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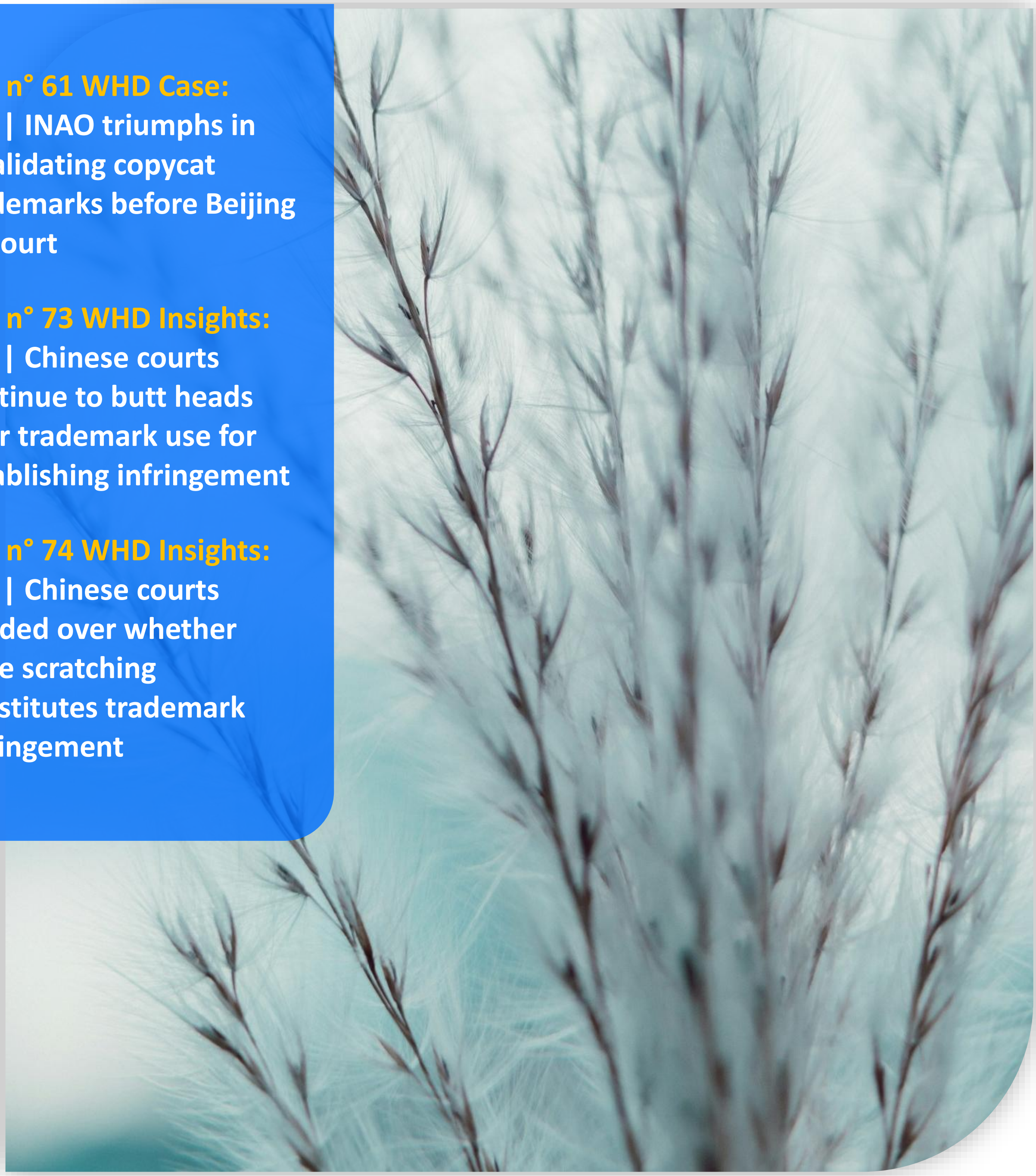

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n° 61 WHD Case: TM | INAO triumphs in invalidating copycat trademarks before Beijing IP Court

Mei Huang, 11 December 2024, first published by IAM

The Beijing IP Court has held up the China National IP Administration (CNIPA)'s decision to invalidate the marks of a Chinese agricultural company due to it piggybacking on the reputation of a French sign used to certify high-quality products.

