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# n° 63 WHD Case: IP | Decathlon prevails in unfair competition suit against two infringers copying its store trade dress

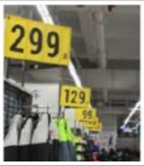
**Feng (Janet) ZHENG, 1 April 2025, first published by [Lexology]**

Decathlon is a French sports ware supplier. Decathlon, which entered the Chinese market as early as 2003, has opened around 200 stores nationwide. Through years of continuous promotion, the trade dress of Decathlon stores has formed a unique style and have become well known among the Chinese consumers.

In September 2020, Decathlon sued Fujian Outcool Sports Goods Co., Ltd. and an individual Zi Wang (hereinafter collectively referred to as the defendants) for unfair competition before the Wuhu Intermediate People’s Court.

The defendants operated franchised stores named Outcool, selling sports goods as well. The defendants used misleading statement such as “Outcool is the Chinese version of Decathlon”, “Outcool is better than Decathlon” in their promotional articles. What is worse is that the trade dress of Outcool stores looks highly similar to that of Decathlon stores:

| Item | Decathlon store | Outcool store |
|---|---|---|
| Overall style |  |  |
| Façade |  |  |
| PLV poster |  |  |

<table>
<tr><td>Price panel</td><td><br></td><td><br></td></tr>
<tr><td>Premiere price label</td><td><br></td><td><br></td></tr>
<tr><td>Product description label</td><td></td><td><br></td></tr>
<tr><td>Shoes fitting mirror</td><td></td><td></td></tr>
<tr><td>Poster</td><td><br></td><td><br></td></tr>
<tr><td>Sticker</td><td></td><td></td></tr>
</table>

Decathlon then filed civil litigation on the ground of unfair competition, contending that:

1. Using without permission trade dress similar to that of Decathlon stores, which has gained a certain degree of influence;
2. Using false advertising by publishing online comparative advertising, a marketing strategy in which the defendants' products or services are presented as superior to Decathlon.

The first instance court Wuhu Intermediate People's Court dismissed the first claim and supported the second. The court held that Decathlon stores and Outcool stores are obviously different in the store signboard. Besides, for the other store visual elements, they are not that similar as to lead to confusion among relevant public when viewed from an overall perspective. Thus, the court only ordered injunction regarding the false advertising and awarded compensation of RMB 300,000.

Decathlon appealed to the Anhui High People's Court.

Before filing the appeal, Decathlon invited a panel of renowned experts to analyse the facts and to parse the first instance decision as a neutral third party. The expert panel issued a written opinion, which was submitted to the high court, emphasizing that the differences regarding the signboard of stores has no bearing on the similarity of trade dress in the context of Anti-Unfair Competition Law.

The high court found the argument tenable and ruled that the trade dress of Decathlon stores is unique enough to obtain "certain influence" as required by the Anti-Unfair Competition Law and could serve as a source identifier. Besides, the similarity in the trade dress of Outcool stores and that of Decathlon stores makes the relevant public less likely to notice their difference. As market players in the same industry, Outcool's similar trade dress will make relevant public misconstrue that there are certain financial ties between Outcool and Decathlon. Finally, the high court found that unfair competition could be established for Outcool's using of similar trade dress, and awarded compensation of RMB 2 million, almost sevenfold that awarded by the lower court.

Outcool filed retrial petition before Anhui High People's Court, which was dismissed.

The court of appeal affirmed that the Anti-Unfair Competition Law does not prohibit business operators from drawing experience from each other, however, where the borrowing goes beyond the reasonable boundary and escalates into a full-scale imitation of other's distinctive trade dress and packaging that serves as a source identifier, such act shall be deemed as free-riding and malicious, and unfair competition could be established.

This case is a live example on protecting store images by using the Anti-unfair Competition Law in China. The case helps Decathlon win the Unifab Award in the "Enterprise" category in 2023.

