

Considerations in Drafting the Explanation on IP Infringement in E-commerce

The Intellectual Property Tribunal of the Beijing Higher People's Court

In recent years, rapid development has been made in the industry of e-commerce in China, and the intellectual property protection in e-commerce has become an important issue impacting the healthy, sustainable development of e-commerce. The people's courts in Beijing have, in recent years, been receiving more and more IP cases involving e-commerce each year, and closed a batch of new cases of the kind that have great national and international influence. However, there are some matters in the adjudication of these cases requiring our in-depth study. In 2012, the Beijing Higher People's Court launched an important research project on the judicial protection of intellectual property rights in e-commerce, and a research group organised by the Intellectual Property Tribunals of the Beijing Higher People's Court, the Beijing Nos.1 and 2 People's Courts, Beijing Haidian District People's Court, and Beijing Chaoyang District People's Court to undertake the research. To standardise adjudication of cases of dispute over infringement of intellectual property right in e-commerce among the people's courts in Beijing, the Intellectual Property Tribunal of the Beijing Higher People's Court has drafted the Beijing Higher People's Court's Explanation of Several Issues Relating to Adjudication of Cases of Dispute over Infringement of Intellectual Property Rights in E-Commerce (hereinafter referred to as the E-commerce Explanation) in the course of the research project¹, and issued for extensive comments. The E-commerce Explanation was promulgated for implementation in the end of 2012. This article will be presenting an overview of the basic ideas and the main contents of the E-commerce Explanation.

I. Basic ideas of E-commerce Explanation

1. Main characteristics of cases of dispute over infringement of intellectual property rights in e-commerce

To directly address the practical issues in the judicial practice, following main issues in the judicial practice of adjudicating cases of dispute over infringement of intellectual property rights in e-commerce were considered in the course of preparation of the E-commerce Explanation: 1) involving infringement of a variety of intellectual property rights, but mainly infringement of the exclusive right to use registered trademarks; 2) all kinds of e-commerce of B2B, B2C and C2C cause intellectual property right dispute because of infringement of the involved intellectual property rights, but most cases involving C2C e-commerce; 3) these cases involve both e-commerce platform businesses and online sellers, but in most cases, the rightholders directly sue e-commerce platform businesses; and 4) the main issue of such cases is whether e-commerce platform businesses should be held liable for damages, with focus on whether they are at fault.

2. Basic ideas in adjudication of cases of dispute over infringement of intellectual property rights in e-commerce

The E-commerce Explanation has summarised the basic ideas in the practice of adjudication of cases of dispute over infringement of intellectual property rights in e-commerce. In the judicial practice, the first step to find an e-commerce platform business infringing an IP right is to find out whether the allegedly infringing trade information or the relevant transaction is directly provided by the e-commerce platform business. If the e-commerce platform business provides only the internet technology service, the business does not directly infringe the IP right; it is held liable for damages only when it knows that the trade information or the relevant transaction infringes another person's IP right, and fails to take the necessary measures to stop it. In this aspect, Article 4 of the E-

commerce Explanation provides: where an e-commerce platform business knows that an online seller makes use or takes advantage of its internet service to infringe another person's IP right, but fails to take the necessary measures to stop it in time, it should be jointly and severally liable for damages for the infringement after it has obtained the knowledge.

But in some cases, the e-commerce platform business is both an internet technology service provider, and direct online seller of goods or services. In case like this, it is a self-operating e-commerce platform business according to the E-commerce Explanation. Whether an e-commerce platform business is an internet technology service provider and a direct online seller is an issue of fact to be ascertained with evidence in the case. Therefore, Article 3 of the E-commerce Explanation provides: where an e-commerce platform business fails to clearly indicate that the allegedly infringing trade information or the relevant trade transaction is provided or performed by another person making use of its network service, it is presumed to have provided the allegedly infringing trade information or performed the transaction. The provision implies that an e-commerce platform business can adduce evidence to prove that it is not an online seller.

