defendant Guangzhou Jinpeng Industry Co., Ltd. (Jinpeng) owns an invention patent No. ZL97116088.0 (088 patent) titled "Automatic connecting light steel keel". Jinpeng initiated a lawsuit at Shanghai No. 1 Intermediate People's Court, alleging that Saint-Gobain Gypsum Building Materials (Shanghai) Co., Ltd (Saint-Gobain), which manufactured and sold V Straight cassette bearing keel, had infringed its 088 patent.

In this case, Saint-Gobain purchased the accused product from the third party Shanghai Fengou Industry & Trading Co., Ltd. (Fengou) and authorized Dasheng Decortion Materials Co., Ltd. (Dasheng) as its franchised distributor. The Product Inspection Report shows that both the consigner and manufacturer of the accused product is Saint-Gobain and a steel seal of "Saint-Gobain BPB" is impressed on the product.

Saint-Gobain argued that: The accused product they sold to Dasheng (one of defendants in first trial) was purchased from the third party "Fengou". Saint-Gobain is only a distributor in good faith, not the manufacturer of the accused product. In addition, Saint-Gobain shall not be liable for damages and reasonable expenses as the product does not constitute infringement and they can prove that they obtained the product from a legitimate source.

The third party “Fengou” argued that they manufactured and sold the accused product strictly according to their own patent technology, which is legal and does not infringe Jinpeng’s 088 patent.

Shanghai No. 1 Intermediate People’s Court held that:

1. The main difference between elements of 088 patent’s claim and the accused product is the fastening hook. But the difference does not change the function of the matching of fastening hook and fastening hole to implement the main keel’s portrait connection. Meanwhile, the change of the technical means can be conceived by a person skilled in the art without creative work. Hence, the accused product’s technical features are equivalent to those of the 088 patent and fall into the protection scope of 088 patent.

2. The accused product was sold by Dasheng on the authority of Saint-Gobain which is indicated as a manufacturer in both the customer voucher and Product Inspection Report. Meanwhile, an identification “Saint-Gobain BPB” is indicated on the accused product. Furthermore, Purchase Contract signed by Saint-Gobain and Fengou shows that, Fengou manufactured the accused product with Saint-Gobain’s trademark and then delivered the product all to Saint-Gobain. Trademark is a vital identification to distinguish the source of goods, either from the use of trademark as agreed by Saint-Gobain and Fengou, or from the indication of manufacturer in sales documents, Saint-Gobain should be cognized as the manufacturer of the accused product.

Therefore, the court ruled, Saint-Gobain which manufactured and sold the patented product for business purpose without the permission of the patentee, infringed the 088 patent right and should be liable to stop infringing acts and to compensate the damages. But the court rejected Jinpeng’s claim of destroying the infringing products in stock as they did not provide proof of this claim and the verdict of stopping manufacturing and selling could serve the purpose of stopping the infringement.

Saint-Gobain appealed to Shanghai Higher People’s Court with mainly two grounds: (1) the first trial found Saint-Gobain was the manufacturer of the accused

product unilaterally from the trademark, which is incorrect; (2) Saint-Gobain is the distributor rather than manufacturer of the accused product, and they can prove that they obtained the product from a legitimate source, thus they shall not be liable to compensate the damages of the patentee.

Shanghai Higher People’s Court affirmed the first trial’s opinion that the fastening hook of the accused product is equivalent to the corresponding elements of 088 patent’s claim. As to whether Saint-Gobain is the manufacturer of the accused product, Shanghai Higher People’s Court held that, related customer voucher, Product Inspection Report, purchase contract and the trademark on the accused product are enough to prove that Saint-Gobain’s action has constituted the action of manufacturer and should be the manufacturer of the accused product. Consequently, Shanghai Higher People’s Court held that as the manufacturer of the accused product, Saint-Gobain’s exploitation of 088 patent without permission had infringed 088 patent right and should take the legal responsibility. Thus, the higher court dismissed Saint-Gobain’s appeal.

Comments

In the action of entrusting others for manufacturing products, the real manufacturer is the consignee, and the consigner does not actually commit the manufacture action. Therefore, the focus of this case is whether the consigner should be cognized as the manufacturer of the accused product. The specific liability varies due to the responsible party is identified as the distributor or the manufacturer. No matter whether it has the subjective fault or not, the manufacturer should take the liability for damages; however, the distributor need not assume liability if they can prove that they do not know the accused product is infringing a patent and the accused product is obtained from a legitimate source.

Shanghai Higher People’s Court held that, based on the evidences including customer voucher, Product Inspection Report, purchase contract and the trademark on the accused product, etc., Saint-Gobain’s action has already constituted the action of a manufacturer and should be the manufacturer of the accused product.

Thus it can be seen, when defining who is the manufacturer in a lawsuit, it should not be restricted to the form whether the accused infringer commits the manufacture, but to the fact that whether the accused infringer has the actual control on the manufacturing of accused product.

As to normal OEM agreement, the consignee has no power to dispose the OEM product they made, but has to give all the OEM products back to the consigner. Thus, the actual controller of the OEM products should be the consigner, and the consigner should be the manufacturer of the accused product. For the purpose of self-defense, it is necessary to place guarantee provisions of patent infringement in the OEM (especially ODM) agreement to define the respective responsibility of both parties.

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