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## D & G: Photo-taking v. IPRs



**ISSUE:** Does photo-taking of the shop windows amount to infringement of IPRs?

**BACKGROUND:** In early January 2012, sales staff of Dolce & Gabbana ("D&G") in Canton Road were preventing Hong Kong people from taking photos of the shop windows from the sidewalk. The given reason is "infringement of intellectual property rights".

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- Benny Kong & Yeung is a firm of solicitors established in 1996 and practices in Intellectual Property laws.
- Mr. Benny Kong, is the vice chairman of the Hong Kong Institute of Patent Attorneys Association ([www.hkipa.org.hk](http://www.hkipa.org.hk)).
- Since 1996, Benny Kong & Yeung has handled more than 500 IP litigation cases in Hong Kong.
- Benny Kong & Yeung also ranks amongst the top 11<sup>th</sup> firms in Hong Kong in term of volume of e-filing with the Intellectual Property Department of Hong Kong in 2012 ([www.ipd.gov.hk](http://www.ipd.gov.hk)).



## **D&G Rejecting Photo – taking — Excuse for Infringement**

On 5<sup>th</sup> January 2012, Apple Daily reported the news of D&G Tsim Sha Tsui branch staff rejecting reporters from taking photos outside its shop, for more than a week the shop has been filled up by crowds, gorgeous cars, newly married couples, university graduates taking photos...The incident created chaos in the city.

It has been said that D&G's staff rejected the reporters from taking photos outside their shop using emotional and aggressive expressions and the alleged reason is infringement of intellectual property rights.

No matter whether the D&G staff has used any aggressive expressions or not, the Writer will evaluate the legal basis of the allegation of infringement of intellectual property rights.

### **Right to Take Photos**

First, in Hong Kong, there is no legislation to forbid citizens, including reporters, to take photos in public area. Therefore, the reporters have rights to take photos outside D&G. Can D&G's staff validly reject the reporters from taking photos using infringement of intellectual property right as a reason? To get the answer, first we need to classify which kind of intellectual property rights this incident is related to. The Writer believes that, the following two intellectual property rights are relevant:-

1. Infringement of copyrights, and
2. Infringement of registered trademarks.

### **Copyright Infringement?**

To constitute copyright infringement, D&G needs to prove that the reporters have, under the course of business, dealt with the infringing products of D&G's original products. Hence the key of the infringement question is: whether the products in the photos are infringing products of D&G's originals. Obviously the answer is "No". The products displayed and sold by D&G's shop are undoubtedly original ones. Therefore, if the reporters show the photos taken to the public, this does not constitute any copyright infringement.



## **Infringement of Registered Trademark?**

From another point of view, if the photos taken by the reporters – the photos showing the “D&G” sign displayed outside the shop – are shown to the public, will the reporters (or their employers) be liable for trademark infringement?

Under Trade Marks Ordinance, Chapter 559, for D&G to successfully sue the reporters (or their employers), she needs to prove that the reporters have used the registered “D&G” trademark without the consent by D&G. It seems that the reporters were then caught. However, it is not actually the case, it is because the reporters can defend themselves using the following legal basis:-

*The “D&G” trademark shown in the photos is “Not for Trademark Use”.*

The jargon “Not for Trademark Use” is a beginner’s key to the room of trademark laws. The Trade Marks Ordinance, Chapter 559 provides registered trademark holders with exclusive right of using the registered trademarks. But the right is only confined to trademarks used for displaying products or promoting the sources of service and/ or goods.

## **Not For Trademark Use**

For example, a fashion magazine introducing a brand name handbag by saying “...In spring this year, D&G will put forward a series of colourful handbags. Ladies who are fashioned-handbags lovers should not have missed them...”

In the above sentence, the trademark “D&G” appears, but clearly this was not for trademark use, but rather a statement in words. Thus, the magazine would not have infringed the registered trademark of “D&G” by publishing this sentence in its articles.

Readers might already come up with a conclusion. It is incorrect and legally invalid for the D&G staff to expel the reporters from taking photos outside the shop using intellectual property infringement as the reason.