# n° 77 WHD Insights: IP | Intellectual Property Protection in Product Recycling and Remanufacturing in China

**Zhigang Zhu, first published on IAM as a three-part series: 1, 2, 3**

Amid heightened global attention on environmental protection, the recycling and reuse of products is becoming a key consideration for the Chinese government. Relevant legislation has been introduced - such as the Environmental Protection Law and the Circular Economy Promotion Law - to encourage and facilitate the establishment of recycling systems. However, these fail to directly address the issue of the exhaustion of IP rights in product recycling and the conditions under which IP rights can be reasserted.

As this issue becomes increasingly relevant, it is necessary to look at how the Chinese courts have previously approached it for guidance.

## Trademark protection

The principle of trademark exhaustion is not explicitly defined under the Trademark Law. However, scholars and practitioners generally accept that once a trademark owner or its licensee places goods bearing a trademark on the market, said owner cannot invoke its rights to prevent further sales or transfers of those goods. In other words, a purchaser has the freedom to deal with the product and the trademark owner no longer has the power to control further distribution.

At the same time, Article 57(5) of the Trademark Law restricts this principle by prohibiting the unauthorised replacement of a registered trademark with the intention of reintroducing goods to the market – also known as 'reverse passing off'. Further, Article 30 of the Regulations on the Protection of IP Rights in the Hainan Free Trade Port (2021) emphasises that if continued use of a registered mark after the goods have been marketed would harm the mark's distinctiveness or reputation, the exhaustion principle does not apply.

However, when products undergo certain processes during recycling (eg, refilling, repair or refurbishment) and then re-enter the market, they may be significantly different to the originals. This raises questions about whether and how recyclers can continue using an original mark. Chinese administrative and judicial authorities have long held divergent opinions on this matter.

### Beer-bottle recycling – case law indicates unified stance

Reusing recycled beer bottles is a widespread practice in China. While beer-bottle manufacturers typically emboss their brand directly onto the bottles, Chinese law does not specifically regulate how breweries may use recycled bottles. Courts at various levels have gradually formed a unified stance on whether the exhaustion principle applies here.

*Chongqing beer case (2011)*

In this case, the High People's Court of Hunan Province overturned a first-instance infringement decision. It held that the defendant's use of recycled beer bottles did not constitute trademark infringement on three grounds.

First, the court opined that the defendant merely used the bottles as containers rather than seeking to exploit the plaintiff's trademark. Further, it held that the defendant's bottle cap, neck label and main label clearly featured its own trademark, which would not mislead typical consumers.

Second, it claimed that reusing beer bottles aligns with national policy. Because the plaintiff failed to adopt special measures to prevent its bottles from entering the recycling system, it was reasonably foreseeable that its bottles could be reused by others.

Finally, the court noted that if it were to uphold the plaintiff's infringement claim, it would effectively prohibit the recycling of used beer bottles, thereby conflicting with national policies. Balancing individual interests against the overall public interest, the court decided that environmental rights should be protected over the plaintiff's trademark rights in this scenario.

*Dali beer case (2011)*

The Supreme People's Court similarly held that collecting and reusing glass beer bottles that still met safety standards was longstanding industry practice in China. It noted that the defendant merely used the recycled bottles as containers for its own beer, clearly labelling its products with its own LANCANGJIANG trademark and company name on the bottle's body and neck.

Given that there was no evidence of an intent to free ride on Dali Beer's goodwill, the court concluded that the defendant's reuse of Dali's bottles did not infringe trademark or company name rights.

*Xiyingmen case (2014)*

The Supreme People's Court slightly changed its stance in this case, emphasising that breweries must take reasonable measures to avoid infringement when reusing recycled bottles.

It held that simply using another company's recycled beer bottle – while visibly attaching one's own trademark and company name to avoid consumer confusion – generally does not constitute infringement. However, the defendant not only retained the embossed BUDWEISER INBEV mark but also used packaging and labelling that closely resembled Budweiser's well-known Harbin Beer brand. Consequently, the embossed mark could now serve as a source-identifying function and was thus more likely to create confusion among consumers. Therefore, the court found the defendant's reuse of the bottles to be infringing.