The National Institute of Origin and Quality (INAO) is a public administrative institution in France and is responsible for the implementation of French policy on officially identifying the origin and quality of agricultural and food products, including protected designations of origin, the Label Rouge sign, geographical indications (GIs) and organic farming, among others.

Label Rouge ('Red Label' in English) is a national sign that refers to products that, due to their production or manufacturing processes, have a higher level of quality compared to other similar products. Label Rouge is open to all products regardless of their geographical origin (including outside the European Union), but they must meet the INAO's requirements defined in the specification to bear the sign.

Case background

In February 2011, Chinese company Nanjing New Concept Agriculture Technology (New Concept) filed for and obtained registration of the trademark 红标 ('Red Label' in Chinese), designating live animals and breeding poultry in Class 31. It then filed two more of the same marks in 2012 and 2016 in Class 29, designating "eggs" and "meat jellies; dried meat; sausages; ham; poultry, not live; meat; broth concentrates; broth". The marks were granted for registration in 2015 and 2018, respectively.

On 22 April 2022, the INAO brought invalidation proceedings against these marks before the CNIPA, citing Articles 4, 7, 10(1)(7) and 10(1)(8) of China's Trademark Law. It contended that Label Rouge, which has been used since 1965, enjoys a strong reputation in China. The disputed marks are identical to the Chinese translation of 'Label Rouge', and thus their registration and use would be likely to cause confusion among consumers as to the origin and quality of goods. Further, the INAO argued that bad faith could be established, as New Concept not only filed and registered a slew of trademarks incorporating the 'Label Rouge' or '红标' component but also deliberately included the French Label Rouge sign in its promotional materials, trying to piggyback on its reputation.

In 2023, the CNIPA invalidated the disputed marks based on the finding that Label Rouge is an official French sign used to certify the quality and origin of agricultural products. It ruled that the registration and use of the disputed mark 红标 is likely to create confusion or misidentification among consumers and therefore breaches Article 10(1)(7) of the Trademark Law.

Beijing IP Court upholds CNIPA decision in appeal

New Concept appealed before the Beijing IP Court. It denied bad faith and argued that the disputed marks' reputation was acquired through use and promotion over the years.

On 22 October 2024, the Beijing IP Court decided to maintain the CNIPA's decision. It ruled that:

- recorded evidence could prove that Label Rouge was known to the Chinese public before the application date of the marks;
- the disputed marks are similar to Label Rouge in terms of meaning; and
- their registration and use are likely to cause misidentification among the public, which violates Article 10(1)(7).

The case is now once again under appeal as New Concept has challenged this first-instance decision before the Beijing High Court.

Key takeaways

Like foreign GIs, quality signs and their Chinese translations are used to identify the origin of high-quality agricultural and food products and should thus not be owned by private entities. This judgment highlights that institutions or organisations that control such signs can leverage Article 10(1)(7) to challenge copycat trademarks, even if the marks are registered and extensively used in China.

These cases are live examples that the CNIPA and courts prioritise public interest and grant protection over these signs, regardless of whether or not they are registered in China.

n° 73 WHD Insights: TM | Chinese courts continue to butt heads over trademark use for establishing infringement

Shuhua Zhang and Paul Ranjard, 18 December 2024, first published by IAM

In September 2024, the China Trademark Association published a list of landmark trademark cases – administrative and judicial – from 1994 to present. The latest case on this list is an administrative penalty decision made by the Shanghai Administration for Market Regulation (SAMR) on a local car-rental company. The SAMR found that this organisation had replaced the rented cars' original logos with that of Rolls Royce and was advertising them as luxury vehicles to be used for weddings. The administration held that such commercial use constituted trademark infringement as provided by Article 57(7) of the Trademark Law, namely "causing other damage to the registered trademark of others".

Prior to this, commercial use of fake goods (eg, rental of fake goods for profit or installing fake goods in business facilities) had been found occasionally, but trademark owners rarely pursued it legally due to lack of clear guidance as to whether such commercial use would be actionable. There are very few judicial precedents on this issue and academic study of it is scarce. However, case law reveals that a second-instance civil judgment from 2017 discussed this issue in depth (JI MIN ZHONG No 281, 2017). The two courts held very different views on the definition of 'trademark use', which reflects the lack of clarity when it comes to the basic concept of trademark law in China.

