Overview of Symposium on Difficult Issues in Adjudication of Unfair Competition Cases

The Symposium on Difficu lt Issues in Adjudication of Unfair Competition Cases was jointly held by the Beijing No.1 Intermediate People's Court and the China IP Training Centre on 31 October 2012 at the China IP Training Centre in Beijing. The Unfair Competition Law, promulgated in 1993, has been in force for nearly 20 years without amendment made thereto, which shows its amendment obvious lags behind other IP laws. Meanwhile, the constantly developing market economy and changing market activities have constant impact on the adjudication of cases in the field of competition. For this matter, the IP Tribunal of the Beijing No.1 Intermediate People's Court set up a special research group to carry on a focused research project to study the difficult issues in adjudication of the unfair competition cases in an attempt to search for effective standards for the adjudication of cases of the nature. At the Symposium, the preliminary research findings of the project were evaluated, and the participating legal experts and practitioners actively and fruitfully explored all the issues raised in the research project. In the following eight sections are briefly presented the research findings made in the project and the views of the participants at the Symposium.

1. Fundamental theory of the Unfair Competition Law

First of all, the Unfair Competition Law is an activity-governing or regulating law, not one to establish related rights, with its essential values lying in safeguarding fair competition. The activities the Law is intended to prohibit are of two categories: those of taking advantage of or weakening the competitive edge of other competitors; and those of disrupting the normal order of competition in the market. Next, Article 108 of the Unfair Competition Law provides that any party that proves oneself being inflicted any practical injury owing to an unfair competition activity is a party "directly interested" in the unfair competition activity and eligible to sue as a plaintiff. And the concept of "business" should be broadly interpreted, no matter whether it is commercially registered or operating for making profits. Finally, as for the determination of defendants, there is a view that a defendant should be one competes with a plaintiff, while another view is that such determination is made with account taken only of activities causing injury, not the relations of competition.

The views of the participants are mainly as follows:

- Regarding the basic value of the Unfair Competition Law, some people believe, in recent years, that the Unfair Competition Law is, on the hand, to maintain fair competition, and, on the other, to protect investment and investers. But the fundamental value of the Unfair Competition Law is to encourage and protect fair competition.
- It is agreed that the "business" is broadly interpreted to make up for the limitation of the time when the Law was formulated, and the relevant judicial interpretation has broken through the scope of the conventional meaning of "business".
- Regarding the litigants, for example, an interested party should be allowed to litigate against any unfair competition activity on the basis of his known pen name or personal name. Litigants should not be limited to businesses or business operators only.

2. Application of principled provisions of Article 2 of the Unfair Competition Law

The practice for the courts to apply Article 2 in their determination of the eleven specific unfair competition activities, other than the "the eleven specific kinds of activities provided for in Chapter 2, is in line with the legislative aim of the Unfair Competition Law, based on the jurisprudential principle, and has its practical value, so should be positively affirmed. But it is very difficult to find uniform applicable standards or elements in applying Article 2 to determine unfair competition activities, and, for this reason, the method of categorising specific cases of the nature should be used to make its core meaning more clear. Such cases may be devided into two categories: 1) cases involving taking advantage of others' competitive edge, say, cases involving passing off as some other parties by directly using the tax registration information, setting search keyword in bad faith, and plagarising others' texts of advertisement or website; and 2) those involved in destroying others' competitive edge, say circumvention of others' technological measures and stopping or disrupting the operation of others' software. The important point to apply Article 2 is to determine whether the activities in suit are contrary to the good-faith principle and accepted business ethics. Viewed from this angle, bad faith should be the subjective element of cases of the nature. Of course, application of Article 2 in the determination of unfair competition activities should also be subject to the necessary limitations. First of all, provisions of principle should not apply to the activities the specific provisions can regulate.

Then, for some view, the Unfair Competition Law supplements the other IP laws. One should not seek protection under the Unfair Competition Law if the IP laws have set forth specific provisions to this effect. Only when the conventional IP laws cannot provide relief is it possible to apply the provisions of principle of the Unfair Competition Law for regulation.

The views of the participants are mainly as follows:

- It is highly necessary to apply the provisions of principle to the determination of unfair competition activities, and they will remain necessary even if the Unfair Competition Law undergoes amendment in future.
- Whether bad faith must be an element of activity to which the provisions of principle apply is worth consideration. From the perspective of consumers, bad faith is not very important, and not a condition for finding likelihood of confusion.
- A line of demarcation should be drawn between and unfair competition activities according to the practice of adjudication. It is recommended that the courts summarise their experience from typical cases at appropriate time.

