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Taiwan set up its Intellectual Property Court (“IP Court”) in July 2008, whose jurisdiction covers IP disputes in relation to Patent Act, Trademark Act, Copyright Act, Fair Trade Act, Trade Secret Act, and so on. For criminal actions related to the intellectual property matters, the IP Court as the appellate level is reckoned as the available forum for adjudication. The IP Court was the first specialized court formed in Taiwan, and it is specially provided with Technical Examination Officers to identify technical issues and scientific context embedded in any given cases, so that these officers should assist the judges in the course of fact finding. More noteworthy, the establishment of IP Court has integrated three tribunals from the traditional judiciary mechanism that is bifurcated into civil, and criminal courts as well as administrative courts. As viewed, IP Court is vested with the authority to try any of the civil, criminal, or administrative cases related to IP.

In view of the success made by the IP Court, the Judicial Yuan took a further step on June 21, 2019 for it passed several draft bills to establish a specialized commercial court. In fact, there have been voices to create a new and specialized adjudicative forum specifically designed for commercial disputes. As the occurrence of a material commercial dispute may not only impact upon the rights and interests of company shareholders or creditors, but also that of investors in the public market, and even compromise good business investment and economic competitiveness. As of it, the Judicial Yuan has acknowledged the need for a professional court to adjudicate any significant business disputes. Therefore, the new commercial court will incorporate the existent IP Court as it is turned into the IP and Commercial Court (“IPCC”).

10 features of the new IPCC are thus summarized as follows:

1. High Court Level

The IPCC remains instituted with its two-instance court and three tribunals (civil, criminal, and administrative) as that of the current IP Court. A litigating party for a civil matter is eligible for the first and second instance of trial at the IPCC before filing an appeal to the Supreme Court. However, If a civil litigation is found attached to a criminal action for a commercial matter, such matter in dispute would, therefore, fall within the jurisdiction of IPCC, and the criminal court shall rule to transfer the case to IPCC (Article 3 of the draft of the Commercial Matter Adjudication Law).

2. Jurisdiction

The IPCC shall enjoy the jurisdiction over commercial matters of significance, including litigious and non-litigious matters. A commercial litigious matter is the one that involves an amount in dispute over TWD 100,000,000 (equiv. to USD 333,333), or involves a publicly listed company, which severely impacts upon the exchange market and the rights and interests of investors. The IPCC will then be vested with the jurisdiction to adjudicate disputes incurred between a company and the company representative when performing his/her duty, matters in violation of the Futures Trading Act, the Securities and Exchange Act, the execution of rights by shareholders, and the validity of resolution from the board meeting or the general shareholders' meeting.

¹ <http://jirs.judicial.gov.tw/GNNWS/NNWSS002.asp?id=475503>

² <http://jirs.judicial.gov.tw/GNNWS/download.asp?sdMsgId=79419>

3. Mandatory Representation

The parties shall retain an attorney for their representation in court proceedings. The draft of Commercial Matter Adjudication Law stipulates that legal representatives is mandatory to enhance trial efficiency; in the meantime, an attorney will effectively safeguard the legal interests of any parties who join the proceedings.

4. Mediation

As recommended by government agencies or other public organizations, the judge of IPCC may recruit one to three technical experts as the mediators to the commercial mediation committee for a specific case (Article 24 of the draft of the Commercial Matter Adjudication Law). Mediation shall be concluded within 60 days after a mediator(s) assumes position, while the parties, legal representatives, and their representing lawyers must be present at the court on the day of mediation.

5. E-facility at Courtroom

The court receives legal documents through online system, and it may, at its discretion or upon request, use audio visual facilities in aid of hearing when necessary.

6. Litigating Party's Inquiry System

To prepare the arguments and supportive evidence in better terms, each party may enquire for statements from the other party. To allow for inquiries may expedite court proceedings and aid the parties to assess their litigation strategy.

7. Expert Witness

Litigating parties may request for expert witness and further enquire about the opinion made by expert witnesses from the other party. Further, the IPCC may, as well, summon experts to present themselves to the court when necessary.

8. Secrecy Order

For any documents, evidentiary substances, or information in need of appraisal that are related to trade secret, the secret owner may request the court to issue an order of secrecy, and anyone in violation of the order are liable for criminal penalty.

