Goss IP

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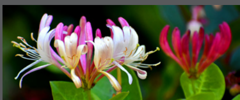
What's in this issue

p. 2 COMPANY LAW

Part One: The Capital and Shareholders

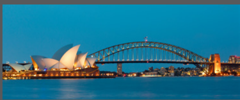


p. 6 IP CHINA

The case of Honeysuckle mosquito repellent Trademark

p. 8 IP USA

Will we see Mickey Mouse as main character in a Horror Movie?

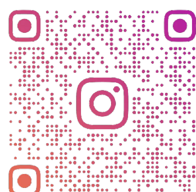


p. 10 IP APAC

Australia adopts the Madrid Goods and Services list

p. 11 HFG NEWS

New coordinator IPWG, MARQUES Spring Meeting, Legal Forum in Dubai



Dear readers,

In this issue we present the first part of the analysis about the new Company Law in China: in fact, after a long revision process, on 29th December 2023, the Standing Committee of the National People's Congress issued the new Company Law, thirty years after the first law on the matter was enacted.

With a special focus on the Capital and the Shareholders, this first part reviews the most significant changes in the Company Law, and their expected impact on the business activities and corporate organization of foreign-invested companies already present in China.

The new Company Law will come into effect on 1st July 2024: stay updated on the changes!

The following article explains the case of Honeysuckle, a mosquito repellent popular in China, which lost a trademark litigation: the case is interesting because, despite being the trademark invalidated in 2022, the owner kept using it and suing "infringers". Read the story to understand what happened!

The last article regards the copyright of Mickey Mouse which expires this year. What are the consequences? Will be Mickey Mouse free to be used? Not exactly…

We end this issue with a news about Australia, finally adopting the Madrid Good and Service List in 2024.

There are also some HFG news and updates: you can find them at the end of this document. Discover when and where to meet HFG lawyers!

And read us, follow us, share us!

Stay warm!

HFG Law & Intellectual Property

COMPANY LAW

Part One: The Capital and Shareholders

After a long revision process, on 29th December 2023, the Standing Committee of the National People's Congress issued the new Company Law, thirty years after the first law on the matter was enacted.

The new Company Law will come into effect on 1st July 2024, introducing numerous changes and innovations compared to the previously applicable rules.

The new law consists of 266 articles, of which about one third have been added or substantially modified. It, therefore, can be considered a mini-reform of the legal framework applicable to companies in China.

In this review, we will analyze the most significant changes in the Company Law, dividing them by topic and focusing on their expected impact on the business activities and corporate organization of foreign-invested companies already present in China. In subsequent articles, we will examine and comment on innovations related to shareholders, legal representatives, administrators, supervisors, and senior managers.

We will dedicate our attention primarily to the provisions applicable to Chinese Limited Liability Companies (LLCs), as this is the most adopted corporate type for foreign investments in China. Of course, the new law also touches upon the provisions applicable to the other commonly used corporate type, the Joint Stock Companies.

However, the provisions of the new Company Law are not sufficient to fully outline the new regulatory framework. As indicated in the Company Law itself, further integration and clarification will be needed. These will be provided, on the one hand, by secondary legislation (already announced in the Company Law, but not yet developed) and, on the other hand, by the future judicial and administrative application of the new regulations.

These integrations and clarifications are particularly necessary with regard to some parts of the new Company Law that already raise doubts as to their interpretation and or application.

Capital Contribution Obligation

The most significant change is the introduction of the general obligation for the shareholders to pay in the subscribed capital within five years from the establishment of the company.

Under the current provisions, there is no general obligation to pay the capital within a specified period, nor does a general minimum capitalization requirement generally exist. The amount of the social capital and the terms and conditions of its payment are indeed left to the free determination of the shareholders, as expressed in the company's articles of association.

From 1st July of this year, the rules will change: whether upon establishment or capital increase of a company, the subscribed share capital must be paid in within the maximum period prescribed by the law (or within the specified terms if a payment by installments has been agreed to).

LLCs will also be obliged to publish not only their registered share capital, but also the amount of share capital actually paid in (as well as the terms and conditions of contribution) in the National Enterprise Credit Information Publicity System.

At this stage, the only existing transitory provision of the Company Law states that companies already established at the time of the entry into force of the new law are required to make gradual adjustments to comply with the new terms set by the law. The Company Law then expressly indicates that the State Council is to issue implementation regulations in this regard.