Case law highlights conflicting views

In this case, the plaintiff Mr Qiao, a manufacturer of billiards tables under the registered trademark JOY QIAO SHI, discovered that a billiards club was using similar tables marked with the same trademark, which turned out to be fake. Mr Qiao sued the club, claiming trademark infringement.

The case was heard by two courts – first instance and appeal – which reached different conclusions based on their respective interpretations of Article 57 and Article 48 of the Trademark Law.

The first-instance court held that the defendant's use of fake goods did not constitute trademark use as outlined in Article 57. It noted that the Trademark Law is silent about commercial use of counterfeit products – contrary to the Patent Law, which has a specific provision that prohibits such use of infringing products. From this difference, the court held that the legislative bodies must have intended to tolerate such commercial use of fake goods when it came to trademarks and rejected the infringement claim.

However, the second-instance court reversed this decision by referring to the definition of use in Article 48 of the Trademark Law, which includes all "commercial activities" where the purpose is to distinguish the source of the products and/or services. The court found that the defendant using the infringing trademark on its billiard tables was likely to cause confusion as to the source of the products and thus found trademark infringement.

Latest case law follows the same reasoning

On 18 October 2024, the Pudong District Court found in the Shiro motor-fan case that the defendant had used the trademark according to Article 48 (ie, intending to identify the source of the products) and held that such use constituted infringement according to Article 57 of the Trademark Law (HU 0115 MIN CHU No 18077, 2024).

Other decisions have followed the same pattern of reasoning.

According to these decisions, since Article 57 defines infringement as "using a trademark (that is identical…)", it is necessary to verify if the accused use actually constitutes trademark use every time. In fact, in relation to a different case involving OEM products manufactured exclusively for export, certain courts still hold that since the goods are not sold in China, the function to identify their source is missing and thus the trademark is not used. Other courts take the opposite view.

Analysing the problem

One way of looking at this issue is to compare Article 57 with its equivalent in the TRIPS Agreement, which defines the rights conferred to the trademark registrant as preventing others from using an identical or similar sign on the same or similar goods "in the course of trade" without the registrant's consent. Article 16 of the TRIPS Agreement does not refer to use of a trademark but use of a "sign".

If Article 57 of the Trademark Law could be modified and aligned with the TRIPS Agreement by replacing the word "trademark" with 'sign', there would be no more confusion or contradictory decisions. Indeed, if a claim is made that the use of a sign is an act of infringement, the court would have no reason to verify whether such use satisfies the definition of trademark use.

On 22 November 2024, the Nanjing Intermediate Court handed down a decision in a case concerning the logo of NIO, an electric car manufacturer, which was used on barbecues by BSWolf, an outdoor gear vendor (SU 01 MIN CHU No 525, 2024). The court ordered cessation of trademark infringement and awarded damages. This case is a perfect example of a situation in which the defendant's use of a logo is just decoration and is not intended to identify the product. However, the logo was an infringing sign.

With regard to the registrant's use of a trademark, these issues may be covered by other parts of the law, such as those concerning the revocation for non-use, where it can be specified what sort of use may be accepted (eg, insignificant modification of the sign or use exclusively for export).

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n° 74 WHD Insights: TM | Chinese courts divided over whether code scratching constitutes trademark infringement

Zhigang Zhu, 8 January 2025, first published by IAM

Under the exhaustion-of-rights principle, once an IP-protected product is sold, the IP owner's exclusive rights over that specific product are exhausted. In other words, once a product legally enters the market under a registered trademark, the trademark owner loses any right to prevent any following sales of the product.

However, this principle does not prevent manufacturers from organising their distribution networks and imposing certain conditions or restrictions on their distributors. These restrictions may lead the distributor to step outside of contractual boundaries or even adopt unethical behaviours, such as code scratching. Three recent cases demonstrate significant differences in Chinese court judgments on whether such behaviour constitutes infringement.

To meet sales targets or performance evaluations set by manufacturers, distributors may be required to purchase large quantities of products, which can lead to overstocking. When faced with mounting inventory and cashflow challenges, they may resort to selling products at heavily discounted prices or redirecting them to other regions to quickly liquidate excess stock.