9. Preservation of Evidence

Evidence preservation and the proper procedures to preserve evidence in a commercial matter should highly entail in-depth commercial know-how for determination. Thus, the IPCC will be vested with the jurisdictional right to review the request for evidence preservation. But requests can also be made to the district court in occasions of emergency.

10. Non-litigious Proceedings

Prior to the court's decision over a non-litigious matter, the court shall endorse the requesting party and the counter-party to produce their respective statements, and the court may further interrogate the other interested parties if necessary.

As retrospection to the history of the IP Court, a myriad of achievements can be found throughout the judicial history of Taiwan.³ For each year, the IP Court

³ http://ipc.judicial.gov.tw/ipr_internet/index.php?option=com_content&view=article&id=514:2010-12-29-07-33-16&catid=39:2013-01-07-03-11-41&Itemid=100061

will docket about 1,260 cases, 660 for civil matters, 280 criminal matters, and the rest 320 administrative matters. For civil matters, almost 50% of the cases filed are related to patent, out-numbering other kinds of disputes. As a whole, the winning rate for plaintiffs is 53.60% in trademark cases, whereas the winning rate for plaintiffs drops to only 20.78% for patent cases. In view of the difference, the success rate of invalidity defense during a patent litigation case is 54.55%, which may well explain the slimmer chance

of case-winning by plaintiffs. However, it is rather noticeable that the chance to settle in the IP Court is 12%, almost twice to that in regular district courts as 6.74%. Now that the draft of the Commercial Matter Adjudication Law and the revised IP and Commercial Court Organization Act are sent to the Legislative Yuan for review, it is, therefore, hoped that a speedy, appropriate, and professional adjudication procedure for commercial matters may be further structured in combination of a well-functioning IP Court.



Patentee Ordered to Refund License Royalty When Patent Invalidated¹

The IP Court in the second instance affirmed a case of patent licensing on June 6, 2019. In the case the court ruled that the former patentee should refund the royalty received plus interests to the former licensee once the patent in dispute had been invalidated by the licensee.

PackProper is an institute engaged in the design and manufacture of packing materials, which was approached by JollyCup, a paper-cup maker that owns patented technology in the production of thermal-insulating paper cups. JollyCup's patent, TWI271364 ('364 patent), is of an improved method that manufactures paper container with thermal insulation layer, and is featured to customize the exterior heat-insulating layers of cups. The '364 patent enables the production of disposable cup with various visual and tangible three-dimensional design. JollyCup was convinced that its '364 patent and associate patent family granted in other countries should provide disposable cup makers an enhanced competitive advantage in the marketplace.

PackProper and JollyCup entered into a deal that consists of three contracts as a whole, which are the Agreement for Equipment Procurement, the Agreement for Licensed Manufacture and Regional Head Agency, and the Agreement for Licensed Manufacture and Exclusive Agency. According to the deal, PackProper was entitled to practice the '364 patent and receive affiliated machines dedicated to make paper cups. For the consideration, PackProper as the licensee was obliged to pay a sum of NTD 75 million in return.

But 16 months later, the machines for manufacturing were found with irregularities such as part breaking, oil leakage, and operation discontinuation. Nonetheless, JollyCup was not able to send staffs for maintenance and inspection. Furthermore, PackProper also found the '364 patent as being defected in novelty or inventiveness. In subsequence, PackProper initiated an invalidation action towards the patent before the TIPO and succeeded. The '364 patent was, therefore, invalidated. Afterwards, PackProper filed a civil case to a district court as an effort to terminate the three contracts and reclaim the licensing fee of NTD 63 million paid. The district court ruled in favor of PackProper. Though JollyCup made its appeal, the IP Court affirmed the judgment delivered by the district court.

Both the IP Court and district court found the efforts by the licensee to revoke the contracts and to request for a refund of royalty payment justifiable upon following reasons. First, the three contracts were associated contracts; as viewed, if one of which is revoked, the rest of them will be certainly be rendered null and void. Second, the patent was eventually invalidated for lack of novelty and inventiveness, not to mention the lack of support in the disclosure for the patent amendment. The fact that the patent has been finally and bindingly invalidated should take effect retroactively from its issue date under Article 82.3 of the Patent Act. As such, JollyCup should enjoy no such right to license its patent to the licensee. Even more, JollyCup was incapable to remedy the defects of the manufacturing

machines in spite of numerous reminders made by PackProper. Since the onus of incapability to perform the contract was attributable to JollyCup, so that the contract has become vulnerable to revocation, rendering the licensee PackProper rightful to terminate the deal of three agreements. Both parties should, henceforth, resort to restitution and resume the status as if there were no contracts ever formed, meaning that JollyCup was obligated to return the sum of payment, NTD 63 million, previously received from PackProper.