In the judicial practice, whether holding an internet technology service provider liable for damages depends on whether it is at fault or not. If the defendant is found to be an e-commerce platform business only providing internet technology service, it is then necessary to find whether it is at fault or not. Under Article 36, paragraph three, of the Infringement Liability Law, if an e-commerce platform business knows that a web user makes use of its internet technology service to infringe others' civil rights and interests, and fails to take the necessary measures, it is liable together with the web user. This provision shows two basic elements of fault of an e-commerce platform business: knowledge of infringement and failure to take the necessary measures.

In the judicial practice, determination of an e-commerce platform business' knowledge of an infringement is made in two steps: determining whether an e-commerce platform business knows about the communication of the allegedly infringing information via its internet technology service, and determining the e-commerce platform business' knowledge about the nature of infringement of the allegedly infringing information.² Article 6 of the E-commerce Explanation embodies the basic idea of determining defendants' knowledge of infringement in these two aspects, and pro-

vides that the elements for determining an e-commerce platform business' "knowledge that an online seller makes use of its internet technology service to infringe others' IP rights" are: "(1) it clearly knows or has reason to know the communication of the allegedly infringing information via its internet technology service; and (2) it clearly knows or has reason to know the allegedly infringing trade information or trade transaction infringes another person's IP right."

If an e-commerce platform business' knowledge of an infringement is determined, the next step is to determine whether it has taken the necessary measures in time. According to the common sense and logic, if one knows that the allegedly infringing information infringes another person's lawful right and interests, he should take the necessary measures, in time, to stop the infringement. Before the allegedly infringing information is communicated to the public, taking the necessary measures in time means taking the measures to stop the allegedly infringing information from being communicated to the public. After the allegedly infringing information is communicated to the public, taking the necessary measures in time means taking the measures of deleting, screening out or disconnecting the communicated information. Article 36, paragraph two, of the Infringement Liability Law provides for taking the necessary measures after the allegedly infringing information is communicated to the public: where a web user makes use of the internet technology service to infringe an IP right, the infringer has the right to notify the e-commerce platform business to take the necessary measures of deleting, screening out or disconnecting the information. The e-commerce platform business, failing to take the necessary measures in time upon being notified so, is liable together with the web user for the extended part of infringement. Article 13 of the E-commerce Explanation provides: where a rightholder's notification and the appended evidence can prove the likelihood of infringement with the allegedly infringing information, the e-commerce platform business should take the necessary measures in time, or be found at fault.

3. Basic principle for adjudication of cases of dispute over infringement of intellectual property rights in e-commerce

As is shown in the analysis of the basic ideas, adjudication of IP infringement in e-commerce is focused on determination of three basic elements of faults of e-commerce platform business: whether the e-commerce platform business has the knowledge of the fact of communication of allegedly

infringing information; whether it has the knowledge of the infringing nature of the allegedly infringing information or corresponding trade transactions; and whether it has taken necessary measures in time. Knowledge covers clear knowledge and reason to have the knowledge: the former is an issue of fact to be ascertained according to the specific evidence in a case and the evidence governing rules; the latter an issue of law to be determined to an extent at discretion. Determination of whether the e-commerce platform business has the knowledge of the facts of communication of allegedly infringing information, whether it has the knowledge of the infringing nature of the allegedly infringing information, and whether it has taken necessary measures in time are all made involving a judge's discretion. To regulate a judge's free discretion, the E-commerce Explanation has laid down two basic principles, namely Article 2 thereof provides that when a judge exercises his discretion in adjudication of cases of dispute over IP infringement in e-commerce, he shall consider the interest of the rightholder, e-commerce platform business, online sellers, and the general public. The e-commerce platform business should bear the necessary and reasonable obligation to pay attention to the legitimacy of the IP right. The rightholder who is able to prevent and stop infringement at lower costs, or the e-commerce platform business should take the necessary measures on its own, and in a timely manner, or it bear the adverse consequences.