*Administrative authorities' approach*

Chinese administrative authorities have adopted a much stricter position than the courts. As early as 1995, the trademark office stated that any party wishing to refill beverage containers that bear another party's still-visible trademark must completely cover it. Failure to adequately do so constitutes trademark infringement.

A 2019 reply from the China National IP Administration reiterated that while China encourages recycling of resources, it must not infringe others' registered trademark rights. Even if an embossed trademark cannot be easily removed, other users must take measures (eg, covering the mark with a new label) to avoid consumer confusion.

**Trademark infringement when refurbishing goods**

Refurbished goods are frequently reintroduced into the Chinese marketplace. From a judicial perspective, a key issue is how the refurbisher uses the original trademark when reselling the products.

1. Removing the original trademark without authorization

In Fengye (1994), the Beijing First Intermediate People's Court held that buying products bearing the plaintiff's trademark and then removing the marks for resale – under the guise of exhaustion of rights – constitutes unfair competition. The court reasoned that the defendant's conduct exploited the plaintiff's high-quality products for illicit profit without compensating the plaintiff for the goodwill and labour involved in building its brand.

After the Trademark Law was amended in 2001 to include in Article 57(5) reverse passing off as a form of infringement, courts have consistently found that removing and replacing an original trademark before reintroducing goods into the market impairs the mark's normal function. For example, in Malata (2016), the Ningbo Intermediate People's Court held that covering up Malata's mark with "AOV" deprived Malata of the opportunity to display its trademark to the public, preventing it from leveraging its brand value and goodwill in the market. Consumers would also be misled regarding the product's origin.

Some courts have similarly found that removing the original trademark (without replacing it with a new mark) can also constitute infringement. In Yinzhi (2003), the Nantong Intermediate People's Court reasoned that trademark rights are inseparable from the goods themselves. Removing the original trademark disrupts the link between the owner and user, depriving them of information about the true producer and negating the product's market-expanding attributes – thus infringing the trademark owner's legitimate interests.

2. Continuing to use the original mark without authorization

Whether refurbished goods may still bear the original mark without constituting infringement depends on whether:

- the product has undergone a substantive transformation; and
- there is a likelihood of confusion.

*The HP case (2019)*

In this case, the Tianhe District People's Court in Guangzhou reasoned that the seller must respect the trademark owner's rights during the product's circulation; merely transporting, storing or reselling goods that bore the mark did not cause confusion. However, if the seller substantially alters the product's core elements, the trademark no longer accurately indicates the product's origin and quality. Continuing to use the original mark thus tarnishes it and undermines consumer interests.

*The Domino case (2018)*

The Guangdong High People's Court recognised a balance between the trademark owner's rights, the interests of the recycler and public interest. In this case, the defendants only recycled old circuit boards from the plaintiff's A200 coding machines. The default setting caused Domino's mark to appear when the screen started up, but the defendants did not actively or prominently use Domino's mark on the refurbished machines or packaging. Because the new product's packaging contained no Domino logo, there was no direct risk of confusing the public as to its origin. The reuse of an internal part – without significantly altering the machine's overall quality or removing the original trademark – fell within the scope of trademark exhaustion.

3. Selling refurbished products as brand new

Refurbishers that sell old products as new and that are falsely labelled as original may also face criminal charges. In Oppo (2022), the Chengdu Intermediate People's Court found that replacing certain components (eg, phone back covers and screens) could affect functionality and performance, amounting to a "substantial alteration". Selling phones as new without disclosing such alterations would confuse consumers about the product's authenticity and quality, infringing on the trademark's source-identifying and quality-guarantee functions. Further, such activities constituted counterfeiting of registered trademarks as they harmed the brand's goodwill.

## Patent protection

China has recognised domestic patent exhaustion since 1985, when the Patent Law stated that after a patentee has produced or authorised production of a patented product and sells it, the subsequent use or resale does not constitute infringement. In 2008, the revised Article 75 expanded this to include "international exhaustion", which clarified that using, offering to sell, selling or importing a patented product – once it has been sold or authorised by the patentee – does not constitute infringement.