[Jesse K.Y. Peng](#), partner of Tsai, Lee & Chen, has dedicated some period of time into the research and published a paper reasoning if the licensee has any legitimate claim for refund from the licensor for the paid royalty in subsequence from the patent invalidation. As pointed out in his paper, Article 35 of the Community Patent Convention restricts the impact of invalidating a community patent, and “any contract concluded prior to the revocation decision” shall not, therefore, be retroactively affected by the revocation.² Also, the German Federal Court of Justice had made several judgements holding that the licensee’s obligation to pay royalty extinguishes only for the future (*ex nunc*), but not from the beginning (*ab initio*). One of the reasons is that the licensee has been shielded and enjoyed market advantage as a result of patent protection.

The US federal courts likewise indicated that, for the interim royalties paid before the patent being held invalid, the licensee is not entitled to claim for a refund unless the license agreement or the

payment of royalty is a fraud. One of the inferences roots in the policy perspective. If royalty paid can be requested for return, it opens up a loophole for the licensee to first enjoy the patent’s fiscal rewards but later seek for its invalidation in order to re-claim the royalties already paid to the licensor. That would be unfair to the patentee and licensor. Besides, royalty refund after invalidity, if established, would blatantly discourage the patent system which protects innovation by granting a patent protection in exchange of public disclosure. As a result, innovators would gradually opt for trade secrets rather than patents in the long run.

Mr. Peng advises that the above-mentioned issue may be resolved based on the legal theory of unjust enrichment.

In 2012, the Judicial Yuan held a panel discussion on Intellectual Property Law, in which the legal issue of royalties return after the patent right is invalidated was debated. The majority of Justices were convinced that, for the stability of law, the royalties paid before the patent right being invalidated should NOT be constituted as unjust enrichment of the patentee. The licensing agreement of patent should be in effect before the patent at issue is confirmed invalid. As such, the patentee is rightful to receive royalties paid by the licensee during the term of valid patent. However, law practitioners disagree the effect of patent right “shall be deemed to have not existed when it is confirmed revoked” under the current Patent Act. If the patent right is deemed to have not existed upon revocation, the patentee and

² Article 35(2) of the Community Patent Convention

licensee will owe to each other a duty to return any gains and interests they respectively have benefited from the null and void licensing agreement, meaning that each party may have been unjustly enriched without legal cause. In fact, the Supreme Court in the judgment of (104)TaiShangZu No. 2016 for a similar case on October 22, 2015 seems to concur that the licensee might have to return possible interest if it is gained from the exploitation of the patent at issue before the patent is revoked.

Mr. Peng further advises that a licensing agreement may include both technology licensing and patent licensing. If the patent is rendered null and void due to later invalidation action, the technology

license can remain in effect. As the legal theory of unjust enrichment applies, while the patentee owes the duty to return monetary interests received before the patent at issue is revoked, the licensee also owes the duty to return monetary interests gained owing to the exclusive exploitation of the patent right for not being sued. As such, the mutual liabilities between the patentee and licensee can be offset. In other words, the patentee's fiscal revenue from licensee's royalty payment has legitimately cancelled out the licensee's fiscal interest gained from not being sued by the patentee and from being safeguarded from third parties' competition. As a result, the patentee would only be required to refund the difference to the licensee.



Received Bonus and Stock Options are Recognized as Inventor's Remuneration



According to Article 7 of the Patent Act, the employer is vested with the owner of service invention. While the employer possesses the right to apply for a patent over the invention made by an employee during the course of employment performing their duty, the employer shall reasonably remunerate the inventor employee. However, if there is an effective agreement other than the default rules arranging the ownership of right and how an inventor may receive invention rewards, the agreement prevails. The goal of the policy is to create more economic incentives in addition to their regularly wages and to trigger innovative productivity.

