

# Which trademark cases were selected by the Chinese SPC in 2019? (2020)

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Time: Apr 05  
2024

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*Unlike European and American Supreme Courts, the Chinese Supreme Court (SPC) reexamines cases not only on points of law but also on facts. In a way, it constitutes a third degree of jurisdiction, after the court of appeal (the High Court of the Province). This entails a very heavy workload every year. In 2019, the SPC issued more than 500 decisions (judgments and rulings), mostly relating to trademark prosecution matters.*

## 2019 guiding cases

Each year, the SPC announces a list of "guiding cases", selected by a panel of officials, and for each of them, the court specifies what stipulations of the judgment are to become binding on lower courts. The selected cases are not necessarily issues adjudicated during the year of their selection. In fact, they are sometimes much older, as the selection process may take time. In 2019, three IP cases (two trademark cases, *Michael Jordan* and *Dior* and one patent case, *Valeo*) were selected as guiding cases.

In the *Jordan* case, the SPC on December 27, 2017, held that, the right of name may be protected as a prior right pursuant to Article 31 of the 2001 Trademark Law, and prior use of the name is not a prerequisite for its protection. The SPC ascertained that, to determine whether a person enjoys the right of name over a specific name, it is necessary to establish that (1) such name has a certain degree of popularity among the relevant public; (2) the relevant public uses such name to refer to this person; (3) there is a stable association between such name and the person.

In the *Dior* case, the SPC on April 26 2018 clarified that, where it is specified in the filing document that a trademark filed for registration via the international route is a 3D trademark, (1) it should be examined as a 3D trademark application (rather than a two dimensional sign) and (2) in case of any missing formality, such as a three-dimensional view, the Trademark Office should offer the applicant the opportunity to make amendments, even though such obligation is not explicitly provided in the law in respect of international trademark applicants.

Other than the above guiding cases, some other decisions show the evolution of jurisprudence on several key topics.

## Position trademarks

In the famous Christian Louboutin *Red Sole* case, the SPC reaffirmed the Beijing High Court decision on the registrability of "a single colour designated to be applied at a certain position". The Trademark Office had refused the registration on the ground that it "lacks distinctiveness". The TRAB had sustained the refusal, adding that the mark was a "device mark" representing a shoe, and not distinctive per se. The Beijing IP Court however, ordered the TRAB to re-examine the case and re-issue a new decision, but it qualified the mark as a 3D trademark. Finally, the Beijing High Court accepted the concept of a position trademark and ordered the TRAB to reassess its distinctiveness on this basis. The SPC confirmed that it will not be possible to refuse a trademark for the mere reason that such type of sign is not expressly referenced as a registrable sign in the law. As the SPC said in substance, the examination of distinctiveness based on a wrong qualification of the trademark application should not be allowed.

Hence, the SPC ordered the TRAB to reassess the distinctiveness of the red sole "position trademark" of Christian Louboutin on the basis of the evidence submitted during the first and second instance. The SPC did not give any further instruction as to whether the applied trademark was, effectively, distinctive. This will be for the TRAB to decide.

### **Trademark use in the OEM process**

In the Chinese Trademark law (2013), there is a specific article, Article 48 which defines what the use of a trademark is, and the last words of this article are " ... (the use of the trademark is) to indicate the source of the goods". These last words were added in the 2013 revision of the law in order to clarify the function of a trademark. In fact, since then, there have been several inconsistent interpretations of this article, which did not bring the expected clarification.

It is worth noting that in other jurisdictions, such as the European Union, there is no equivalent to Article 48. Trademark law only contains one article to define what is a trademark, and another article states what rights are conferred on the owner of a registered trademark.

In the *Honda* case dated September 23 2019, which was an OEM case (the OEM factory is not authorised by the trademark owner in China but all the products are to be exported), the SPC reversed its previous opinion in the *Pretul* case of November 26 2015, in which it affirmed that, since the goods are exported, the trademark affixed on them does not fulfil its basic function of "indicating the source of the goods", and therefore, is not used. This time, the SPC considered that "The act of trademark use should be assessed as a whole. As long as there is a possibility of distinguishing the source of the goods, there is 'use of a trademark' under the Trademark Law." This possibility of distinguishing the source of the goods concerns not only Chinese consumers (who may have access to the goods when travelling to the destination country), but also all the operators involved in the transportation of the goods.

The SPC went further to address a classic defence argument employed by OEM exporters, which is to claim that the foreign purchaser is the owner of the trademark in the country of destination. The SPC added that "the trademark right is a territorial right. A trademark registered outside China cannot enjoy the exclusive right of a registered trademark in China. Correspondingly, the licensee of such a foreign registered trademark cannot use the right to use such trademark as a defence against the infringement".

The SPC did not go as far as to affirm that the simple act of affixing the mark to the goods does constitute, in itself, the use of the trademark. This would have definitively settled the issue.