Scholars and practitioners tend to agree that repairing a patented product generally falls within the scope of patent exhaustion, while remanufacturing constitutes patent infringement. The key disagreement lies in how to distinguish between the two.
Although judicial and administrative authorities have attempted to define and

characterise the distinction between repairing and remanufacturing, consensus has proven elusive. This has led to repeated withdrawals or omissions of such provisions from final legal texts.

**The debate in legal texts**

The Beijing High People's Court Opinion on Several Issues Concerning the Determination of Patent Infringement (second draft, 2001) proposed that "restoring a patented product that has exceeded its service life to its original form" would be considered manufacturing, while "performing repairs or maintenance to maintain or extend the life of a product that has not exceeded its service life" would be non-infringing. However, this language was not adopted in later guidelines.

The Supreme People's Court Regulation on Several Issues Concerning the Trial of Patent Infringement Disputes (draft, October 2003) also included detailed distinctions between manufacturing and repair, but these provisions were later deleted following industry opposition and were not included in subsequent judicial interpretations.

Similarly, the Patent Infringement Determination Guidelines (draft for comment, 2016) from the then State IP Office contained provisions on assembly and repair of patented products, but these were also deleted from the final version.

Patent infringement cases involving this issue remain relatively rare. However, there are two notable examples.

*Frame-style air filter case (2014)*

The Henan High People's Court held that the defendant's "retrofit" of a patent-protected filter system to increase its purification capacity constituted manufacturing a new product rather than a mere repair, because the original device was still functional, and the alterations substantially improved its performance. The modification thus fell within the scope of the patent claims and amounted to infringement.

*Sealing device case (2023)*

The Jiangsu High People's Court addressed a situation where the defendant replaced worn-out sealing boards in a patented product. Since the patentee had not claimed exclusive rights in these consumable parts, the court deemed the replacement a permissible repair to maintain normal product function, rather than the remanufacture of such product.

## Practical takeaways for companies

Refurbishers and recyclers find themselves in a challenging position. On one hand, the government encourages recycling and reuse initiatives for environmental and cost-saving reasons (aligned with ESG principles). On the other hand, these activities must also respect the rights and legitimate interests of original IP owners.

Nevertheless, drawing upon administrative and judicial practices, the following consensus principles can guide corporate compliance and risk management.

**Proactive and comprehensive disclosure**

When refurbishing and reselling products, companies should actively and comprehensively disclose relevant information, such as:

- which parts are refurbished;
- which components have been replaced;
- who performed the refurbishing; and
- whether the product is still within the original warranty period.

**Conspicuous refurbished labelling**

All refurbished products should bear an indelible label that clearly shows that they have been refurbished on their outer casing, product manuals and packaging at the point of sale. For online sales, this label must appear prominently in product listings to ensure that consumers understand the product's nature and avoid deception.

**Limit repairs to ordinary maintenance**

It is advisable to restrict refurbishing to ordinary repairs that restore or maintain a used product's appearance and functionality, avoiding changes that substantially alter the original product's design, functionality or performance. Activities that cross into remanufacturing risk infringing IP rights.

**Avoid confusing terminology and trademarks**

Refurbished products should use clear and accurate markings. Avoid terms like 'officially refurbished', 'official replacement', 'brand new', 'original' or 'authentic second-hand', as they could mislead consumers. Under no circumstances should businesses highlight or display the original brand or trademark in a way that suggests non-existent authorisation or affiliation.

**Ensure packaging and accessories do not infringe**

Refurbished products should use packaging and accessories that are distinguishable from those of the original brand. Any new packaging or accessories must avoid infringing the original rights holder's trademarks, industrial designs or copyrights.

By adhering to these guidelines, enterprises can better harmonise ESG responsibilities with respecting IP rights.

