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Shanghai Shende System Technology Corporation et al. v. Italian O.S.Panto S. R. L.

Citation: The Supreme People's Court's Civil Judgment No. Zhizhongzi 6/1999

Date of judgment: October 31, 2000

Procedural history

The Italian O.S.Panto S. R.L. (OS) sued, in the Liaoning Higher People's Court, the Shanghai Shende System Technology Corporation et al. (the System Company) and the Shanghai Shende Wood Industry and Machinery Co., Ltd. (Wood Industry) for copyright infringement and unfair competition. In the first-instance judgment, it was decided that the infringement of the copyright and unfair competition were constituted. The System Company and Wood Industry appealed to the Supreme People's Court.

Issue

1. Determination of "business operator" as referred to in the Unfair Competition Law
2. Determination of acts of false publicity
3. Determination of liability for damages for unfair competition

Facts

One of the OS's major business activities was to design and make wood drying equipment; OS, having no business establishment in China, had marketed its products through the Hong Kong Xiechang Wood Industry and Machinery Co., Ltd. (Xiechang) and its branches in mainland China.

In the “Report on Users of Shende Wood Drying Equipment” the System Company distributed to its clients were attached 14 photographs, used the OS’s Chinese-English advertisement album.

The Wood Industry sent the System Company’s “Report on Users of Shende Wood Drying Equipment” to its clients for use in the business negotiation, and five photographs attached thereto were plagiarized from the OS’s advertisement album.

One “drying equipment schematic diagram” in the advertisement album the Wood Industry distributed to its clients was plagiarized from the OS’s advertisement album by using the computer joining technology.

It was difficult for OS to show its actual losses it had suffered; the volume of sales and gross profits, (i.e. sales profits) the System Company and the Wood Industry presented on three occasions were inconsistent.

Rule of law

Article 2, paragraph three, of the Unfair Competition Law *“A business operator” mentioned in this Law refers to a legal person or any other economic organization or individual engaged in commodities marketing or profit-making services provision (the “commodities” referred to hereinafter includes such services).*

Article 9, paragraph three, of the Unfair Competition Law *A business operator shall not, by advertisement or by any other means, make false or misleading publicity of their commodities as to their quality, ingredients, performance, use, manufacturer, duration of validity or origin.*

Article 2, paragraph two, of the Paris Convention for the Protection of Industrial Property (2) *However, no requirement as to domicile or establishment in the country where protection is claimed may be imposed upon nationals of countries of the Union for the enjoyment of any industrial property rights.*

Reasoning

1. OS was the legitimate user of the “OS” mark within the territory of China, and the supplier of the “OS” brand wood drying equipment; its goods were legitimately marketed and publicized in mainland China through Xiechang and its branches in mainland China, and consequently the “OS” brand wood drying equipment had taken up a certain market share there. For this reason, OS, viewed as a supplier of the goods, was the “business operator” as referred to in the Chinese Unfair Competition Law, and its legal rights and interests should be protected thereunder. Under the Paris Convention for the Protection of Industrial Property, a company of a country that is party to the Convention was not required to have its establishment in another country that was also party to the Convention to claim protection of the right. For that matter, while being an overseas company, the fact that OS had no establishment in China should have no impact on the determination of its business operatorship, nor on its assertion under the Chinese Unfair Competition Law.

2. In the Users Report distributed in the course of promoting the “Shende” brand wood drying equipment, the System Company used the photographs of the equipment in the publicity materials of OS’s wood drying equipment; but the equipment it actually sold was different from OS’s. This Users Report misled consumers, and caused confusion about the goods among them. Knowing clearly about OS’s opposition, the System Company performed the act, constituting one of making false or misleading publicity of its goods by advertisement or by any other means, and prejudicing the legitimate rights and interests of the lawful business operator under Article 9 of the Unfair Competition Law. The System Company should be held liable for unfair competition.

The “drying equipment schematic diagram” the System Company distributed came from OS’s publicity materials. OS, however, failed to prove that said diagram was particularly owned or originally made thereby; said diagram was a general expression of the engineering principles, and OS also failed to prove that the Wood Industry’s equipment did not conform to the design of the schematic diagram. For this reason, OS’s argument and claim that Wood Industry’s act of distribution of the “drying equipment schematic diagram” had constituted an act of unfair competition were factually and legally groundless.

3. Except the act of unfair competition as shown in the publicized photographs, the trademark,

name and trade dress of the goods were not involved in the unfair competition. The publicity materials, such as the photographs, were limited in their use in the present case, so was the injury caused, it was undue, in the first-instance judgment, to have decided that all the presumed sales profits of the two appellants' goods were to be paid in compensation of the damages. Since it was difficult for OS to prove its actual losses suffered and volume of the sales and gross profits of the goods the two appellants presented on three occasions were not consistent, the second-instance court determined a reasonable amount of the damages according to the practical circumstances in the present case. In the present case, the quality, price, brand, technicality, after-sale service guarantee, and promotion and publicity of the goods in suit, all played an important role in the sale of the goods; the role of the Users Report played a substantially the same role as the promotion and publicity. Besides, the photographs attached to the Report directly showed the equipment supplied without some technical features, and its use should be specially considered; the Users Report consisted of two parts: the text and photographs. The former part was not misleading, and clearly indicated the source of the equipment, and could offset the misleading effect of the photographs to some extent. Consequently, the infringing photographs had a significant effect in the Users Report. On the basis of these factors and with reference to the volume of sales and gross profits of the goods the two appellants gave on three occasions, the second-instance court decided that the System Company paid for the damages at the amount of RMB 296,621 yuan. Given that the evidence showed that Wood Industry's infringement was of a minor circumstance, and it only used the System Company's publicity materials, it was imposed an amount of damages reduced according to the circumstances. This court decided on the damages at the amount of RMB 292,479 yuan.

Holding

1. The fact that OS had no establishment in China had no impact on establishing it as a business operator, nor on its assertion made under the Unfair Competition Law.
2. The System Company's act constituted an act of false publicity under the Unfair Competition Law; The Wood Industry's act to distribute the "drying equipment schematic diagram" did not constitute an act of unfair competition.
3. The amount of damages were determined according to the actual use of the infringing pho-

tographs in the Users' Report and with reference to the amounts of sales revenues and the gross profits of the goods in suit the two appellants presented on three occasions.