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Newsletter

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Legal Updates

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Legal Updates

1. Comments on Guidelines for the Hearing of Network-Related Intellectual Property Cases (Authors: Estella CHEN, Qihui LI)

On April 13, 2016, the Beijing Higher People's Court promulgated the *Guidelines for the Hearing of Network-Related Intellectual Property Cases* (hereinafter referred to as the "**Guidelines**"), which summarizes the experiences of Beijing courts during their hearings of network intellectual property cases and touches on the difficult legal issues related to network copyrights, trademarks and unfair competition, and thus it is expected to serve as a guide for court trials in the future. In this article, we will brief and analyze the key clauses of the *Guidelines*.

Network Copyrights

Articles 1 through 4 of the *Guidelines* provide rules related to allocating the burden of proof and methods for courts to review evidence when trying network copyright cases. Thereafter, the *Guidelines* analyze the main defenses that a defendant may potentially claim, providing that "if the defendant merely provides internet technology services and does not infringe upon content, such activity shall not constitute an act of infringement." The *Guidelines* also explain the means for a defendant to meet its burden of proof and the methods for courts to determine whether the defendant, based on the evidence, only provided internet technology services. Next, Articles 6 and 7 focus on analyzing factors to be considered in determining the defendant's provision of information storage services and link services, with rules more detailed and practical than those in the 2013 *Ordinance for the Protection of Information Network Transmission Rights* (the "**Ordinance**").

The *Guidelines* also analyze the "division of labor" that is typically associated with network copyright cases. These traditional types of "division of labor" include collaborations between video providers and video platforms (in most cases by entering into cooperative agreements) that provide infringing works, performances or audio and video recordings, and collaborations between game developers and game platforms that provide infringing games, etc. According to the *Guidelines*, the exemption for network service providers will not apply if the defendants (in particular the platform providers) directly infringe upon information network transmission rights. That is to say, under the "division of labor" approach, the defendant cannot defend itself by claiming that it was merely providing internet technology services. In addition, the *Guidelines* refine the relevant rules found in the *Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in the Hearing of Civil Information Network Transmission Right Infringement Dispute Cases* (hereinafter referred to as the "**Provisions**"), by clarifying the definition of "division of labor," and specifying the allocation of the burden of proof and the applicable scope of exemption provisions. In sum, the *Guidelines* are

expected to play an important role in guiding the case trials with respect to information network transmission rights.

Subsequently, Article 12 to Article 14 stipulate further details with respect to the provision of web cache as referenced in the *Provisions*, by stipulating that courts shall decide whether the web cache provided by the defendant constitutes infringement according to whether the web cache would adversely impact the regular use of relevant works or whether it would damage the legitimate rights of others.

Finally, Article 15 explicitly provides that the provision of internet broadcasts, which is regarded as a non-interactive communication activity, shall be protected together with other copyrights. This will put an end to the enduring debate in these cases over whether to apply the relevant provisions for information network transmission rights or broadcast rights.

Network Trademarks

The most striking aspect about the *Guidelines* is that they set out the rules for the application of a "safe harbor" principle for network trademark cases. It is well known that the principle was first introduced for the settlement of information network transmission right disputes with respect to copyright infringement, with the relevant rules and standards further detailed in the *Ordinance*. In practice, in order to settle network trademark disputes, the courts previously invoked Article 36 of the *Tort Liability Law* as there were no other definitive rules available.

The *Guidelines* first define "platform provider" and specify the basic principles for deciding platform provider liability for trademark infringement. It is notable that Article 20 is the key clause with respect to a platform provider's burden of proof and the court's determination of tort liabilities. According to the *Guidelines*, after a plaintiff provides preliminary evidence of infringement, the platform provider may present counterevidence and avoid infringement liability if the platform provider proves that it was not at fault for the online seller providing the transaction information or implementing the transaction activities. If the platform provider fails to do so, it shall be deemed to have committed infringement by directly providing the transaction information and implementing the transaction. The platform provider's counterevidence refers to the evidence sufficient to confirm the identities, contact information and website addresses of the online sellers.