Under the network environment, internet service providers are importantly involved in the effort made to balance interests of all parties; consideration of the interests of e-commerce platform businesses and online sellers has much to do with the development of the industry of e-commerce, and consideration of public interest involves public use of internet resources, space for public innovation, and freedom of speech.³ The provisions of the E-commerce Explanation in relation to the interest-balancing principle has been set forth with reference to Article 1 of the Supreme People's Court's Provisions on Several Issues Relating to Application of Law to Adjudication of Cases of Civil Disputes over Infringement of Right of Communication on Information Network, with account taken of the interest of online sellers, highlighting the balance of interests of all parties involved and the characteristics of e-commerce.

The second basic principle of Article 2 (27) of the E-commerce Explanation can be briefly referred to as a reasonable prevention principle, highlighting efficiency that should be considered in the network environment. To apply it

to the protection of intellectual property rights in the network environment, the first requirement of reasonable prevention principle is that the preventive measures taken by an e-commerce platform business must be necessary, reasonable and pro-efficiency, and an e-commerce platform business should not be required to bear too much or unnecessary prevention costs. The second requirement of the reasonable prevention principle is that if both rightholders and e-commerce platform business can prevent a particular infringement in a specific case at a lower prevention costs, the actors should be distributed the adverse consequences, so as to better stimulate them to take cost-effective, preventive measures. In essence, the "safe harbour" principle is to distribute, to rightholders, part of the costs for preventing infringement. Establishment of this principle in all nations clearly indicates that the reasonable prevention principle has been widely incorporated in the legislation principles and judicial practice in relation to IP protection in the network environment.

II. Highlights of E-commerce Explanation

1. Pre-examination obligation of e-commerce platform businesses

If an e-commerce platform business itself is not a business operator, but only a internet technology service provider, the question requiring discussion then is under what circumstances an e-commerce platform business is obliged to examine or review the legitimacy of the IP right in the trade information beforehand, namely before communication of the allegedly infringing information. In the judicial practice, some courts believe that if an e-commerce platform business economically benefits directly from the transaction, it is obliged to pay more attention, according to the interest balance principle and the reasonable prevention principle, and examine, beforehand, the legitimacy of intellectual property right in the particular trade information where it seeks its direct benefits. If an e-commerce platform business does business together with an online seller, and obtains its benefits directly from a particular transaction, it stands in the same legal position as the online seller that directly provides the goods or services. As an e-commerce platform business should have the knowledge of the contents of the allegedly infringing information, and it would not cost too much for it to conduct pre-examination, which complies with the reason-

able prevention principle, it should also be obliged to review the intellectual property right in the particular trade information. Out of this consideration, Article 7 of the E-commerce Explanation provides: in any one of the following events, it may be presumed that an e-commerce platform business “clearly knows or has the reason to know that the allegedly infringing information is being communicated via its internet service before the allegedly infringing information is communicated: (1) an e-commerce platform business does business together with an online seller, and it has the reason to know that the allegedly infringing information is being communicated via its internet service; (2) an e-commerce platform business receives economic benefits directly from online communication of the allegedly infringing information or related trade transactions, and has the reason to know that the allegedly infringing information is being communicated via its internet service.

If an e-commerce platform business should conduct pre-review of the legitimacy of intellectual property right, then the next question is to what extent the review should be made. If an e-commerce platform business receives economic benefits directly from particular trade transactions and does business together with an online seller, it should be obliged to review the intellectual property right and the online seller bear the same obligation as a distributor. The obligation of an online seller to conduct pre-review of the legitimacy of intellectual property right needs to be analysed according to the circumstances of infringement. If the trade information infringes another person's copyright, the online seller, as a provider of the trade information, possibly infringes the right of communication on information network directly, and is more obliged to conduct the review, and make sure that the trade information does not infringe another person's copyright. If the goods *per se* are books, the online seller only needs to refer to the Copyright Law, and is obliged to make the same form of examination as that a distributor of books does. If the trade information and trade transactions infringe another person's trademark right or patent right, the online seller should refer to the relevant provisions of Article 56, paragraph three, of the Trademark Law or Article 70 of the Patent Law, and is obliged to make the same form of examination as that a distributor of books does. Anyway, an e-commerce platform business' obligation to make pre-examination needs to be specifically analysed according to the facts of a particular case. For this reason, Article 7 of the E-commerce Explanation has only specified a principle that