# n° 78 WHD Insights: PT | Patent Litigation in China in 2025

**Feng Zheng, Xiaoyang Yang, Baihe Liu and Hongfeng Li**
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Throughout 2024, China's patent litigation remained active. The IP Tribunal of the Supreme People's Court (SPC) has issued decisions providing further guidance on damages calculation in the SEP/FRAND and life sciences sectors. The SPC has also leveraged pertinent decisions outlining the liabilities of patentees acting in bad faith. These decisions showcase the current juridical practice of Chinese courts relating to the said issues, yet it remains to be seen how the jurisprudence will evolve in 2025.

## *SEP/FRAND*

In 2024, one of the key issues in Chinese SEP litigation was the determination of royalty rate. Into 2025, the current Chinese practice aligns with that of other jurisdictions in using the comparable licence method and the top-down method in assessing royalty rate.

In December of 2023, the SPC issued the second-instance decision (2022) *Zui Gao Fa Zhi Min Zhong* Nos. 907, 910, 911, 916, 917 and 918 on disputes over infringement of six SEP patents and royalty determination thereof between, inter alia, a US company ("plaintiff") and a Chinese domestic cell phone manufacturer ("defendant"). The SPC's decision provides a framework of reference as to how Chinese courts could approach royalty determination and calculation of damages.

The SPC held that damages awarded to a patentee of a SEP patent should be the royalty the implementer of the SEP patent should have paid plus the patentee's loss of interest the royalty should have yielded. To calculate damages, the SPC followed a four-step approach, namely:

- determination of the number of infringing cell phones sold;
- determination of royalty rate per unit;
- determination of liability of culpa in contrahendo for both patentee and patent implementer (whether they follow FRAND principle); and
- determination of damages.

In determining the royalty rate per unit, the SPC commented that both the comparable licence method and the top-down method were commonly used, and in a given case which method is to be adopted would hinge on the evidence produced. In this decision, the SPC followed the comparable licence method. The rationale behind this is: such method was specifically requested by the plaintiff and only comparable licence agreements were adduced as evidence. In identifying the comparable licence agreement for comparison, the SPC factored in the negotiation background of the licence agreement, the resemblance in licensor and licensee, in the SEP patent at issue and in the content of the licence agreement. Accordingly, the

SPC selected a comparable licence that concerned the licensing of the same SEP patents within China for a comparable number of cell phones, with the licensee being another major domestic player in telecommunication. The comparable licence set forth an aggregate royalty for all six SEP patents. On that basis, the SPC calculated the royalty rate per unit to be USD0.008 for all the six SEP patents.

Regarding the determination of liability of culpa in contrahendo, the SPC stated that the liability was only relevant to determining how the patentee's loss caused by the non-payment of royalty of the patent implementer should be apportioned between the parties. To determine whether a party followed the FRAND principle, the test was whether a party had displayed a genuine intent to reach a licence agreement. In this regard, the SPC found that the patentee and the patent implementer were equally liable for not reaching a licence agreement.

In reaching this conclusion, the SPC examined the following factors in assessing the intent of the patentee to reach a licence agreement:

- whether the patentee brought the litigation seeking royalty awarded without informing the patent implementer of the infringement in writing;
- whether the patentee explicitly rejected the request of the patent implementer for a licence agreement;
- whether the patentee directly proceeded or repeatedly threatened to sue the patent implementer for infringement or injunction during negotiation;
- whether the patentee ceased negotiation without any reasonable cause;
- whether the patentee disclosed to the patent implementer all necessary information about the SEP patent at issue;
- whether the patentee refused to disclose to the patent implementer the basis or calculation method for the proposed royalty or royalty rate;
- whether the patentee offered no explanation as to why the proposed royalty for the patent implementer was obviously or substantially greater than its proposed royalty for the other competitors in the same field under the same circumstances;
- whether the patentee timely responded to the patent implementer for its counter-offer within a reasonable time period; and
- whether the patentee refused the request of the patent implementer for clarifying relevant technical questions.