In practice, when the employer implements a series of unilateral and yet internal guidance of working rules that govern invention remuneration, the said rules shall remain effective so long as the rewards bounded by the statutory framework are reasonable. Furthermore, it is upon the discretion of the court to determine, after weighing available factors, if the remuneration to pay is reasonable in terms of the amount and method, the procedure, and timing. Given with the interpretation of the legislative intent, parties cannot exclude employees from requesting inventor remuneration by a mutual agreement; however, an internal working guidance regarding inventor's incentive is null and void if found against the law.

The IP Court released a judgment related to the issue of inventor remuneration on June 18,

2019. In view of the case, Yang was employed in a company manufacturing optoelectronic materials and components, which was later acquired by Epistar Corp. The acquired company used to implement an internal incentive rule for rewarding innovation ("Rule"). As the Rule applies, the rewards are issued in two installments: one at the time when the patent is filed, and the other when the patent is granted. Only the inventor employee who remains on service will be rewarded as required by the Rule. When Yang was still with the company, he had received the first installment of the reward for the patent as filed for his innovation. However, he left the company before the patent grant. Yang sued Epistar Corp. later on with the intent to claim for the second installment of the invention remuneration, along with the revenue obtained from some LED products allegedly made due to his contribution. Yang argued the on-the-job restriction is an unjustifiable hindrance towards employees to their entitlement to claim for patent remuneration. Also, Yang asserted that since patent remuneration is not a salary received from employment duty, his entitlement is, therefore, enforceable within the statutory limitation of 15 years, starting from the point when the patent is granted.

During the deliberation by the IP Court, it found a specific agreement reached between the acquired company and Yang that dictated invention remuneration. In addition, the Court also found that when Yang was working in the acquired company as a R&D engineer he had accepted and acknowledged the



terms and conditions stipulated in the Rule. As such, Yang's acceptance was an agreement, and in pursuant to Article 7 (1) of the Patent Act the said agreement should prevail. Since Yang had already received a patent application reward, he was no more entitled to any patent-grant rewards after his leave.

The Court particularly clarified the difference between "worker's minimum wages" enforced in the Labor Law and the invention remuneration stipulated in the Patent Act as a response to Yang's assertion that Epistar Corp. infringed his fundamental labor right. Basically, the Labor Law is aimed to protect employees as it requires employers to offer minimum working conditions such as maximum overtime, rest hours, and workplace injury insurance. Thus, the employers may base on different working conditions to tailor their labor conditions with respect to the specific business operation of the enterprise. As viewed, the Rule is exactly the kind of special deal preferable than the minimum labor treatment. Hence, it does not in whatsoever measure found to be in violation of the Labor Law.

Most noticeably, the IP Court determined that, first of all, given the existence of the "agreement (the Rule)" about the invention remuneration between Yang and the acquired company, Yang had already been "reasonably" remunerated. Second, the Court adjudicated that LED product at issue does not fall into the scope of claim of the patent at issue for which Yang claimed to have had contribution. As such, Yang's claim that he should also be adequately

compensated by the revenue generated from said LED products was not endorsed by the IP Court. Besides, Yang admitted to have received stock options in 2000 and 2001 respectively. On the other hand, Yang had been successfully promoted from a non-managerial R&D Engineer at entry all the way to a supervisory director of the R & D Division before his leave, while his salary had also been raised during the time of his service. All these merits and increase of interests were provided in commensurable to Yang on the basis of his "performance," indicating that Yang's contribution of innovation was already well evaluated by these extra cash rewards, stock options, promotions, and salary raise. Therefore, the IP Court concluded that Yang had been reasonably remunerated.

The IP Court ruled that the plaintiff Yang failed to present a valid ground to entitle for a reward according to Article 7(1) of the Patent Act. As such, Yang's claim was, therefore, dismissed.

In view of the fact that this is a rare case in which the court considers the rewards the employee received previously are reckoned to be of adequate inventor remuneration. Nonetheless, the plaintiff may still appeal, whereas the IP community will stay aware of further development of the case.

Minion wins a Preliminary Injunction in China – First for the Foreign Corporate



Alleged infringing products

► Originated from:
<https://item.taobao.com/item.htm?spm=a262i4.9165215.zhaohuo-detail-top.3.4e6d501610iyj4&id=599145402444>

Suzhou Intermediate Court in Jiangsu Province ordered to grant a preliminary injunction requested by the famous Universal Pictures on June 28, 2019 in a pending lawsuit for copyright infringement. The Universal Studio Shanghai, the Chinese subsidiary of Universal Pictures, sued several local food manufacturing companies for the unauthorized use of "Minion" -- the image of animation figures, on their packages of dairy foods and beverages.