3. Protection of commercial signs under the Unfair Competition Law

First of all, the provisions of the Unfair Competition Law pertaining to counterfeiting trademarks by no mean differ from those set forth in the Trademark Law. For this reason, it is recommended that these provisions be deleted from the Unfair Competition Law for uniform application of the provisions of the Trademark Law. Next, as for names, packages or trade dresses particular to known goods/services, it should be considered whether the particular names, packages or trade dresses, not the goods/services, are known or not; so long as they can distinguish goods/services, they should be protected with reference made to that of non-registered marks, with the likelihood of confusion doctrine applied, irrespective of the forms they are in, but the protection is not accorded in respect of other classes of goods/services. Besides, the element of bad faith should be considered, that is, whether one undertaking the activity has the clear knowledge, or should have the knowledge should be considered, and presumption may be made according to the practical situation. Finally, as for the protection of enterprise name, an enterprise name is protected not because of registration, but on condition of use. Regarding the scope of protection, an enterprise name should be protected in relation to use in respect of identical or similar goods/services. Meanwhile, bad faith should be considered as a subjective element. Additionally, in case of conflict between an enterprise name and any other right, the current practice is to protect the prior right.

The views of the participants are mainly as follows:

- It is agreed that being known should be that the particular names, packages or trade dresses, not the goods/services, are known, as it is shown in the case involving Chenguang Pen that what was known was the name particular to the pen, not the goods of pen.
- On the issue of conflict between an enterprise name and any other right, it is undue to view the latter as excessively important because some prior rights may stay idle, and decisions should be made more conducive to the market competition on the basis of the doctrine of balance of interests and the specific circumstances in the case.
- Besides research on particular names, packages or trade dresses, more importance should be attached to "services".

4. Protection of trade secrets under the Unfair Competition Law

The general line of reasoning in adjudicating cases involving trade secrets is first to require the plaintiff to make clear the specific content of the trade secret he or it claims; then for the court to determine whether the trade secret in suit has the three required properties; next to find the infringement, and finally for the court to decide on the liabilities. To date, however, the difficulty lies in the first step in a lot of cases, that is, for a plaintiff to make clear the specific content of the trade secret he or it claims. Of the secrecy, confidentiality, practical use and value of a trade secret, the importance resides in its confidenciality. To date, there are two lines of thinking in relation to the matter of evidence adduction for determining the presence of a trade secret susceptible to protection: one is for the plaintiff to adduce evidence; and two for the defendant to adduce evidence to the contrary since it is very difficult for the plaintiff to adduce evidence to prove a negative fact "unknown to the public". In hearing cases involving clients lists, examination should be made as to the overall confidenciality of a clients list, and whether it covers "deep information". The common defences against trade secret infringement allegation include those of legitimate source, reverse engineering and personal trust. Besides, attention should also be paid to the matter of overlap of the criminal and civil procedures in trade secret cases.

The views of the participants are mainly as follows:

• In the examination as to the contents of a trade secret, the plaintiff should adduce evidence. But in practice, the rightholder and his or its attorney often do not have the knowledge of the contents of a trade secret and are unable to adduce evidence; hence the court should properly reduce or lower the rightholder's burden of proof.

• To date, most businesses' trade secrets are in the form of their corporate dynamic information; it is often the case that a trade secret is found to be infringed after a case arises. For this matter, the plaintiff can do nothing but prepare evidence in a rush; hence the requirement for a plaintiff to adduce evidence should not be too demanding.

• It should be further studied as to whether the rules regarding the rights and those concerning the obligations should be followed in respect of a trade secret.

• The research project report does not touch upon whether a third party's obtaining a trade secret in good faith is an act of unfair competition; and information in this regard should be added thereto.

• The new Criminal Procedure Law has adjusted the procedure for the cross-examination of evidence of appraisal, so it is recommended that the civil procedure be harmonised with the criminal procedure to improve the coherence of the laws and to avoid waste of judicial resources.

• Judges should attach more importance to the examination of the form of trade secrets. Too much focus on substantive examination is likely to go into misconception as is true with the case involving Duppon in which forms, such as the way the trade secret was obtained, were examined. Decisions made this way tend to be closer to the facts, and more quickly made, and makes it easy to find the defendant's subjective bad faith.

5.Relationship between trade secrets and prohibition of employees from joining competitor's business.

A trade secret resides in a business, and its employees have the knowledge of it. That an employee is obliged to keep it confidential is an effective condition for any agreement on prohibition of an employee from joining a competitor's business upon his departure from the business. If a departing employee violates such agreement and infringes the trade secret, concurrence is likely to exist. According to the UK precedents, in principle, specially employing a competitor's departing employee is not an act of unfair competition. Under the current legal system in China, in the absence of agreement on prohibition of employees from joining competitor's businesses, an interested party should not be ordered, on the grounds of protection of a trade secret or prohibition of any unfair competition activity, not to pursue certain business activity upon departing from his former employer.

The views of the participants are mainly as follows:

• A business's concluding, with its employees, an agreement on prohibition of its employees from joining competitor's businesses is a way to reduce costs. If such an agreement is effective only in the presence of trade secret, it is likely for it not to have its desired function or use.

• An agreement on prohibition of employees from joining competitor's businesses is effective only in the presence of trade secret, otherwise it would affect normal free brain flow, and loses its value. Take the United States for an example, any terms in such an agreement restricting brain flow are invalid unless a trade secret is involved.