In the meantime, the following factors were examined in scrutinising the intent of the patent implementer:

- whether the patent implementer timely responded to the patentee's written notification of infringement or informed the patentee of its unwillingness to negotiate within a reasonable time period;
- whether the patent implementer actively responded to the patentee's offer for a licence agreement within a reasonable time period;
- where the patent implementer believed the patentee's offer was unreasonable, whether the patent implementer actively provided a reasonable counter-offer or suggestions for the licence agreement, or whether the patent implementer timely deposited the royalty proposed in

its counter-offer;
- whether the patent implementer postponed or ceased negotiation without any reasonable cause; and
- whether the licence agreement proposed by the patent implementer was obviously unreasonable.

For calculation of damages, the SPC held that the damages awarded to the patentee should include:

- royalty the patent implementer should have paid; and
- the patentee's loss of interest the royalty should have yielded. The interest loss was calculated through multiplying royalty by interest rate for the overdue period of the royalty and liability percentage of the patent implementer in culpa in contrahendo. To calculate the overdue period, the SPC found in general a licence agreement would be reached within 12–18 months, and it would take five additional days to process the payment of royalty. As such, the date on which the royalty should have been paid was derived by adding the period of the maximum 18 months for negotiation plus five days for royalty payment to the date on which the patent implementer first responded to the patentee's written notification of infringement.

Accordingly, the SPC awarded the patentee a royalty of approximately RMB15.4 million (USD0.008/unit x 272,109,806 units at issue x exchange rate 7.07 RMB/USD) plus its interest, with the interest to be calculated from the day when the royalty became overdue to the day of actual payment of the patent implementer.

***High damages in life sciences cases***

In China, it has long been acknowledged that it can be a challenge to obtain high damages in patent litigation, due to the high evidentiary hurdle the plaintiffs have to overcome in justifying the damages claimed. As such, many foreign patentees would aim for an injunction, rather than high damages, in patent litigation in China. In December of 2023, the SPC issued the second-instance decision on a patent infringement dispute between a US plaintiff and two domestic defendants ((2021) *Zui Gao Fa Zhi Min Zhong* No. 2480), awarding the US plaintiff damages of RMB18.5 million in total.

The patent at issue related to a protein having a specific sequence and endoglucanase activity and a preparation containing the same for washing use or fabric processing. The plaintiff, with an exclusive licence to exploit the patent at issue, sued two domestic defendants as per the authorisation of the patentee. The two defendants were the manufacturer and the vendor of the infringing product respectively.

In China the patentee may request that damages be determined by the following methods:

- a patentee's actual loss caused by infringement;
- if the patentee's actual loss cannot be determined, damages may be determined based on the infringer's illegal gains generated through

infringement;
- if neither of the above can be ascertained, damages may be determined with reference to the reasonable multiple of royalty; and
- if none of the above can be determined, statutory damages up to RMB5 million may be awarded.

As is the case with most plaintiffs of patent infringement disputes under Chinese practice, the plaintiff in this case requested the court to award damages based on illegal gains, which the defendants generated out of infringement.

*First instance*

The plaintiff requested damages be awarded based on illegal profits yielded during 59 months of infringement and presented three models for calculating damages. The plaintiff only obtained limited evidence regarding the defendants' sales of the infringing products, and hence all three calculation models of damages the plaintiff presented were predicated on a number of assumptions. Shanghai IP Court, the first-instance court, found these calculation models inadequate to substantiate the actual sales figure and profit of the defendants and thus adopted the method of reasonable multiples of royalty fees to calculate damages as follows.

Damages = sales of infringing product of 11 months acknowledged by manufacturer/11 months x 2 x 59 months x royalty rate in licence agreement x 3

It is worth noting that in the above calculation the first-instance court doubled the average monthly sales of the infringing product of the manufacturer, in view that the two defendants defied the court's order to produce evidence relating to the sales of the infringing product. The court also trebled the royalty rate prescribed in the licence agreement for calculating damages, considering the nature of the patent at issue, the nature and severity of the infringement and the content of the licence agreement.