The new regulations have codified a previous judicial practice, and now prescribe that if a shareholder does not contribute the subscribed capital within the specified term and for the specified amount, in addition to the liability of such defaulting shareholder towards the company for any damages caused by such default, there is also a joint liability of the other founding shareholders for the portion of capital not contributed by the defaulting shareholder.

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This means that an unsatisfied creditor could seek compensation not only against the shareholder who has not fully or timely contributed its share capital, but also against the other founding shareholders within the limit of the amount not contributed.

It is now expressly provided for that it is the responsibility of the directors to call, by way of a written request, the defaulting shareholders to pay in the subscribed capital. The regulations in this regard make the directors liable to the company for any losses caused by their failure to fulfill this obligation to call for the contribution of the subscribed capital.

In the written call to defaulting shareholders, the directors may establish a "grace period" (not shorter than 60 days) within which the defaulting shareholders must remedy.

After the grace period expires without remedy, the company may, by resolution of the board of directors, send a written notice of forfeiture of the shareholder's rights regarding the portion of the unpaid share capital, meaning that there will be either a transfer of such shares or their cancellation (and, consequently, a reduction of the company's share capital).

If the portion of the share corresponding to the unpaid capital is not transferred or canceled within six months from when the forfeiture notice is sent out, the law says that the other shareholders will be obliged to contribute the missing capital in proportion to their respective shares.

Accelerated payment

The new regulations also provide for a case of accelerated payment of share capital (compared to the term initially agreed to). Where the company is insolvent before the deadline for the contribution of the share capital, the company itself or its creditors may request the shareholders to pay the subscribe capital before the expiry of the term indicated in the articles of association.

Obligations of Shareholders in Case of Share Transfer

If a shareholder transfers its shares without the corresponding share capital being fully paid in, the buyer of the shares is liable for paying the unpaid share capital. In the event that the new shareholder defaults (that is does not pay the remaining unpaid capital in full or in time), the new regulations stipulate that the selling shareholder has a secondary (and not a joint and several) liability to pay in the unpaid share capital (that is a claim against the selling shareholder may be brought forward only after enforcement against the acquiring shareholder is unsuccessful).

If, on the other hand, the shareholder transferring its shares is already in breach of the capital payment obligation at the time of the share transfer (i.e., payment has not occurred within the specified terms, has been made for a lesser amount, or assets of lesser value have been contributed), the selling shareholder and the acquiring shareholder are both jointly and severally liable for the amount of unpaid capital.

The acquiring shareholder can avoid such liability only by proving that it was unaware, and ought not to have been aware, of the circumstances regarding the insufficient capital payment (such a fact being, in any case, difficult to verify and even more difficult to demonstrate).

Right of Withdrawal of Minority Shareholders

The new regulations provide for a particular case of right of withdrawal granted to minority shareholders in the event a controlling shareholder abuses its rights deriving from its position and seriously harms the interests of the company or the other shareholders. In such a situation, minority shareholders are given the right to have their shares purchased back by the company at a reasonable price.

The new provisions also state that the relevant shares must either be transferred or cancelled within six months.

The new rules regarding payment of share capital aim to ensure an effective and adequate capitalisation of companies, in line with the stated scope of business, thereby guaranteeing a sufficient and consistent contribution of financial resources to the company. At the same time, the new provisions give greater weight and offer a higher level of protection - when compared to the previous provisions - to the rights and expectations of creditors, as opposed to the rights of shareholders which appear now to be relatively diminished.

Also, the reformed regulations imply the recommendation that the shareholders control the situation of the share capital payments of the other shareholders, so as not to risk being held responsible for the defaults of others.

Moreover, the new rules on capital payment and the resulting liabilities for the shareholders selling or acquiring shares strongly suggest additional caution both at the moment of incorporation of the company, where the amount of the share capital must be determined with greater care and judgment, and when shares are transferred.

Continue reading

Such accrued caution in verifying the level of capitalization, implies a careful analysis of the compliance of the shareholders vis-à-vis their obligations of capital payment, as well as a verification of any possible liability that may arise on the transferees of shares (and, in some cases, also onto the transferors).

Similarly, the new rules on share capital payment assign stronger duties of verification on, and require a more proactive attitude from, the directors, who may find themselves in situations of opposition or actual conflict of interests with the shareholders when called to perform their duties.