As a means of temporary protection, a plaintiff is entitled to a preliminary injunction in a pending lawsuit only under some circumstances. The statutory provisions of the injunctive relief are, at the least, founded upon Articles 100 and 102 of the Civil Procedural Law of the PRC. As one of the institutes that enforce authoritative regulations, the Supreme People's Court invoked "Several Issues concerning the Application of Law in Cases Involving the Review of Act Preservation in Intellectual Property Disputes (the "Provisions")" on January 1st, 2019, and the objectives of such judiciary interpretations on injunctive relieves are to refrain the accused infringers from specific acts. In pursuant to the Provisions, the court shall factor the following several circumstances as it grants an injunctive relief, including but not limited to the following,

- Stability for the asserted IP rights and the likelihood of success on the merits;
- Irreparable harm and unenforceability of a future judgment if an injunction is not granted;
- Balance of the harm, the harm caused due to the absence of injunction in excess of the harm resulted by an injunction; and
- Potential harm to the public interests if an injunctive relief is issued.

The court found the fame of Minions in the market of China far and wide. When the movie was first premiered in 2015, although delayed by two months than that in North America, it hit such a record high of RMB 123 million for the first day. The movies of "Minions" series were the first animation movie whose earnings of box office make an excess of RMB 100 million on the first day in Chinese film history. Most of all, the related merchandises of Minions have aroused enthusiasm from all ages. As such, the unauthorized uses of Minion image are found with increasing amount in the relevant markets, which produce confusions.



Alleged infringing products

► Originated from:

<https://item.taobao.com/item.htm?spm=a262i4.9165215.zhaohuo-detail-top.3.4e6d50161Oiyj4&id=599145402444>

The facts of the case were not, however, disclosed to the public in full. Furthermore, the defendants were found to infringe the image of Minions willfully, and pass off the trademark thereof, which includes to assume themselves as the trademark licensee on their product package. According to notarized materials, the defendants made modifications of Minions image and then brought the same for copyright registration under their own name. One of the products for alleged infringement was sold out with 2500 thousand pieces, generating the sales revenue of RMB 15 million.

Furthermore, some evidences of food test report showed that false labels of nutritional ingredients were found on the products of alleged infringement. All those asserted facts have well indicated the urgent necessity to grant a preliminary injunction.

Based on the foregoing analysis and findings, the IP Tribunal of Suzhou Intermediate Court granted an injunction that prohibits the defendants from making or selling food products packaged with Minions image, awaiting the final judgment of the case to become effective.



Reference Source:

<http://qcx.5888.tv/news/101057.html>

<http://www.5888.tv/pro/829541.html>

First Declaratory Judgment Ruled by the IP Tribunal of PRC Supreme People's Court¹



The IP Tribunal of China Supreme People's Court reached a decision of declaratory judgment of patent non-infringement on July 3, 2019, considered to be a guiding case for the application of laws and interpretation of prerequisites for the acceptance of lawsuits in pursuant of declaratory relief from a court. This case is also the first non-infringement declaratory judgment case adjudicated after the IP Tribunal of Supreme People's Court was established on January 1st, 2019.

Safe-Run Huachen Machinery (Suzhou) Co., Ltd., the appellee in the case, is a holder for a Chinese utility model.² Safe-Run detected and found the appellant, Cooper Kenda Tire (Kunshan) Company Ltd., the plaintiff in the trial, for using "single stage semi-steel radial tire molding machine" supplied by VMI Holland B.V., which was suspicious of infringing its utility model patent right. Hence, Safe-Run filed a complaint to Suzhou IP Office on May 24, 2018, in request of administrative enforcement against Cooper. As a response, Cooper activated an invalidity proceeding against Safe-Run's disputed utility model before the Patent Review Board of CNIPA. Suzhou IP Office then halted the administrative enforcement because the invalidation action has been filed. Subsequently, VMI served a written reminder to Safe-Run on September 24, 2018, asserting that Safe-Run's series of activities had caused unrest to VMI's regular business operation.