The court awarded punitive damages for the last three months of infringement, as the law providing for punitive damages was not effective until then. Specifically, the court awarded quintuple damages apportioned to the last three months of infringement, in view of the brazenness of the two defendants to infringe and the duration and scale of infringement.

As a result, the first-instance court awarded damages of RMB10 million.

*Second instance*

Both the plaintiff and the two defendants appealed to the SPC. Whilst also finding infringement, the SPC took a different approach to damages calculation.

Upon the request of the plaintiff, the SPC issued a ruling demanding that the two defendants produce their books of accounts. In response, the manufacturer produced its books of accounts for more than three years. The vendor produced some purchase contracts, tax receipts and orders of infringing products, but still refused to produce its books of accounts.

Based on the books of accounts of the manufacturer, the SPC calculated the profits made by the manufacturer out of selling the infringing products during that time period. The SPC then found most (around 90%) of the infringing products manufactured were sold to the vendor at prices approximately 1.5 times the factory gate prices. In calculating the vendor's sales revenue, the SPC used the figures of the manufacturer as a benchmark and multiplied it by 90% (to reflect the sales figure of the vendor) and 1.5 (to reflect the vendor's sales price of the infringing products). The court then projected the derived revenue throughout the entire period of infringement, using an estimated gross profit margin of 33% (estimated based on the vendor's operation mode and sales price of the infringing product) and an estimated minimum operating profit margin of 12% (estimated based on data used by the vendor in calculating its own profits). The SPC also applied a contribution rate of 100% for the patent at issue, as the infringing product included protein of the amino acid sequence of the patent at issue. The vendor's profits were therefore calculated to be more than RMB23 million.

Based on this calculation, and by taking into account the procrastination of the manufacturer and the defiance of the vendor in turning in their books of accounts, the court awarded damages of RMB18.5 million as claimed by the plaintiff without applying punitive damages, as the claimed damages had already been granted.

Another major divergence from the first-instance court is the SPC found the two defendants were severally and jointly liable for the full amount of damages awarded, and the vendor's defence of legitimate source should not apply. The SPC reasoned that the vendor's active involvement in the infringement suggested that it was more than an innocent vendor.

***Bad faith litigation***

Bad faith litigation has been garnering attention in recent years. It refers to litigation that is brought by a plaintiff out of no legitimate legal or factual basis to obtain illegal or illegitimate benefits and thus causing financial losses to a defendant. The concept of bad faith litigation arises from the principle of honesty and trustworthiness now codified by the Civil Code.

As the principle of honesty and trustworthiness is introduced as a fundamental rule by the legislator without elaborating on the circumstances as to how bad faith litigation can be established, stakeholders could only rely on case law to decipher the thinking of the Chinese judiciary in that regard. It is pivotal that multinational companies follow closely the development of the jurisprudence in this area to avoid the pitfall of being labelled as acting in bad faith in litigation or falling victims of bad faith litigation.

Two SPC decisions could shed some light on this matter.

*(2022) Zui Gao Fa Zhi Min Zhong No. 1861*

The decision (2022) *Zui Gao Fa Zhi Min Zhong* No. 1861 is the first decision where the

SPC found a patent infringement action brought by a patentee could constitute bad faith litigation and ruled the patentee was liable for financial compensation to the accused infringer.

In this case, the patentee owned a utility model ("patent at issue"), which later lapsed due to insufficient payment of annuity unbeknownst to the patentee. Shortly after the lapse, the unwitting patentee sued the accused for infringement of the patent at issue. Infringement was not found until at the retrial stage of the case, which took place years after the original expiry date of the patent at issue. At that time, as neither the court nor the accused were aware the patent at issue had already lapsed, the court found infringement and the accused paid the financial compensation as ordered by the court.