under particular circumstances, it may be presumed that an e-commerce platform business “has the knowledge that an online seller makes use of its internet technology service to infringe another person's IP right.” The “presumption” here is rebuttable; if an e-commerce platform business's evidence is sufficient to prove that it has fulfilled its obligation to make the examination, it is not supposed to have the knowledge.

2. Examination of “porn, gambling and poisonous information” and obligation to pre-review IP rights

In China, all internet technology service providers, be they video sharing websites or e-commerce platform businesses, should examine unlawful “porn, gambling and poisonous information” on the internet (the “porn, gambling and poisonous information” examination for short) according to the relevant administrative requirements, and the examination is often conducted manually. This being the case, should an e-commerce platform business examine the legitimacy of all trade information communicated on its website? Against the IP background, one view is that in case of manual examination, it is easy to identify IP infringement, and it should be determined that all e-commerce platform businesses know about the existence of the trade information. If such information infringes others' intellectual property rights, the e-commerce platform businesses have the clear knowledge of it; if they fail to take necessary measures, they are at fault.

The problem with this view is that an e-commerce platform business' examination is focused on illegal “porn, gambling and poisonous information” as provided for by the relevant government agency. The examination of the legitimacy of intellectual property right differs from the “porn, gambling and poisonous information” examination in terms of subject matter, procedure and time of examination, and involves more examination costs. If an e-commerce platform business is required to examine both the information and the legitimacy of IP rights, the examination workers should improve their knowledge and skill; the speed of manual examination would be lowered, and the costs therefor increased. Since all e-commerce platform businesses in China have to do the examination manually, it is believed that manual examination should include examination of legitimacy of IP rights; this means that it is impossible for all the internet service providers in China to enter the “safe harbour”, which is actually contrary to the universally accepted practice that internet service providers are not obliged to make the general pre-examination.

The attitude is clearly shown in the provisions of Article 5

of the E-commerce Explanation, which emphasises that an e-commerce platform business should not be naturally found having the knowledge of the presence of an infringement simply because the e-commerce platform business performs pre-control over, and supervision of, the legitimacy of trade information under the related requirements or there objectively exist infringement of others' intellectual property rights due to online sellers' use of the internet service. The "porn, gambling and poisonous information" examination is not taken as the basis for determining an e-commerce platform business' knowledge or reason to have the knowledge of communication of allegedly infringing trade information via its internet service.

3. Post-examination obligation of e-commerce platform businesses

In the judicial practice, as for an e-commerce platform business' obligation to examine or review the legitimacy of IP rights after communication of allegedly infringing trade information to the public, the first question is under what circumstance an e-commerce platform business should be obliged to make the post-examination. The degree of difficulty in having the reason to know about allegedly infringing information varies for different activities of internet technological services; hence, the standard for different categories of internet service providers to have the reason to know should not be the same.⁴ Summarising the adjudication practice, Article 8 of the E-commerce Explanation provides: in the following events, an e-commerce platform business may be found to have the reason to know about the presence of allegedly infringing information afterward: (1) the allegedly infringing information is put on the first page of an e-commerce website, the first page of the various columns or in a notable position on other pages; (2) the e-commerce platform business has manually edited, selected or recommended the allegedly infringing information; (3) a rightholder's notification is sufficient to enable an e-commerce platform business to know that allegedly infringing information is being communicated via its internet service; and (4) all other circumstances which are sufficient to enable an e-commerce platform business to know that allegedly infringing information is being communicated via its internet service.