## **Communication with Infringers — Asking a Tiger for its Skin — Immediate Effect**

Last month (December 2011), our firm got an enquiry from a manufacturer (“the Manufacturer”) asking about how to solve the following serious infringement problem:-

*“The Manufacturer designs and manufactures a waterproof mobile phone case. In order to protect the special design and invention of the mobile phone case, the Manufacturer applied for patent registration in China, the U.S.A. and European countries. However, before any applications have been approved, the Manufacturer has encountered serious counterfeit problem, the plagiarism is close to 100%. Although the Manufacturer has attempted to persuade the infringer (a Taiwan-funded Chinese company) to stop manufacturing and selling the infringing product, this has not been successful. In recent months, the Manufacturer even discovered on internet and retail stores that there are some other trading companies selling the infringing products to South-East Asian countries. At the same time, the Manufacturer’s major clients start to complain.”*

During the first conversation, the Manufacturer expressed that he would like to confiscate the infringer’s mold through legal process. According to our experience, confiscating the infringer’s mold is important, but the following questions are even more important and urgent:-

1. To explain to and pacify the Manufacturer's customers (“Problem 1”), and
2. To stop infringing acts in the market (“Problem 2”)

### **Pacify Customers**

When the infringement gets more serious, the Manufacturer’s customers would start to “murmur” about the infringing acts, and then request the Manufacturer to lower the price of its product for them to conquer the infringing product. To make the case worse, the customers might turn to the infringer. Therefore, the Manufacturer should solve Problem 1 as soon as possible, or else, there would be a drastic drop of number of orders for the popular waterproof cases. If the Manufacturer holds a “positive non-intervention” approach, the result would be that the infringer would continue to copy the other products of the Manufacturer, and the Manufacturer’s old clients would continue to sell the infringing products.

### **Positive Intervention**

In the first half year of the appearance of the infringing product, most likely there is only one source. Therefore secondary infringers who appear in exhibitions and internet are just doing trading and retailing. Unless the Manufacturer takes action, the number of secondary infringers in exhibitions and internet would increase with a high speed.

To solve Problem 2, the Manufacturer must take positive intervention to stop these trading and retailing companies from selling the infringing products in exhibitions and the internet.

To solve Problem 1 and Problem 2 simultaneously, we suggest the Manufacturer to consider the following actions:-

- Start proceedings against the infringing manufacturer in China's Intermediate People's Court ("Action 1"), and
- List out the infringers found on the internet, product magazines and exhibitions who are selling the infringing products, and send warning letters to them ("Action 2"). In the warning letters, the Manufacturer should directly or indirectly express that it has already started proceedings against the infringing manufacturer.

The above Action 1 and Action 2 can be done within 1 to 2 weeks. Since the infringing manufacturer has been sued by the Manufacturer, most trading and retailing companies would stop to sell the infringing products right after they receive the warning letter. Then, the infringing acts would cool down within a month, and customers' confidence would be restored and continue to cooperate with the Manufacturer.

Hence, when the Manufacturer encounters the above serious infringement, his first goal is not about how to confiscate the mold via legal proceedings. Even if his main purpose is to confiscate the mold, it would take 8 to 9 months to achieve this. At that moment, the infringement has already been done and it would not help the Manufacturer much, because its customers would have given up the sale of the waterproof mobile phone cases. In contrast, the Manufacturer should actively take Action 1 and Action 2.

Of course, before taking Action 1, the Manufacturer needs to first discuss with lawyers about the correct and appropriate cause(s) of action.

## **The Rights for Trading Company — Common Reputation — Prohibition of Parallel Imports**

In Hong Kong, there are certain numbers of companies importing special products from the other countries, in hope to bring into the community with more inventive and a variety of new choices.

Say for example: one Hong Kong Company ("Hong Kong Company") merchandises and imports one mouthwatering instant noodle ("Noodle") from an industry in Taiwan ("Taiwan Industry"). In order to give a lift to the community with the best appropriate way to enjoy the Noodle, the Hong Kong Company invests much on the packaging by translating the contents into Chinese.



With the best effort by the Hong Kong Company (including promotion), the Noodle has eventually become increasingly popular and at the same time been much appreciated by the Hong Kong community.

## **The Problem of Parallel Imports**

At the same time, parallel imports of the Noodle exist in Hong Kong. It is always an issue as to whether the Hong Kong Company has a right to deter the sale of the parallel imports of the Noodle in Hong Kong? The answer to this is in the AFFIRMATIVE.