Safe-Run filed a lawsuit against VMI and Cooper for patent infringement on October 19, 2018, the date when Suzhou Intermediate Court received Safe-Run's

complaints with accompanying documents. On the other hand, it was about 10 days later that Cooper and VMI filed another suit to the same court for declaratory judgment on October 29, 2018. Though Suzhou intermediate Court dismissed Cooper and VMI's claim, it made appeal to the Supreme People's Court where its IP Tribunal carried out review.

China resorts to the use of declaratory judgment of non-infringement to resolve a prospective dispute at its early phase.³ As an auxiliary instrument, the declaratory relief is available to an interested party exposed to uncertainty of regular business operation as of competing patentee's interference like sending warning notices, and asserting patent infringement but without resorting to legal proceedings. To entitle an interested party to initiate a declaratory judgment, it prevents the abuse of rights and ascertains if the patent is infringed as soon as possible by the patentee, as well as terminates the uncertainty at law. The three prerequisites to lawfully establish a suit for non-infringement declaration at the court are respectively as: (1) the patentee serves a warning letter, (2) the receiving party replies in a written reminder urging the patentee to take necessary actions, and (3) the patentee fails to either withdraw his warning or initiate a patent infringement lawsuit within a reasonable period of time, namely one month upon receipt of the reminder or two months from sending of the same.

Several questions of law were presented to the appellate court pending analysis, whereas the facts of the case were correctly found during the first instance

¹ 2019-SupCtIPCivilFinal-No.5

² CN204183920U titled Automatic piecing device of composite parts

³ Article 18, Interpretation of the Supreme People's Court on Issues Concerning the Application of Law in the Trial of Disputes over Infringement of Patent Rights (2010)

of trial by Suzhou Intermediate Court, according to the Supreme People's Court acting as the appellate court.

First, the appellate court found the trial court erred in ruling that Safe-Run's request for administrative enforcement as a warning notice in pursuant to the Patent Act. To reject the request as a warning notice, the trial court was overly strict construing the definition of a warning notice for it is considered as one of the three prerequisites to file for a non-infringement declaration. When Safe-Run made its request to the IP Office against Cooper, VMI's product supply business and related operation would be inevitably influenced. In addition, when VMI's product is considered to have infringed a utility model, the sales of products would foreseeably decrease. Even worse, since VMI is not a participant in a potential administrative proceeding, it would not have an opportunity to immediately make any response to Safe-Run's any accusation. As such, if VMI's standing for a non-infringement declaratory judgment can be entitled, it could likely help VMI to evade the risk of such instability in its commercial operations. Therefore, it was reasonable to construe Safe-Run's request for administrative enforcement to be a warning notice.

Another prerequisite is the lapse of a reasonable timeframe to take a judicial action by the patentee against the accused party, which legitimizes the necessity and/or appropriateness for a declaratory relief. In the absence to file an infringement lawsuit in one month from receiving the accused party's reminder, or two months from sending the same, a declaratory relief becomes mature to help resolve an uncertainty of law. The trial court and the appellate court were consistent in the finding to this issue. VMI sent a written reminder on September 24, 2018, and then Safe-Run received the same on September 26 of the same year, suggesting that Safe-Run had to either file a lawsuit or withdraw its warning before

November 24 or October 26 according to the court's record. As indicated, Safe-Run filed the case with necessary documents on October 19, 2018, and the trial court later registered it as on November 7, 2018. The appellate court reasoned that the timing to "file for an infringement lawsuit" was supposedly to be the time the plaintiff expressed to the court its intent to enforce its rights, instead of the time the court has actually docketed the file. An intent to seek remedy effectuates when it reaches the court. Therefore, both the trial and the appellate levels found Safe-Run has timely taken legal action. Since the uncertainty at law with VMI can be resolved within the same infringement lawsuit, a declaratory relief is reckoned as no longer necessary.

Last, though unrelated to any of the three prerequisites, the appellate court reviewed if VMI's inclusion of an extra claim in a declaration beyond the scope of Safe-Run's warning notice is lawful. The appellate court explained that the scope of a declaratory judgment is an auxiliary defensive instrument, and its claims should only matches the scope of the patentee's warning notice, which is also the scope of the later infringement lawsuit. In this case, Safe-Run only indicated Cooper's use of a specific model A as an act of infringement. But, VMI added, during the trial, another model B which was absent from Safe-Run's warning notice, in the hope that model B could also be resolved by the same declaratory judgement. Therefore, the addition of model B was not considered lawful.