In event (1), the allegedly infringing information is so obviously visible that one cannot make a defence for lack of knowledge of the presence of allegedly infringing information. The so-called "red-flag" rule in adjudication of copyright cases may also apply to finding fault of an e-commerce

platform business. In event (2), since the e-commerce platform business has manually edited, selected or recommended the allegedly infringing information, it is presumed that the e-commerce platform business has got access to the allegedly infringing information, so its knowledge of the information starts at this moment. In event (3), so long as a notification is so sufficiently clear that allegedly infringing information can be correctly located, an e-commerce platform business has the reason to know about the presence of the allegedly infringing information. It needs to be noted that the rightholder here should be interpreted in a broad sense to include trademark proprietors or patentees in IP right disputes in e-commerce, and those who have the right to cease infringement or claim damages, for example, exclusive licensees.

The second question about the obligation to make post-examination or review is how to determine the standards of post-review obligation. According to the degree of likelihood of infringement, the standards for an e-commerce platform business to make post-review or examination can be divided into three categories: (1) regardless of the likelihood of infringement, so long as there is a notification, necessary measures, such as screening out or deletion, should be taken; (2) only if the likelihood of infringement should reach the standard of being high probability, namely the standard of civil litigation evidence, an e-commerce platform business should take the necessary measures; and (3) only if the likelihood of infringement should reach the standard of proof in criminal procedure, namely the standard of being beyond reasonable doubt, is an e-commerce platform business obliged to take the necessary measures.

If standard (1) is followed with regard to the post-examination obligation, both rightholders and e-commerce platform businesses need only to pay lower prevention costs, but the adverse consequence of wrongly taking the necessary measures is shifted to online sellers, which is easy to cause misuse of the IP rights. Even if in the rules for determining copyright infringement online, standard (1) is not followed in respect of a internet technology service provider's post-examination obligation. Therefore, an e-commerce platform business, also an internet technology service provider, should not be required to take the necessary measures immediately upon receipt of a notification of a rightholder regardless of the likelihood of infringement. Standard (3) requires a rightholder to doubtlessly prove the presence of infringement, for example, with legal instruments that have

taken effect. In this case an e-commerce platform business can take the necessary measures. So long as an e-commerce platform business' infringement is unlikely, the e-commerce platform business should not take the necessary measures. This standard actually makes it impossible for an e-commerce platform business to wrongly take the necessary measures, shifting the adverse consequence of wrongly taking the necessary measures to a rightholder. This too lenient determination of fault of an e-commerce platform business is not compatible with the industrial policy for the development of e-commerce.

Adopting standard (2), namely the high probability standard, is justifiable in that an e-commerce platform business' cost for preventing infringement should not be borne by a rightholder or an e-commerce platform business, but by them both; if a rightholder's notification is sufficient to enable an e-commerce platform business to see there is relatively more likelihood of infringement, the latter should take the necessary measures, or it is found at fault, rather than to continue to require the former to increase its prevention costs inefficiently, which is in line with the requirement of the interest-balance principle and the reasonable prevention principle. In fact, standard (2) are followed in a lot of cases in China. In a patent infringement case in 2006, the court noted that "it is uncertain whether it is a patent infringement as it involves determination of the special technology, and Alibaba webstie is unable to make the determination, and it does not have to be obliged to make the relevant examination."⁵ In a trademark infringement case in 2009, the court noted: "requiring the defendant to be obliged to make the specialized determination as to whether the goods involved constitute trademark infringement is not supported by law".⁶ In a trademark infringement and unfair competition case in 2011, the court concluded that the defendant, as one of the e-commerce platform businesses, was unable to determine whether the three Chinese characters "德兰仕" (pronounced as "de lan shi" in Chinese) in the other defendants' enterprise names constituted unfair competition against the plaintiff.⁷

Standard (2) is adopted in the E-commerce Explanation, and Article 9 thereof provides that only under four circumstances where "being sufficient to enable an e-commerce platform business to see the relatively more likelihood of infringement" is it possible to presume an e-commerce platform business, after allegedly infringing information is communicated to the public, "knows or has the reason to

know the allegedly infringing information or trade transactions infringed another person's IP right".