The patentee subsequently filed a second litigation, claiming RMB3.5 million as damages for the period from the filing date of the first litigation to the date when the patent at issue would have expired. This time, the accused found out about the lapse of the patent at issue and informed the court, and the patentee withdrew its complaint. The accused then applied to the Supreme People's Procuratorate (SPP) to protest the erroneous decision of the first litigation, on the basis that the patent at issue had already lapsed at the time when the first litigation was brought. However, the SPP rejected the application of the accused. Meanwhile, the patentee initiated an administrative proceeding challenging the CNIPA's decision to terminate the patent at issue due to insufficient payment of annuity, but later withdrew the complaint.

Then the patentee filed a third litigation against the accused, claiming damages of RMB4.5 million for the same time period as the second litigation, but once again withdrew its complaint later. A fourth litigation ensued shortly. This time the patentee applied for interim preservation of the accused's property, and the court granted its application before eventually dismissing the patentee's claim.

The accused then sued the patentee, contending that the third and fourth litigation constituted bad faith litigation, requesting financial compensation for losses caused by, inter alia, its disqualification by the wrongful accusation of patent infringement from biddings for a contract and the interim preservation measure applied for by the patentee in the fourth litigation. The case went through two instances, and courts of both instances found the third and fourth litigations filed by the patentee constituted bad faith litigation. In finding bad faith litigation and assessing liability for financial compensation to the accused, the SPC affirmed the following reasoning of the first instance court:

*"... civil litigation is an important route for patentees to enforce their lawful rights, yet the patentees are still obligated to abide by the principle of honesty and trustworthiness. Considering the patentee and the accused are competitors in the same trade and given the patentee's withdrawal of its complaints and non-payment of litigation fees, it would be unconvincing to the court that the patentee brought the third and fourth infringement actions to assert its lawful rights and to exercise its right to sue. In both of these actions, the patentee claimed damages of as high as RMB4.5 million, which is way above the damages of RMB125,000 awarded by the court in the*

*first infringement action. Further, the patentee applied for interim preservation of property, and RMB4.5 million of the accused was frozen upon the patentee's request. As such, it can be determined that the patentee knew that its infringement actions were unwarranted, and it was highly likely that the patentee sought to obtain illegitimate financial gains. It can be inferred that the patentee has the direct intent to infringe the lawful rights of the accused."*

*(2022) Zui Gao Fa Zhi Min Zhong No. 2586*

Another SPC decision, (2022) *Zui Gao Fa Zhi Min Zhong* No. 2586, discussed a patentee's liability for damages caused by bad faith litigation.

In this case, the patentee of a utility model ("patent at issue") approached the accused with the drawings, which embodied the patent at issue, and requested the latter to produce samples according to such drawings. The patentee notarised the receipt of the ordered samples and sued the accused for patent infringement using those samples as evidence. Meanwhile, the patentee sent warning letters to customers of the accused, stating the accused was suspected of infringing the patent at issue and advising those customers to refrain from purchasing the infringing products. The infringement action filed by the patentee went through two instances. Both courts ruled against the patentee, finding the alleged infringement was the result of the patentee's inducement.
The accused subsequently sued the patentee for bad faith litigation and business defamation, requesting compensation from the patentee for, inter alia, the reasonable expenses incurred for responding to the infringement accusation. In both instances, the courts affirmed the patentee's infringement action constituted bad faith litigation and the sending of the warning letters constituted business defamation.

Specifically, the SPC found that the patentee collected evidence of infringement in a way that it actively induced the accused to commit infringement. As such, and given the lack of other evidence of infringement by the accused, the patentee's act contravened the principle of honesty and trustworthiness, as opposed to being a mere defect in its evidence collection. The evidence so collected should not be admitted, and the infringement action based on such evidence obviously had no factual basis.

The SPC also commented on indicators of bad faith on the part of the patentee, underlining that:

- the patentee induced the accused to produce the infringing product, even though there was no evidence showing the accused had or was about to commit infringement;
- in the infringement action, the patentee withheld the information that the infringing product was produced upon its request and according to the drawings it provided;
- in the infringement action, the patentee claimed damages that were unreasonably high without supporting evidence, and applied for interim preservation of the accused's property; and

- the patentee sent warning letters to customers of the accused before the issuance of final decision of the infringement action.