Although a separation and sometimes opposition of roles is in line with the principles governing the functions of company organs and their relationships in other legal systems, it is important to keep in mind such increased distinction of roles and distribution of responsibilities in the Chinese company legal system, especially with regard to those small foreign-invested companies where the management body (often a sole director) is a direct emanation of the shareholders (or, often, the sole shareholder) and has a close contact and relationship with the ownership.

In this regard, particular attention should be paid to the provisions of the articles of association where a detailed regulation of the roles and responsibilities of shareholders and directors should be included to avoid any situation of potential conflict.

Finally, depending on circumstances, some situations can also be adequately dealt with in shareholders' agreements, the contents of which are binding only between the parties to the same and prevail over the provisions of the articles of association (that, instead, are meant to be applicable to all current and future shareholders).

Prohibition of Financial Assistance

The new Company Law introduces basic rules regarding the prohibition of financial assistance, like in many other legal systems. This prohibition intends to prevent (or, better, limit) the possibility for a company to provide loans or guarantees aimed at facilitating the acquisition of its own shares (or shares of its controlling company), primarily to protect the minority shareholders and creditors of the company.

The prohibition is not absolute: financial assistance is still allowed if it is finalized towards the implementation of a plan promoting the purchase of shares by employees of the company or is in the interest of the company (as expressly established by a resolution of the shareholders or directors, in the latter case based on the provisions of the articles of association or an explicit authorization of the shareholders', and in any case with the positive vote of at least two thirds of all the directors).

However, the total amount of financial assistance cannot exceed 10% of the issued share capital.

Exceptions to the Limited Liability of Shareholders

In Chinese LLCs - like in limited liability companies under many other legal systems - the shareholders are not personally liable for the company's debts and obligations, even if they have acted on behalf of the company.

Therefore, in principle, a limited liability company is liable for its debts and obligations only with its own assets, and its shareholders generally benefit from a liability that is limited to what they had committed to contribute.

Such a principle implies that, in the event a company does not pay its debts, its creditors do not have a right of recourse against the personal assets of the shareholders.

The Company Law sets forth exceptions to the principle of limited liability of shareholders by establishing that if a shareholder abuses its rights and prevents the company from paying its debts and, in doing so, causes substantial damage to the company's creditors, the abusing shareholder is jointly and severally liable for the debts of the company.

The regulations consider not only the abuse by the shareholder of the advantages of the limited liability relating to the company of which it is a shareholder (so-called "vertical" abuse), but also situations where the abuse involve other companies controlled by the same shareholder (so-called "horizontal" abuse), providing for in this latter case a joint and several liability of all the companies involved.

Still on the topic of the limited liability of the shareholders, it is interesting to note the provision that establishes a joint and several liability of the sole shareholder for the debts of the company if the sole shareholder fails to demonstrate that the company's assets are actually independent from the shareholder's assets. The burden of proving that the assets are indeed separate lying, therefore, with the sole shareholder.

Liability of the Controlling Shareholder and Actual Controller of a Company

The new Company Law contains some provisions for those subjects that control a company and interfere or exercise influence on the management of the company.

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Controlling subjects are defined by the company law (both in the current version and in the reformed one) in two categories:

i controlling shareholders, who hold at least 50% of the share capital or, if a lower percentage, have sufficient voting rights to exercise a significant influence on the shareholders' resolutions; and

ii actual controllers, who are subjects (not necessarily shareholders) capable of exercising effective control over the company through investment relationships, contracts, or other arrangements.

The new regulations establish that a controlling shareholder or an actual controller who, although not appointed as a director of the company, effectively carries out activities on behalf of the company, is then obliged to abide by the duties of loyalty and diligence towards the company (similarly to a director, supervisor, or other senior manager) and, consequently, assume the responsibilities for any breach of such duties.

Likewise, if a controlling shareholder or the actual controller gives instructions to a director or a senior manager to engage in behaviours that damage the company or its shareholders, the controlling shareholder or actual controller will be considered jointly and severally liable together with the involved director or manager.

The provisions regarding the controlling shareholder add to those mentioned above concerning the abuse of such a position and the consequent granting of a right of withdrawal to the minority shareholders that have been damaged.