4. Specific application of the deletion-notification rule

Now that an e-commerce platform business is not generally obliged to make active examination, it, in fact, enjoys the "safe harbour" treatment in a general sense, which requires further analysis of the deletion-notification rule associated with the "safe harbour". The specific application of the deletion-notification rule is actually closely related to the standard of post-examination obligation. If standard (2) is adopted with regard to the obligation, and an e-commerce platform business should take necessary measures on if it is notified of the relatively more likelihood of infringement. Article 13 of the E-commerce Explanation provides: "where a rightholder's notification and attached evidence proves the relatively more likelihood of infringement by the allegedly infringing information, an e-commerce platform business shall take the necessary measures in a timely manner, or it is found at fault.

As early as 2006, some courts in China, applied a similar rule in their decisions, concluding that "only where the trademark owner points out the online seller's infringement and produces related evidence to prove it, is the first defendant obliged to delete the relevant information. While the plaintiff pointed out that the online store, including the second defendant, committed the infringement, its three letters were not attached with any evidence to prove the infringement; besides, it clearly said it would not when the first defendant asked it to do so; the first defendant's not deleting the information the plaintiff asked to did not fail to meet its obligation to provide post-remedy."⁸

To review and determine whether likelihood of infringement reaches the standard of high probability, it is necessary to set forth the notification and counter-notification rules. If a rightholder's notification proves that it is a qualified rightholder or interested party, and points to the information of infringing goods so sufficiently that an e-commerce platform business can locate it, the e-commerce platform business may ask the alleged online seller to provide counter-notification. If the latter fails to do so within the reasonable time limit, it is possible to presume that there is more likelihood of infringement, and the e-commerce platform business may directly take the necessary measures. If the online seller presents a counter-notification in time, the online seller's counter-notification and evidence should be further reviewed. If evidence preponderance rests with the righthold-

er, the e-commerce platform business should take the necessary measures in a timely manner. If it is still impossible to find infringement on the basis of the evidence from both parties, the rightholder should bear the adverse consequence with reference to rules of the evidence in the civil procedure; and its infringement claim is not accepted, nor its request for taking the necessary measures supported. According to this line of thinking, Articles 14 and 15 of the E-commerce Explanation provide for the detailed rules governing notification and counter-notification, to make it less possible to wrongly take the necessary measures, to better balance the interests between rightholders and online sellers. ■

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¹ For the whole text of the E-commerce Explanation, visit <http://www.cpahtltd.com/CN/info.aspx?n=20130206162754430972>.

² Shi Bisheng, *Standard for IP Right Examination Obligation on E-commerce Transaction Platform* carried in the Application of Law, 2013, issue 2, P.103.

³ Kong Xiangjun, *On New Mechanism for Balance of Interests in Copyright Protection on Internet* carried in the People's Judiciary, 2011, issue 17, P.53.

⁴ Chen Jinchuan, *Study on Determination of Fault of Internet Service Providers* carried in the Intellectual Property Right, 2011, issue 2, P.56.

⁵ See Zhejiang Province Hangzhou City Intermediate People's Court's Civil Judgment No. Hangminsanchuzi 93/2006.

⁶ See Zhejiang Province Hangzhou City Xihu District People's Court's Civil Judgment No. Hangxizhichuzi 11/2009.

⁷ See the Beijing Chaoyang District People's Court's Civil Judgment No. Chaominchuzi 16770/2011.

⁸ See the Guangdong Province Guangzhou City Intermediate People's Court's Civil Judgment No. Huizhongfaminsanchuzi 179/2006.