To conclude, Safe-Run timely had filed an infringement lawsuit within the legal timeframe. Nonetheless, the three prerequisites to establish a request for a declaratory judgment were not sufficient; as viewed, the IP Tribunal of the Supreme People's Court as the appellate court dismissed VMI and Cooper's appeal. Thus, the ruling for the case was affirmed and final.



Source of Judgment: [China Judgements Online](#)

On June 20, 2019, Beijing Intellectual Property Court made a decision for the first IP infringement case related to cloud servers. In addition to overrule the holding of indirect infringement in the first instance and hold the cloud server not liable, the court also discussed in detail the nature and tort liability of the cloud server, as well as how to exempt the indirect infringement liability. Therefore, the right holder who wishes to assert its rights on the Internet platform may also learn from this case.

The right holder in this case is the copyright owner and developer of a mobile game named "I'm MT Online", which, after receiving a complaint from one of its players, found that a pirated game has been stored on the Ali Cloud server whereby the game service was provided to the customers. Thereafter, the right holder has issued in total three notices to Ali Cloud:

1. For the first time: It was sent through the "Work Order Support" section provided on the Ali Cloud website for customers to solve technical problems of the cloud products. Ali

Cloud customer service replied to the right holder, asking it to report to a specific e-mail address.

2. For the second time: On the same day, the right holder sent an email entitled "Private Server Disposal for I'm MT" to the designated mailbox, but the content only contained the download URL for the infringing game version, the sender's name, company name, and the email address, etc.

3. For the third time: the right holder sent a Letter of Notification to Ali Cloud through express delivery service. This letter contains no annex, but a general description about the infringement and their demands, without any contact information of the right holder or any preliminary materials that are sufficient to determine an infringement occurred.

In the first instance, the court held that the second and the third notices issued by the right holder were valid. However, Ali Cloud did not take any measure until the litigation proceedings, which has passed the reasonable time period to respond. As a result the court ruled against Ali Cloud.

In the second instance, the Court revoked the decisions of the first instance, holding that:

1. The Tort Liability Law is applicable to cloud servers:

1) The cloud server is the first level of computer IaaS (Infrastructure as a Service) which provides customers with computing resources such as virtual computers, storage and networks. The platform can completely shutdown or release the space of the leased cloud server, but it is unable to control the specific contents stored in it. As being stipulated by law and by the supervising authority of the industry, cloud server is not providing an "information storage space service" as referred to in Article 22 of the Regulation on the Protection of the Right to Network Dissemination of Information (hereinafter "Regulations").

2) The cloud server leasing service is also different from the automatic access, transmission and caching services, as well as the search and link services as referred to in the above Regulations, so these Regulations are not applicable to this case.

3) Article 36 of the Tort Liability Law deals with all infringement occurred in the network space. Wherein, Paragraphs 2 and 3 concern with the circumstances under which the network service provider shall be jointly and severally liable with the network user. A cloud server is not explicitly excluded in these two paragraphs. So, the Court in the second instance held that these two paragraphs are applicable to the circumstance where a network user uses the cloud server to commit an infringement and the cloud server leasing service provider shall bear the legal responsibilities.

2. The notices issued by the right holder to Ali Cloud did not comply with the law: In contrast to the holding of the court in the first instance that the right holder's notices were valid, the court in the second instance held that the right holder failed to notify Ali Cloud via a clear channel of complaint provided by Ali Cloud, and the materials it submitted contain no proof for the infringement or any contact information. Since what Ali Cloud received is nothing but noncompliant notices, it does not have to bear the responsibilities such as contact, verification, and investigation.



3. If the infringement complaint received by Ali Cloud is a valid notice, then the "necessary measure" taken under the Tort Liability Law does not have to be "take down", rather, Ali Cloud should "**forward**" the notice to the leaser of the cloud server.

1) Based on the technical characteristics of cloud servers, the measure that Ali Cloud can take, which is equivalent to "remove, mask or disconnect the link," is "shut down the server" or "remove forcefully all data on the server". The action will directly stop all Internet activities of the network service provider through said cloud server, with an effect that is totally different from the nature and consequences of removing a specific web page, picture or video. It will bring critical impacts to the cloud computation industry or even the whole Internet industries, which is inconsistent with the principle of prudence and reasonableness.