The Noodle is well appreciated by the Hong Kong community is all a consequence of the heavy investment by the Hong Kong company. No doubt an eventual knowledge of the Noodle is also a remarkable result from what the Hong Kong Company has done from scratch. If that Hong Kong Company is not entitled for any legal protection, would that be outraging to the legal justice? If companies in Hong Kong do not have a reasonable protection, then how will the merchandiser be willing to trade-in and import some extraordinary products from other countries? Henceforth, common law introduces the tort of "Passing Off" so as to fight for the best interest and rights for the trading companies in Hong Kong. However, the most crucial thing is that the Hong Kong Company has to prove that it has gained certain extent of reputation derived from the packaging of the Noodle, regardless as to whether the reputation is solely owned by the Hong Kong Company or is jointly owned with the Taiwan Industry.

## **Reputation**

First of all, the Hong Kong Company has to prove that it has at least some reputation on the Noodle packaging. To do this, it has to further investigate its contractual relationship with the Taiwan Industry, and have a read through the terms/clauses therein, see whether any of those stated therein implies that Hong Kong Company can never own the reputation of the product packaging ("non-existing reputation clause"). According to our experience, for those products which have never been imported to Hong Kong before, there is only a very slim chance that a contract between the supplier and the Hong Kong Company will have the "non-existing reputation clause" being inserted therein, worse still there is also a lack of a written contract.

## **Factors to be Considered**

If there is no "non-existing reputation clause", Hong Kong Company can still or may still own the reputation for the packaging of the Noodle. When it comes to litigation, the Court will take into account of the following factors to consider whether the Hong Kong Company has literally owned the reputation:-

- Before importing the products to Hong Kong for sale, has it been sold in Hong Kong before?
- Have any of those information say for example, the name of the Hong Kong Company, address, contact telephone etc. being printed on the packaging of the products?



- Has the Hong Kong Company ever promoted for the products?
- In order to keep the products to the best standard of quality has the Hong Kong Company ever taken any precaution steps and/or actions for quality control?
- In case of the consumers encountering any problem for inquiry, will they literally contact the Hong Kong Company?
- In case of the customers who bought the Parallel Import of the products has bumped into any problems for inquiry, again, will they literally contact the Hong Kong Company?

Reading from the above issues, readers may reckon that issues like whether the Hong Kong Company owns the reputation of the Noodle packaging, whether the packaging of the Noodle is relating to the Hong Kong Company, will have to depend on how much contribution it has in promoting the Noodle and also to what extent it has contributed to expand/develop the Hong Kong market for the Noodle. Please be aware of the fact that "relating" does not equal to "being the manufacturer" or "a sole owner".

Provided that the Hong Kong Company can prove that it owns the reputation of the Noodle package, then it can take the advantage of "Passing Off" in common law to stop the traders from offering for sale of the parallel imports of the Noodle. Owing to the fact that the Hong Kong Company has already possessed the relative reputation, so it is not necessary for it to seek for any assistance of the Taiwan Industry to give effect to the above action.

## **Mediation — Features of Mediators — Settling Agreement**

Starting from 2nd January 2010, every civil Court case in Hong Kong must go through the process of mediation.

Most mediation would be conducted in the second stage, during the stage of exchange of documents.

The Writer's main area of work is handling intellectual property litigations. According to his experience, about 60% of intellectual property cases can be settled through mediation. In general, for litigation cases which are settled through mediation, mostly the mediation meetings end at about 8:30 pm, but sometimes it would be extended to 10:30 pm, nevertheless, the plaintiffs, the defendants, the third parties (if there are) and their lawyers in these cases would end up going home with excitement.



The Writer believes that the mediator plays a very important role on the day of mediation. No matter what the plaintiff and defendant start discussing, at the end it is inevitable to negotiate for the amount of compensation.

On the day of mediation, some participants would spend most of the time bargaining for the amount of compensation. Depends on the personalities of the plaintiffs and the defendants, the way of bargaining differs: some people like to do it in a way like “squeezing out toothpaste”, some people like to bargain in a “very generous and drastic” style. Only if the amount the plaintiff requests does not differ much from the amount the defendant is willing to pay, the negotiation would come up with a result before “getting off duty”. Please be aware, before “getting off duty”, the participants on the mediation date (in a state much tired than when they start the work) are all exhausted. Therefore it is hard to know if the amount of compensation is compromised due to negotiation or due to participants’ exhaustiveness.

When the plaintiff and the defendant come up with a settlement, their lawyers would draft a Settlement Agreement and/or a Consent Summons with the mediator’s assistance.