The new Company Law will most certainly require LLCs to amend their articles of association or adjust their corporate or governance structure so as to comply with the new provisions. Such amendments and adjustments will be easier to implement in LLCs with a sole shareholder (or multiple foreign shareholders that are somehow connected, coordinated, or otherwise sharing the same objectives and interests regarding their investment in China).

However, such adjustments could prove more complicated to implement where the collaboration and consent of one or more Chinese shareholders are necessary (like in the case of joint venture companies), as the need or request for adaptation to the new legal environment could also give rise to a pretext for renegotiating some elements of the existing agreements between shareholders, thus redefining the equilibrium in the control and management of the company.

At this stage, it is advisable for those who hold a position of shareholder, director, supervisor or senior manager within a Chinese company to start becoming familiar with the new provisions of the Company Law, while closely monitoring the development of the law, so as to be ready to implement the necessary adjustments when the implementation provisions will be issued to supplement and clarify the new regulations.

Marco Vinciguerra
HFG Law & Intellectual Property

IP CHINA

The case of Honeysuckle mosquito repellent Trademark

"Honeysuckle"("金银花" in Chinese) is a quite popular brand of a mosquito repellent in China. Recently, China's Supreme People's Court (SPC) has overturned first and second instance rulings issued by two lower courts in a trademark case involving Honeysuckle that has drawn nationwide attention.

Since 2018, hundreds of honeysuckle mosquito repellent floral water manufacturers across China have been sued for allegedly infringing on the "Honeysuckle" trademark owned by Shanghai Bili Cosmetics Co., Ltd (hereinafter "Bili").

Bili has claimed a total of more than 12 million yuan in its numerous lawsuits against manufacturers of honeysuckle floral water, winning in most cases.

Some manufacturers have been ordered to compensate Bili for trademark infringement by tens of thousands to hundreds of thousands of yuan.

Many have filed appeals in courts throughout China. Among them, the appeal filed by Suzhou Shiyan Biology Household Necessities Co., Ltd. (hereinafter "Shiyan") was accepted by the SPC in March 2022.

The acceptance of an appeal by the SPC suggests that the case has reached a higher level of judicial review, indicating its significance and complexity.

In China, in fact, the SPC serves as the highest judicial authority, and its decisions can have significant implications for legal precedent. If the SPC accepted the appeal, it would likely mean that they are reviewing the case and will make a final decision, which could have wide-ranging effects on the outcome of the dispute.

In January 2024, Shiyan received the judgment issued by the SPC which reverses the lower courts' rulings.

According to the ruling, the SPC affirmed that "honeysuckle" is considered a traditional Chinese herbal medicinal ingredient without distinctive character. This suggests that the court concluded that "honeysuckle" is a generic or descriptive term commonly used to refer to a type of herb, rather than a unique identifier associated with a specific brand or source.

As a result, the court determined that Shiyan's use of "honeysuckle" in the name of its products did not constitute trademark infringement. This decision likely hinged on the principle that trademark protection typically applies to distinctive marks that serve to identify the source of goods or services and prevent consumer confusion.

Since "honeysuckle" was deemed lacking in distinctive character, its use by Shiyan was not considered infringing upon any existing trademark rights.

This ruling highlights the importance of considering the distinctiveness of trademarks in legal disputes. Generic or descriptive terms that are commonly used within an industry or to describe certain products may not be eligible for trademark protection or may have limited protection compared to more distinctive marks.

It's worth noting that while this ruling sets a precedent in this particular case, each trademark dispute is unique and can be influenced by various factors, including the specific facts and circumstances, applicable laws, and judicial interpretations.

This decision, anyway, aligns with an earlier invalidation of the trademark "honeysuckle" by the China National Intellectual Property Administration (CNIPA) in September 2022.

Interestingly, historical records indicate that the CNIPA had invalidated the "Honeysuckle" trademark back in 1994 due to "improper registration". However, despite the 1994 decision, implementation was not carried out for unknown reasons. Eventually the trademark was transferred several times and passed to Bili.

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It appears that the cancellation of the trademark for "honeysuckle" by the CNIPA in 1994 due to "improper registration" played a significant role in the subsequent legal proceedings.

The fact that the trademark was canceled by the CNIPA in 1994 suggests that there were issues with its original registration, potentially related to improper procedures, lack of distinctiveness, or other reasons that rendered the trademark invalid or ineligible for protection.