2) The Supreme People's Court pointed out in the Directive Judgment No. 83 that, the network platform provider should ensure a smooth delivery of the message of a valid

complaint. Where it is not appropriate to directly take the measure of removal, forwarding the notice may express the intent of the network service provider to "warn" the infringer, and thus facilitates the deterioration of the result of the damage to a certain extent. Therefore, "forwarding the notice" can be a "necessary measure" that exempts the network service provider from the related liabilities.

3) Cloud computation service is still developing, the operation costs might be raised if too strict conditions are set for the exemption of liabilities. Besides, repeated removal of user's data or shutdown of the server would severely impact the trust of users on cloud server's normal operation and the security of data, and thus affect the development of this industry as the whole.

In conclusion, one may learn from the judgement that the Beijing Intellectual Property Court has adopted the following attitude toward cases related to the network platforms:

1. When a right holder claims rights against a network platform, it must make a legitimate

notice pursuant to the laws. If the notice is invalid, not only is the network platform not responsible for contact, verification, and investigation, but the consequences will all be borne by the right holder. That is, the network platform is not required to take necessary measures, and thus does not have to bear the liability for indirect infringement. A valid notice must contain the following elements:

- 1) The notice should be made through an appropriate channel;
- 2) The content must include:
 - A. The name and contact of the right holder or the notifier;
 - B. A description of the infringement of the direct infringer, the specific rights of the right holder being infringed, and the network address against which the necessary measures are required;
 - C. A preliminary proof for the infringement;
 - D. The reason to request the network platform to remove or disconnect the infringing link.

2. Upon a legitimate notification to the network platform, the right holder may achieve the following results depending on the nature of the network platform:

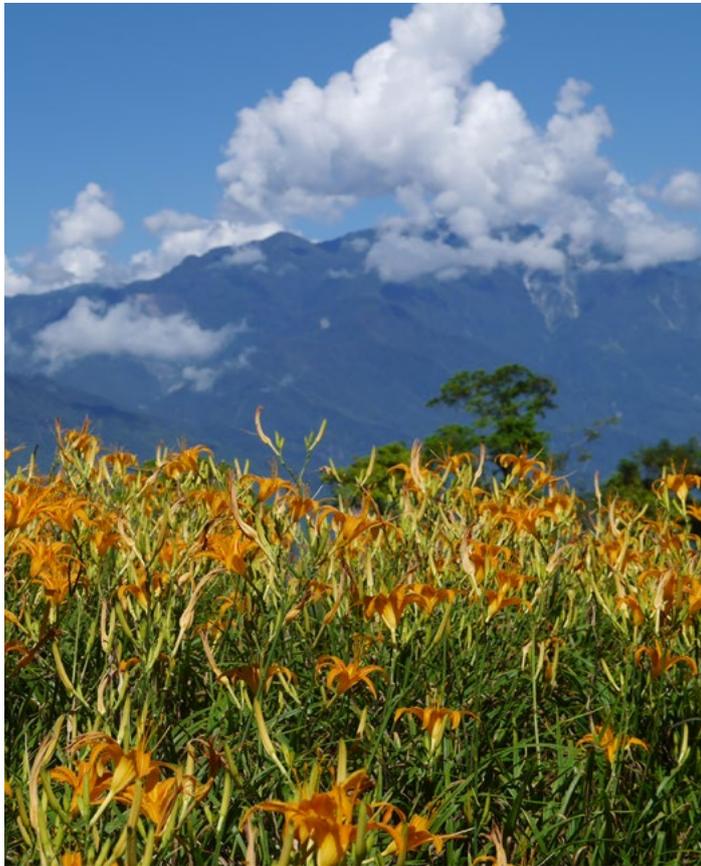
- 1) If the network platform has a direct control over the contents stored on it, the right holder can request the network platform to follow "notice-take down procedure".
- 2) If the platform cannot learn about the contents stored on the platform through the back-end server, and thus cannot make a preliminary verification of the infringement alleged by the right holder, then the network platform must take "necessary measure (s)" upon the notice of the right holder. The so-called "necessary measure (s)" may be removal, but in the case where a direct removal is not appropriate, the network platform must at least "forward the notice." In other words, the network platform must notify the direct infringer of the complaint of the right holder and prevent further infringement through a "warning" to the direct infringer.



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