## **Litigation Experience Matters**

The Writer believes that if the mediator is a lawyer with litigation experience, the mediation would serve a better effect. When the plaintiff and the defendant have completed the first and most important stage of mediation – bargained and agreed with the amount of compensation, they need the mediator and their lawyers’ assistance to execute the agreed terms.

At this moment, the mediator (if he has litigation experience but not only a LL.B. holder), as a middleman, can then show his power. Mediators who have litigation experience are always better than those without experience, no matter in handling the documents or in timing.

Compulsory mediation undoubtedly reduces the need for litigation, it also reduces the costs for litigation. Meanwhile, mediators’ training and the transparency of the mediators’ resume and experience is the next focus for improvement.

## **Breaking Up with Manufacturers — Manufacturers Continue to Manufacture Products — Manufacturers Registering Products’ Appearance in China**



When product designs have been finished, some corporations will hand over the molds for manufacturing the products to manufacturers. Under a win-win situation, the cooperation would have no problem. However, reality is never that smooth, disputes often arise between corporations and manufacturers after some time of cooperation. Unless the parties manage to mediate, they will break up with each other – corporations stop placing orders with the manufacturers; manufacturers also stop manufacturing products for corporations. Nevertheless, this does not mean that the manufacturers will stop manufacturing the products!

## **Problems After Breaking-up**

Regardless of whether there is a “Manufacturer Agreement” between the corporations and the manufacturers to regulate their relationship, corporations should beware of the following two situations:-

*The manufacturer refuses to return the molds to the corporation, and it uses the molds to manufacture the products and promote the products through internet, agents and/or exhibitions.  
 (“Problem 1”)*

*and*

*For about half year before the break-up, the manufacturer has already registered the appearance of the products with the State Intellectual Property Office of China as “Design Patent and/or Utility Model” (“Problem 2”)*

Imagine, if the manufacturers directly or indirectly sell or promote the same products to the corporations’ overseas buyers, this would adversely affect the sales of the corporations’ products. In order to make the buyers believe (or to have an excuse to believe) that it owns the intellectual property rights of the products, the manufacturers might present the overseas buyers with the certificates of “Design Patent and/or Utility Model”. The overseas buyers will then buy from the manufacturers or even to cancel the orders with the corporations. This form of sly is indeed very common.

The situation would be even worse if there is a merchandiser in between the corporation and the buyer. If there is a conflict between the merchandiser and the corporation (e.g. for product quality, users’ complaints and/or product price), the merchandiser would ungratefully gets across the corporation and



directly or indirectly through another Hong Kong enterprise contact and buy the products from the manufacturer. The corporation would then be stuck at the bottom and be too weak to bounce back.

When encountering such difficulties, corporations ought to consider taking the following actions:-

1. Issue a warning letter to overseas buyers to tell them that the corporation is the owner of the intellectual property rights of the products and to request the buyers to stop selling the infringing products purchased from the manufacturer (“Action 1”). According to the Copyright Ordinance (Chapter 528), any product manufactured or sold without the consent of the corporation is classified as “infringing copy”, even though the product is produced using the same mold.
2. Apply to the China Intellectual Property Office to cancel the “Design Patent and/or Utility Model” (“Action 2”). As long as that application for registration was made after the product has been exposed to the public, the corporation can then rely on relevant legislation - the product design has been exposed prior to the application – to apply for invalidating the registrations. After filing to the China Intellectual Property Office to cancel the registration, the corporation should immediately inform the overseas buyers of this.
3. The initiator of the problems is of course the manufacturer in China. Depending on the development of the situation and the importance of the products, corporations can consider starting proceedings in the Intermediate People’s Court of the PRC in order to sue and impose injunction on the manufacturer from manufacturing and selling the infringing products (“Action 3”). Under normal situation, when overseas buyers know that the manufacturers were sued in China, they would immediately stop buying the products from the manufacturer.
4. If in between the manufacturer and the overseas buyers there is a Hong Kong corporate middleman (this always happens in reality), corporations should issue a warning letter to that middleman, and even to sue this agent if appropriate (“Action 4”). Of course, the corporations should immediately inform the overseas buyers of that warning letter and/or the proceedings against that agent.

If corporations took Actions 1 to 4 immediately, they can greatly improve the feasibility of terminating the sale of the infringing products by the overseas buyers. According to experience, corporations inevitably need to take all or parts of the above actions to end the infringement in situation where



during the cooperation between the corporation and the manufacturer, the corporation did not just entrust order of one product to the manufacturer, but entrusted a large number of orders for various products. If corporation is not determined in taking actions, the manufacturer's infringement will then spread to other products that the corporations entrusted the manufacturer to produce, especially those which are popular among overseas buyers.