### **Requirements for the prior use defence**

In the *Ideal Space* case (September 3 2019), the SPC clarified the conditions required for using the prior use defence provided by Article 59.3 of the Trademark Law. This allows a prior user to continue his use within the original range.

The SPC set out the following conditions for a defendant sued by a trademark owner, to use, as a defence, its own prior use of the trademark:

- 1) The prior use should have started earlier than, not only the application for registration of the plaintiff's trademark but also the trademark owner's use of such trademark.
- 2) The prior use should be of a mark identical to or similar to the registered trademark.
- 3) The prior use should be on commodities identical to or similar to those designated by the registered trademark.
- 4) The prior use should have acquired a certain influence before the application for registration of the claimed trademark and the trademark owner's use of the registered trademark.
- 5) The prior use should be maintained within the original scope, which corresponds to the reputation acquired as a result of the prior use, including geographical scope, using mode, production scale, etc.

### **Potential risks relating to trademark licensing**

The SPC, in its famous *Red Canned Herbal Tea* case decision rendered in 2017, affirmed that, since Jia Duo Bao (the licensee) and Wang Lao Ji (the licensor) had both played a positive role in the creation of the famous red canned herbal tea packaging, and in the development of its goodwill, both Jia Duo Bao and Wang Lao Ji should jointly own the red canned herbal tea packaging.

Wang Lao Ji, the licensor, was not too happy with this decision, in particular when the licensee, Jia Duo Bao, launched an advertisement campaign, after the termination of the trademark licence agreement, using the following slogan: "The national leading red canned herbal tea changed its name to Jia Duo Bao", which obviously gave the impression that its product was the original product which had changed its name. The licensor Wang Lao Ji initiated another lawsuit on the ground of false advertisement.

In 2019, the SPC, in the retrial judgment, reversed the Guangdong High Court decision and rejected Wang Lao Ji's above claims.

The SPC held in this Wang Lao Ji case that:

- 1) The content of the slogan is true and consistent with the facts, because after the termination of the trademark licence agreement, Jia Duo Bao started commercialising the red canned herbal tea with its own mark "Jia Duo Bao".
- 2) During the trademark licence period, Jia Duo Bao, via its long-term and large-scale use and promotion, significantly increased the popularity of the red canned herbal tea under Wang Lao Ji trademark, and already made relevant consumers believe Jia Duo Bao is the real operator of red canned herbal tea. Therefore, the slogan in question is just to inform the relevant public that the famous red canned herbal tea is now using the "Jia Duo Bao" trademark. There is no likelihood of confusion.
- 3) It is true that the slogan partially took advantage of the goodwill of the Wang Lao Ji trademark, but considering such goodwill was largely derived from the contribution of Jia Duo Bao, the use of the slogan is somewhat reasonable. Moreover, since Wang Lao Ji had granted a licence to new licensees after the termination of the trademark licence agreement with Jia Duo Bao, consumers will not think that the Wang Lao Ji trademark is no longer in use when they see the slogans involved in the case.
- 4) However, it is inappropriate that the slogan did not fully provide the background information to the relevant public. Although not "misleading" in the sense of unfair competition law, some consumers, due to the common confusion effect after a trademark licence agreement is terminated, might still misunderstand that Wang Lao Ji was renamed Jia Duo Bao and Wang Lao Ji was no longer in use, etc. Therefore, Jia Duo Bao has to stop using the slogan in future.

The SPC confirmed the licensee's contribution to the goodwill of the licensed trademark, and accordingly granted the licensee certain rights to share the IPRs developed during the trademark licence period.

Licensors should be aware of this...

Beijing High Court took an opposite position in the *Red bull* case (November 25, 2019). In this case, the ex-licensee of Red Bull, after the termination of the trademark licence agreement, asked to share the ownership of the Red Bull trademark for a 3.7 billion RMB advertisement fee.

Beijing High Court held that, the purpose of the trademark licensing system is the following: the licensee, being authorised by the licensor, produces, sells, and promotes the related products, obtains the consumer recognition, occupies the market and gains a competitive advantage, and finally achieves the expected sales profit; once the licence agreement is terminated, the licensee must stop using the licensed trademark. The licensee cannot acquire ownership of the licensed trademark because of advertising made in the process of performing the license agreement. The ownership of the trademark cannot be affected by the amount of advertising fee invested by the licensee either. Likewise, the licensor has no right to require royalties beyond what is agreed in the licence agreement because the licensee has obtained huge commercial profits.

The ex-licensee of Red Bull appealed to the SPC and we will see how the SPC will handle this vital issue relating to trademark licensing.

**Online infringement jurisdiction**

The last point worth mentioning, is that, in several decisions, the SPC denied the possibility of starting litigation at the place where the online purchased goods are delivered, which makes it difficult for the owners of a Chinese trademark to deal with infringing goods purchased from online shops outside of China and then delivered to Chinese consumers via mail parcel.