However, despite the CNIPA's decision to cancel the trademark in 1994, it seems that the implementation of this decision did not occur, possibly due to administrative or procedural reasons that are not specified.

As a result, the trademark remained in circulation and was eventually transferred multiple times, ultimately landing with Bili.

This historical background underscores the complexities and challenges that can arise in trademark disputes, especially when there are issues with the original registration or administrative decisions.

It also highlights the importance of effective implementation and enforcement mechanisms to ensure the integrity of the trademark system and prevent confusion or conflicts among rights holders.

Silvia Marchi
HFG Law & Intellectual Property

IP USA

Will we see Mickey Mouse as main character in a Horror Movie?

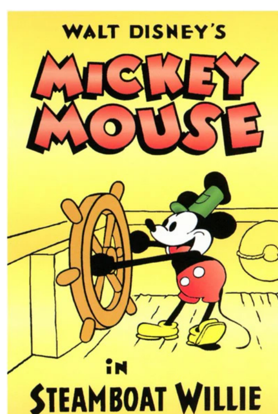
This year started with a fascinating news about Mickey Mouse in relation to his IP rights. Many of you texted us asking whether is true or not that Disney doesn't own anymore the copyrights on Mickey Mouse. Well, let's try to clarify what is happening.

First of all, what is a copyright? Copyright is a natural right that is generated at the moment of the creation of an artwork (music, drawings, sculpture, photography, movie, etc.). This means that the creator of a specific artwork doesn't need to register the creation in order to obtain protection on it, but is enough he can prove that the creation is fruit of his/her own creativity (and hands).

Copyright is a very important tool in terms of protection. If this right didn't exist, everyone could copy your artwork, replicate it, and make profit out of it.

So, back to original question: is it true that Mickey Mouse is no longer "copyrighted"? The answer is simple.

Copyright doesn't last forever. Each jurisdiction might have different length of duration for this right. Indeed, we should specify that is not Mickey Mouse in general losing his copyright protection, but a very specific feature of Mickey Mouse. We are talking about the original Mickey and Minnie Mouse animation 'Steamboat Willie', where the intellectual property of The Walt Disney Company lasted for 95 years and only this year finally entered the public domain (and be careful, not worldwide, we are indeed talking only about the US).



It is also worth mentioning that Disney has been aware of this day for very long time. The movie was originally set to enter the public domain in 1984 but Disney managed to get an extension in 1978 which pushed that date forward to 2004. And then again, when the date was about to approach, in 1998, it was once again pushed further until 2024 by the Copyright Term Extension Act (now also known as the 'Mickey Mouse Protection Act').

So finally, this is it. Mickey Mouse and his version as represented in the movie Steamboat Willie is now available for public usage. And yes… we may see Mickey Mouse as main character of a Horror movie any time soon without this action being a violation of Disney rights.

What can Disney do to prevent a massive usage of its most iconic character in order to also avoid the dilution of such exclusivity?

One option is to update their works so that they are sufficiently distinct and original to create new copyrighted works. Indeed, this is why Disney has consistently updated the artwork of Mickey and Minnie Mouse to ensure they can continue to exclusively use the latest image of them.

Second, try to expand the protection to different IP rights, such as trademark registrations which are becoming increasingly important to plug any gaps in a work's copyright protection. Trademark protection theoretically lasts for ten years but this can be renovated "ad infinitum".

Disney, well aware of this indeed, owns several hundred of trademark registrations globally related to Mickey Mouse alone.

In conclusion, the copyright on Steamboat Willie is now expired, and the Steamboat Willie version of Mickey Mouse is now officially in the public domain.

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This means that now anyone in the U.S. can use that specific Mickey Mouse character without fear of copyright infringement. But once again, don't forget that Copyright laws vary by country, so in some places Mickey remains protected.

What about China? How long does a copyright last in China? Is it Mickey Mouse still protected in China?

Most copyrighted works are afforded protection for at least 50 years after their creation or publication, but this can vary from Country to Country. In China the duration of a copyright is strictly connected to the kind of work we are going to protect. The general rule says that the protection of a copyright, if the author is a legal person/entity, the protection lasts 50 years, ending on 31 December of the 50th year after the date of first publication. If the work is not published within 50 years, it is no longer protected.

If the author is an individual, the protection lasts for the duration of his or her life, plus 50 years after his or her death, ending on 31 December of the 50th year.