Unless the products are of no market value, the above problems will more or less, or sooner or later, happen to corporations!

## **Free Infringing Gifts from the Bank — Supplier's Liability**

Does giving out free infringing gifts in the ordinary course of business amount to an infringing act? The answer to this is “yes”.

Irrespective to what kinds of free gifts they are, as long as they are infringing products (e.g infringement of copyright, registered design, registered patent and registered trademark and/or passing off), that will suffice to constitute an infringing act.

### **Free Gifts from the Bank**

Offering free gifts is a usual business activity which is commonly adopted:-

*“Banks want to promote credit cards, so they offer free gifts at the same time in hope to attract more new clients”*

In every fortnight, the Writer will receive an enquiry regarding to the above offer of free infringing gifts. During the course of consultation, the original owner (“the Owner”) of the product tends to be very impatient. How should the Owner deal with those infringing acts of the Bank for distributing infringing products as a free gift?

### **Causes of Action**

The Owner usually owns the copyright in the product under complaint i.e. the gifts. Provided that the Owner can adduce some drawings of the product and information relating to the drawings (i.e. the date

of creation, authors' name and the first publication date etc.), then the Owner will not have much difficulties in showing that it is the prima facie copyright owner of the product. If the appearance of the product has already been registered as a registered design, or perhaps the Owner of the product has already registered for patent, then the Owner should rely on the following causes of action to claim against the Bank:-

- Copyright Infringement;
- Infringement of Registered Design; and
- Infringement of Patent.

As a first step, the Owner should issue a cease and desist letter to the Bank, requesting the Bank to stop distributing infringing gifts and undertake not to distribute further infringing gifts in the future and at the same time, disclose the name of the supplier.

On top of them, the Owner can press on by asking the Bank for compensation and legal costs incurred. After all, if the Owner prefers to have a license fee, then it should expressly make the request. According to experience, an express compensation right in the first cease and desist letter is inappropriate.

## **The Bank's Response**

The usual responses from the Bank upon receiving the cease and desist letter are stated as follows:-

1. Ask the Owner for proof of evidence in support of the claim ("Situation 1"); and
2. Disclose to the Owner the identities of the supplier of the infringing gift ("the Supplier") and ask the Owner to directly contact the Supplier ("Situation 2").

As to the Situation 1, the Owner should provide reasonable information and proof to the Bank as soon as possible. For instance: provide the Bank with the drawings of the products, creation date of the drawings, author's name, or even a copyright assignment (if the author is not an employees of the Owner) etc.

## **Time Restriction**

There is usually a time limit for distribution of free infringing gifts by bank. After giving out all the infringing gifts, the whole project will be over. So, the Owner should have provided with the bank the requested information as soon as possible.



## **The Supplier**

The immediate response of the Owner would sooner or later lead the Bank to Situation 2, which is to provide the Owner with the identities of the supplier. Sometimes, the Bank will go straight to Situation 2 right after receiving the cease and desist letter, in which the Bank will pass the cease and desist letter on directly to the Supplier.

In usual practice, the Supplier would sign a supplier's agreement with the Bank. In which the terms include supplier compensating all the damages suffered by the Bank if the distribution of the gifts infringes others' intellectual property rights ("Indemnity Clause"). Because of the Indemnity Clause or the continuing business relationship with the Bank, the Supplier would react as follows:-

*"The Supplier contacts the Owner for terms of settlement"*

The above is always the final target of the Owner.

## **License Fee**

If the Owner is only aiming at having the license fee, this will be the best timing ever. While the Bank is in the course of distribution of the gifts, it will put pressure on the Supplier, so as a result the license fee will be quite tempting.

However, in the other way round, if the Owner is aiming at an immediate stop of all the infringing actions by both the Supplier and Bank, and at the same time, asking the Supplier to provide them with identities and names along the infringing supply chain. Then, the Owner can take this advantage to discuss with their lawyers possible strategies in hope to avoid the Bank and/or Supplier from making use of a dilatory tactic and have all the gifts sold as soon as practicable.

The above actions are all interactive. Only if the Owner of the original product can be more determined to take the appropriate immediate action, it will turn out to have the best effect after all.