In fact, the *Guidelines* develop a detailed and practical "safe harbor" for network trademarks by drawing on relevant provisions with respect to information network transmission rights. Article 21 specifies two types of infringement for platform providers, aiding and abetting trademark infringement, for which the platform provider may be subject to joint and several liability with the online seller. Additionally, Article 21 through Article 25 discuss the "notice - delete" system for network trademarks disputes, which explains the content required in notices of infringement, the necessary actions for platform providers after receipt of a notice as well as providing for legal liability in the case of false notices. In particular, Article 26 states that the platform provider's "awareness

of the infringement" is a subjective requirement for infringement. Factors to be considered to determine whether the platform provider was aware of the infringement include: whether the disputed transaction was accessible from a plainly visible location on the platform website, whether the platform provider had edited, selected, sorted, ranked, recommended or amended information for the transaction, whether the plaintiff had issued a notice of infringement, whether the platform provider had taken reasonable actions against repeated violations by sellers, whether the provider sold / provided well-known goods or services at clearly unreasonable prices, and whether the provider directly obtained economic benefits from the disputed transactions, etc.

In addition to the "safe harbor" principles, the *Guidelines* also point out that goods or services provided through apps shall not necessarily be regarded as similar goods or services of computer software products or internet services. Instead, the nature of such goods or services shall be determined by considering a full range of factors including the purpose, content, methods, and the target customers for whom such goods or services are provided. In current practice, plaintiffs tend to file complaints for infringement against apps by invoking trademark right on class 9 computer software products or class 42 internet services. For example, an app that specializes in food ordering services may be held liable for infringement by using trademarks on class9 computer software products, although the app does no more than simply order food. As the e-commerce industry booms, apps may often serve only as a channel or method for providing certain goods or services. In this case, operating the app will not necessarily lead to a trademark infringement on class 9 computer software products or class 42 internet services.

Network Unfair Competitions

With respect to unfair competition, the *Guidelines* first clarify the definition of the concept and relevant principles applicable at trial. Article 31 provides an expanded interpretation of the "competitive relationship" concept by indicating that a competitive relationship exists among business operators if the goods or services of the operators are interchangeable with one another, directly or indirectly, or the operating activities thereof are overlapping, dependent, or otherwise related to one another. In fact, the provision is a summary of judicial practice since the courts had already defined the meaning of competitive relationship in trial practice.

The *Guidelines* further detail the rules under Article 2 of the *Anti-Unfair Competition Law* in two aspects. First, the *Guidelines* specify the definition, scale and reference content for the concept of "generally recognized business ethics." Second, the *Guidelines* summarize certain actions which cannot be covered under the *Anti-Unfair Competition Law* regulations, but which are, nevertheless, breaches of good faith and generally accepted business ethics, by stipulating that all of those behaviors shall be deemed to be unfairly competitive behaviors as referred to in Article 2 of *Anti-Unfair Competition Law*. These two aspects are actually a breakthrough which will not only serve as guidance for the application of terms of principle at trial, but will also limit judges' discretion and thereby help to maintain consistency in judicial practice. Further, Article 41 provides methods

for calculating compensation as well as the manner for determining the defendant's burden of proof if unfair competition is found to exist under Article 2 of the *Anti-Unfair Competition Law*.

Next, Article 36 and Article 37 list various acts of false propaganda and commercial defamation. Then, Article 38 through Article 40 focus on regulating paid listings, which are common in practice. According to the *Guidelines*, since the paid listings are one kind of information retrieval service, if a search engine provider does not select, organize, recommend or edit the keywords, the provider will not be obligated to voluntarily implement a prior review. However, as an internet service provider, search engine providers must still assume remedial obligations, such as removing, screening, or disconnecting web links. Factors required to be considered to determine whether purchasers or users of paid listing services have committed unfair competition include whether the trademarks of other operators are used and, if they are, whether there is reasonable cause for such use, and whether the search results and the promotion pages contain keywords, etc.

In conclusion, the *Guidelines*, which are a summary of judicial experiences and which mirror the economic development of the internet in China, are expected to play a significant guiding role for the courts in the trials of copyright, trademark and unfair competition-related cases. Although it is not a formal judicial interpretation and has limited legal effect, we still believe that the *Guidelines* will have a positive guiding effect across nationwide.

We hope that you have found this article to be helpful. If you have any questions, please feel free to contact us.

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2. Comments on the New PRC Charity Law (Author: Han Chen)

On March 16, 2016, the fourth session of the 12th NPC voted to approve and adopt the *Charity Law* ("**Law**"). The Law, which consists of 12 chapters and 112 articles, is a great supplement to the Law on Donations for Public Welfare ("**Donations Law**"). It is notable that although the content of both laws overlap in many respects, the Donations Law will continue to be in force following the introduction of the Law.