The protection period of the author's right of authorship, modification, and protection of the integrity of the work is not limited. According to the Implementation Regulations of the Copyright Law (Revised in 2013), after the author's death, the rights of authorship, modification, and protection of the integrity of the work in their copyright shall be protected by the author's heir or testator.

As you can see from the general rule above, the duration of a copyrights differs greatly from country to country.

Let's jump to conclusion saying that the copyright protection period of the first generation Mickey Mouse has expired, but in China, the three personal rights of authorship, modification, and protection of the integrity of the work, except for the right to publication, are still protected by law and cannot be infringed.

When the copyright protection period of a work expires, it enters the public domain. Anyone can use the work without the author's permission or payment, but it is not without any restrictions.

As mentioned above, the three personal rights of authorship, modification, and protection of the integrity of a work are still unrestricted in China.

Anyone who exercises the right to enter the public domain of a work should respect the personal rights of the author of the work.

Antonio Lovecchio
HFG Law & Intellectual Property

IP APAC

Australia adopts the Madrid Goods and Services list

Australian IP Office will replace the current Trade Marks Goods and Services list (the AU picklist) with the Madrid Goods and Services (MGS) list in 2024.

The MGS list is a database of terms used to classify goods and services for trade mark applications in the Madrid System. It's used by the World Intellectual Property Organization (WIPO) and many international trade mark offices. It contains a wider range of terms than the AU picklist.

Adopting the MGS list will align Australian classification standards with international best practice. This change will make it easier for Australian exporters to protect their trade marks in other countries.

This change is expected to take place in March 2024. At that time, Australian IP Office will also introduce a semantic search function. This update will help customers find terms on the MGS list that have a similar meaning to the term they're looking for. This makes searching the MGS list easier and ensures a seamless transition from the AU picklist.

The Australian Government Agency for Intellectual Property will engage with customers in the coming months to ensure a smooth transition to the new system.

The new system will help reduce the number of issues for Australians filing internationally and provide access to a more comprehensive database of trade mark classification terms.

HFG Law & Intellectual Property

HFG NEWS

HFG news & updates

We're glad to announce that Fabio Giacopello, Senior Partner of HFG Law & Intellectual Property in Shanghai, has been appointed as the new coordinator of the IPWG at the China-Italy Chamber of Commerce (CICC).

The Intellectual Property Working Group (IPWG) is a business group established within the China-Italy Chamber of Commerce, gathering members from a wealth of inter-connected industries across fashion, luxury, F&B, consumer goods, engineering, R&D, university, legal & IP services.

IPWG participants are CICC members willing to join discussions about IP law & policy, IP protection & enforcement, IP commercialization, science & technology, tech transfer, and R&D, from an academic, industry, or consulting position.

Congratulations for this acknowledgement and good luck for your work!

Crystal Yulan Zhang and Reinout van Malenstein will attend MARQUES Spring Meeting that will be held on March 7th- 8th in Amsterdam, the Netherlands.

Drawing on the variety of skills and expertise existing within its world-wide membership, MARQUES seeks to ensure that its corporate finger rests on the pulse of affairs. Through MARQUES, members receive a unique service which recognises and responds to the whole range of problems facing the modern trade mark owner.

Last year Crystal officially joined Anti-Counterfeiting & Parallel Trade Team for 2-years term. While Reinout van Malenstein was part of MARQUES China team for many years, this year he has been promoted to the Chair of the MARQUES China team. Well done!

Apart from being members of MARQUES teams, Crystal and Reinout are also members of INTA Teams.

Antonio Lovecchio will present a speech at BRICS+ NEW ECONOMY LEGAL FORUM '24, on March 6th -8th in Dubai, the UAE.

BRICS+ New Economy Legal Forum is an event that is a part of the New Economy Legal Forum line-up. The Forum is aimed at discussing topical legal and economic issues, as well as creating a legal infrastructure for international trade and investment in the new macroeconomic environment.

It is expected more than 200 participants from Russia, UAE, Saudi Arabia, China, India, Brazil, South Africa, Turkey and other countries will attend The Forum. Antonio will participate the Round Table: IP. Regulation of Intellectual Rights in the BRICS+ Zone under the New Economic Conditions discussing problematic issues of protection and use of trademarks registered in China. To schedule a meeting with Antonio click here

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