6.Regulation of unfair competition in the forms of false advertisements, goodwill tarnishment, and comparative advertisements

A plaintiff bringing civil action against false advertisement should be the business in the same industry that the false advertisement is directed to and on whom injury is inflicted. There were cases in which industrial associations were determined as competitors in the same industry. The important point of false advertisements is "misleading", not its "being false". Anything that is "misleading" is likely to constitute "false advertisements" even if the contents thereof are true to the facts.

The elements of goodwill tarnishment are: 1) both parties are competing businesses; and 2) there is a case of fabricating and spreading false information, and misleading information does not constitute goodwill tarnishment. Goodwill tarnishment differs from infringement of corporate right of reputation in that the former is intentional or deliberate; and the latter can be intentional or negligent, and that one tarnishing other's goodwill is a competiting business while one infringing a corporate right of reputation can be any other party.

Comparative advertisements are placed in the hopes of showing that one party's own goods or services are better than those of its competitors by way of comparison. There can be direct and indirect comparison, critical or dependent comparison, objective or subject comparison. Articles 9 and 14 of the Unfair Competition Law relate to comparative advertisements, namely false advertisement and goodwill tarnishment. To date, no law provision has made it clear whether misleading comparative advertisements that do not

constitute false advertisement and goodwill tarnishment need to be regulated by the Unfair Competition Law. It is recommended that Article 9 of the Unfair Competition Law be amended by deleting the word "false" in the "misleading false advertisements", and the Article may be applicable to comparative advertisements.

The views of the participants are mainly as follows:

- The good-faith doctrine is a fundamental doctrine of the civil law. Provisions on regulating false advertisement and goodwill tarnishment are examples of the provisions of the Paris Convention and should be observed. All the abovementioned activities are essentially presentation of untrue information. Therefore, so long as the information is truthful, it is undue to find it a false advertisement.
- It is quite unlikely for comparative advertisements to be not misleading. This is only a matter of extent. That is, to what extent a comparative advertisement is misleading should it be prohibited. If consumers can get as more information as possible from a comparative advertisement when deciding on a purchase, then a tolerant attitude should be adopted toward comparative advertisements.

7.Civil liabilities on unfair competition activities

To date, for unfair competition activities, paying for damages is the main civil liability in judicial practice, but inconsistence of standards remains a problem in making determination in specific cases due to inadequate provisions of the Unfair Competition Law and judicial interpretation in this respect. For the research group, in situations like this, the relevant provisions of the General Principles of the Civil Law, the Tort Liability Law, the Trademark Law, the Patent Law and the corresponding judicial interpretations may be drawn on. The main liabilities should include cessation of infringement, elimination of danger, removal of interference, elimination of ill effect, restoration of reputation, and payment of reasonable fees and costs, and damages.

The views of the participants are mainly as follows:

- The important point of civil liabilities for unfair competition is cessation of unfair competition activities; hence cessation of infringement is the most important form of the liabilities.
- For civil relief against unfair competition activities, payment of damages is not always necessary. For example, in cases involving false advertisement, required payment of damages is not a must.
- For cessation of infringement, the special characteristics of a case should be considered. For example, in cases involving trade secrets of clients lists, transaction or trade with clients should not be ceased, and only damages should be imposed instead.
- Where it remains uncertain whether unfair competition activities are infringing acts, the line of thinking in relation to infringement cases should not be mechanically followed. In the Unfair Competition Law are not mentioned civil reliefs, it is undue to directly resort to the provisions of the General Principles of the Civil Law and the Tort Liability Law.
- After the amendments are made to the Civil Procedure Law, there will be more adequate relief under the Unfair Competition Law. The added activity preservation does not only to prohibit certain activities, but also to order some activities to be performed, which will help or facilitate prohibition of unfair competition activities.

8. Relationship between Unfair Competition Law and Anti-trust Law

The provisions of the Unfair Competition Law relating to sales at price lower than the costs, illegal bundling, abuse by public-facility enterprises of their dominant position in the market do not limit or define the market position of businesses. For the research group, when an interested party does not have its dominant position in the market, it is unnecessary to provide for prohibition in the law. Therefore, after the Anti-trust Law goes into force, these provisions of the Unfair Competition Law are no longer necessary, and it is suggested to delete them.

The views of the participants are mainly as follows:

- They agree on these views in principle. But there are some extreme cases, for example, a supermarket opens to business next door to another supermarket, where goods are sold at very low prices until the latter closes down. Whether it is necessary to prohibit such activities needs to be probed into. The Unfair Competition Law somewhat differs from the Anti-trust Law in requirements concerning market position of businesses in terms of legislative aim.
- If bundling is not contrary to the provisions of the Anti-trust Law, then it is good for consumers. Considered from this perspective, it should not be prohibited under the Unfair Competition Law.■

(Written by Mu Ying, Judge of the IP Tribunal of the Beijing No.1 Intermediate People's Court)