The Law has been slow in coming as it has taken ten years from the legislative proposal to its formal introduction.

Ushering in a new era

In general, the Law has more than a few highlights.

Firstly, the right to establish charitable organizations is open to the public, at least in form. In the past establishing a social organization was subject to a "dual license" system, under which the approvals of the competent business authority and the civil affairs department were both required. According to the Law, however, the charitable organizations may be directly registered in accordance with the law, which will significantly simplify the establishment procedures. This demonstrates the current government's confidence in its administrative capacity, as well as its determination to promote Chinese philanthropy.

Secondly, the right to engage in public fundraising is no longer monopolized. Before the promulgation of the Law, the right to engage in public fundraising was actually dominated by several major government-related charitable organizations and public fundraising foundations. The public fundraising process was also complex and painstaking. Under Article 22 of the Law, all charitable organizations are now entitled to engage in public fundraising. This will help to promote orderly and healthy competition among charitable organizations and encourage public donations.

Thirdly, the Law contains detailed provisions. For example, Articles 14 and 40 explicitly restrict and prohibit related party transactions. Article 27 puts restrictions on public fundraising carried out on the Internet, and Article 63 sets forth the standards for professional charitable services. These detailed rules demonstrate that the Law is relatively mature as it pays attention to the realities of charitable giving.

Overall, whether in terms of legislative level or content, the Law has ushered in a new era in the history of Chinese philanthropy. It has changed the situation from where charity work is government-led to where everyone may directly participate in charitable activities.

Shortcomings remain

Strictly speaking, the Law also remains to be improved in many aspects.

Firstly, by nature, the Law is a charity management law that focuses on the standardization of charitable activities and the management of charitable organizations, which is clear by comparing the proportion of such provisions to the entire Law. The rules with respect to encouraging charitable activities are still fragmented. Internationally, it is the trend for contemporary philanthropy law to employ taxation as a means of standardizing and encouraging charity. Although the Law shows signs of deregulation, it continues to adopt the attitude that "spiritual encouragement is primary, while tax preferences are secondary".

Secondly, the provisions on charitable trusts are not comprehensive enough. The relationship between charitable and public welfare trusts (as defined in the *Trust Law*) is still unclear even though the Law has expressions such as "charitable trusts referred to in this Law shall be regarded as one type of public welfare trust." Besides this, the Law fails to clarify whether public welfare trusts are exempt from the previous regulatory welfare agency approval requirement. In addition, there are no

systematic provisions with respect to matters regarding the disposal of property after the term of charity trust expires or for special tax policies.

Matters with respect to the lack of tax incentives will be detailed in the following section.

Lack of tax preferences is a shortcoming that will limit the development of Chinese philanthropy

Although “tax preferences” is referenced seven times throughout the text, the Law makes no substantial progress in this regard when compared to the Donation Law. Tax incentives are still more like a slogan for propaganda purposes. Relevant tax treatment for charitable or public interest activities are still subject to provisions of the *Circular of the Ministry of Finance, the State Administration of Taxation and the Ministry of Civil Affairs on Relevant Issues of Pre-tax Deductions of Public Welfare Donations*. However, the Law may make a difference in this situation.

Firstly, if the right to establish a charitable organization is open to the public, it would be technically difficult for the Ministry of Finance, State Administration of Taxation and Ministry of Civil Affairs to continue jointly releasing an annual list of public welfare organizations that are eligible to receive tax deductions for charitable donations. Besides, this system would be contrary to government reforms to simplify the examination and approval process. Therefore, the first question for many newly established charitable organizations is whether they are eligible for tax deductions for purposes of charitable donations.

Secondly, the Law explicitly stipulates that "donors may make a donation through a charitable organization, or donate directly to the beneficiary." If donating directly to the beneficiary is determined to be an act of charity, such an act should be eligible for a tax deduction. However, under the current tax system, natural person beneficiaries will have trouble applying for and using receipts for public benefit donations.

Thirdly, there are no relevant provisions in the Law with respect to the tax treatment of charitable trusts at the time of establishment.

Besides the honor of charitable giving, tax incentives are also an important driving force for philanthropists. In the era of the Donation Law, when public welfare work was largely government-led, tax deductions for charitable donations were subject to central government management. With the introduction of the Law, we have entered the age of “mass charity,” where the government will change its role from being a leader to being an administrator and supervisor. In that context, we still have much progress to make in answering how to improve tax incentive policies to promote charity and how to create a win-win between donors and beneficiaries.

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