This is where code scratching comes in. Code scratching refers to the deliberate removal or alteration of product codes (eg, barcodes, QR codes or serial numbers) on packaging or labels. This practice is typically used to obscure the traceability of products, making it difficult to track their origin, distribution channel or intended market. This allows distributors to bypass contractual limitations or evade responsibilities tied to specific distribution channels.

Whether the removal of product identification codes constitutes infringement is a point of legal contention. Recent court decisions have provided varying interpretations from the perspectives of trademark infringement and unfair competition, but there is no consistent conclusion across courts.

Opple Lighting v Zhang Zhonghua

In Opple Lighting v Zhang Zhonghua, the Wuhan Jianghan District People’s Court, in its first-instance judgment, found that Zhang Zhonghua had removed barcodes from the external packaging of authentic Opple products – but the Opple trademark and independent barcodes/QR codes on individual packaging were still intact. Since consumers would not be confused about the source of the products, the resale did not infringe trademark rights. Additionally, as Zhang Zhonghua was a reseller rather than a manufacturer, these actions did not reduce Opple's market share, meaning no competitive relationship was harmed.

However, the Wuhan Intermediate People's Court, in its second-instance judgment in July 2024, held that the code removal compromised the product's integrity, potentially causing consumers to misunderstand its quality due to the lack of crucial information. This harmed Opple's reputation and undermined consumer rights, violating the good-faith principle under Article 2 of the Anti-Unfair Competition Law.

Opple Lighting v Dingfeng Company

In this January 2024 case, the Shenzhen Nanshan District People's Court ruled in the first instance that Dingfeng's online sale of products with removed codes:

- damaged the integrity of the product packaging;
- disrupted traceability and warranty functions;
- undermined fair competition among distributors;
- increased consumer redress costs; and
- infringed on consumers' rights, thereby constituting unfair competition.

However, the Shenzhen Intermediate People's Court held in its second-instance ruling that the products were genuine with clearly visible trademarks and manufacturer information. Consumers could still verify authenticity and access after-sales service via the packaging's QR code. Therefore, there was no confusion surrounding the source of the products and the conduct did not fall under Article 6 of the Anti-Unfair Competition Law.

Moreover, the code removal only partially impacted Opple's internal distributor tracing system without harming its competitive advantage. Since the transaction was conducted openly and did not disrupt fair market competition, applying the good-faith principle was deemed unnecessary.

Mary Kay v Ma Shunxian

In this case, the Zhejiang High People's Court overturned the first-instance infringement decision. The court reasoned that the products in question were genuine goods obtained through legitimate channels, and even though QR codes and batch numbers were removed, the quality and source information on the packaging remained unchanged. Therefore, the trademark's function to indicate origin was not compromised and product quality remained under Mary Kay's control. Since consumers were explicitly informed that the products came from non-official channels, the brand's value was not damaged. The court thus ruled that there was no trademark infringement.

It also applied the proportionality principle when determining whether Ma Shunxian's actions constituted unfair competition. Although Mary Kay's business model suffered some losses, Ma Shunxian's sales of discounted, authentic products still fell within the realm of fair competition and did not warrant regulation under the Anti-Unfair Competition Law. Further, since Ma Shunxian clearly disclosed the true nature of the code-removed products to consumers during online sales, consumer choice and market competition were not compromised. In the e-commerce context, the sale of such products was deemed consistent with the principles of honesty and recognised business ethics.

The Supreme People’s Court ultimately upheld the second-instance judgment, rejecting Mary Kay's retrial request.

Key takeaways

These three cases demonstrate the significant differences in how the courts tackle code scratching. In the two Opple Lighting cases, the courts reached different conclusions regarding similar code removal, highlighting the complexity of balancing consumer rights, product integrity and market competition. In the Mary Kay case, the defendant's explicit disclosure to consumers that the products were parallel imports was a key factor and played a critical role in the court’s judgment.

There is currently no definitive answer as to whether code scratching constitutes infringement. Outcomes often depend on how courts balance trademark exhaustion and considerations related to consumer rights and market competition. The ultimate resolution of this issue may require clearer legal norms and more consistent judicial precedents.