

PRC – Supreme Court Interpretation on Civil Trademark Disputes

Intellectual Property Group

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Baker & McKenzie

Following the amendment of the PRC Trademark Law (effective Dec. 1, 2001) and the recent issuance by the State Council of Implementing Regulations thereto (effective September 2001) (*see* Baker & McKenzie Alerts from December 2001 and September 2002), the Supreme People's Court has issued a binding judicial interpretation to assist civil courts in dealing with trademark disputes. The new interpretation entered into effect on October 16, 2002, and governs both pending and future civil cases filed with the People's Courts.

Definition of Infringement

The interpretation indicates that the following three circumstances may be regarded as infringements, notwithstanding the fact that they are not explained as such in the Trademark Law or its Implementing Regulations.

- The use of a registered trademark within a trade name that is used “prominently” in relation to goods that are similar or identical to those for which the mark is registered may be regarded as an infringement. Under the Trademark Law, such protection appears to be limited to trademarks that are deemed to be “well-known.”
- The use of a registered trademark that is a reproduction, imitation or translation of a “well-known” mark for goods that are dissimilar to those for which the mark is registered.
- The registration and use of a domain name which is similar to a registered trademark, where such use is made in relation to goods that are similar to those for which the mark is registered. The Trademark Law itself does not define infringements of registered marks to include their use in domain names.

Most enforcement of registered trademarks in China is conducted through administrative enforcement authorities — the Administrations for Industry and Commerce (AICs) — that operate under the guidance of the Trademark Office of the State Administration for Industry and Commerce. It remains unclear whether the AICs will be willing to enforce rights in the above circumstances, or whether protection will be limited to cases brought before the Peoples' Courts.

Enforcement by Trademark Licensees

The interpretation divides trademark licenses into three categories: exclusive, non-exclusive and sole. Exclusive licenses are those in which the agreement prohibits the trademark owner from using a mark. Sole licenses are those that permit the trademark owner and the licensee, but no other parties, to use a mark. Non-exclusive licenses are those that permit the trademark owner to use a mark itself and to freely license other parties to do so.

The interpretation indicates that exclusive licensees are permitted to bring civil suits before the courts without prior approval from the trademark owner.

Sole licensees are permitted to do so jointly with the trademark owner or on their own, and without the owner's authorization, in cases where the trademark owner decides not to file suit.

Non-exclusive licensees are only permitted to file infringement claims if they are clearly authorized to do so by the trademark registrant.

License Recordal and Impact on Enforcement

The recently revised Implementing Regulations to the Trademark Law continue to require recordal of all trademark licenses in China, but all relevant penalties for failure to record have been removed.

The interpretation indicates that the failure to record a license agreement can undermine attempts by licensees to enforce rights against infringers that are deemed to be using a mark in good faith. Presumably, however, the failure to record a license would not prevent a licensee from bringing action against a counterfeiter or another party who infringes a mark in bad faith.

Jurisdiction

The interpretation contains a number of provisions that clarify the circumstances in which a court in a given region may accept jurisdiction over an infringement dispute. Jurisdiction may now be asserted in regions where goods are stored or hidden, provided that the quantities are "large" or such storage is "regular." Jurisdiction may also be asserted in regions where goods are seized or detained by relevant authorities, including customs and the AICs.

In cases involving multiple defendants located in different regions, the interpretation permits plaintiffs to file claims against all of the defendants in any region where one of the defendants has engaged in infringing acts.

Definition of Identical and Similar Marks

The interpretation defines "identical" trademarks for the purposes of infringement to include those which are "essentially without difference visually." Under China's Criminal Code, penal sanctions may be imposed against counterfeiters in cases where the trademarks are deemed "identical," but as the new interpretation is intended only to cover civil disputes, it remains unclear whether criminal courts may refer to it in the handling of counterfeiting cases.

The interpretation also defines "similar" trademarks to include marks that are visually, aurally or conceptually similar in wording, composition or color, or in the "overall structure of its combined main elements," thereby "easily leading the relevant public to mistake the source of the products or to believe that their source has a certain connection to products" of the plaintiff.

The interpretation requires courts to consider the following factors when making determinations as to whether trademarks are similar:

- Consideration should be given to the "ordinary powers of observation of the relevant public."
- The similarity of the important elements of the mark should be compared, and with comparison conducted "with the two objects of comparison being kept apart" (i.e., not side-by-side).
- The "distinctiveness and notoriety" of the plaintiff's marks should be taken into consideration.

The final factor suggests that marks that are deemed famous or "well-known" may enjoy a wider scope of protection against infringements.

Definition of Identical or Similar Goods and Services

The interpretation defines “similar goods” and “similar services” in a fairly predictable manner, but the definitions also take an expansive approach by specifying that similarity may be found if “the relevant public would normally consider [there to be] a certain connection” between the goods or services.

The interpretation also indicates that the Nice Classification Index and China’s own *Classification of Similar Goods and Services* may be used as a reference for determining the similarity of goods or services for infringement purposes.

Calculation of Damages

The interpretation reminds that plaintiffs may elect the method of calculating compensation. This can include an accounting of the infringer’s profits or the plaintiff’s own losses.

The interpretation indicates that where the infringer’s profits are impossible to ascertain, the profit margin for the plaintiff may be used as reference. Where the plaintiff elects compensation for its losses, the interpretation indicates that losses may be calculated by reference to the “reduction in sales” caused by the infringing product or by “multiplying the sales amount of the infringing product by the unit profit” of the genuine product.

Statutory Damages

The revised Trademark Law permits courts to impose statutory damages up to RMB500,000 (US\$62,000) in cases where it is difficult to ascertain the infringer’s profits or the plaintiff’s losses. The interpretation requires courts to fix statutory damages, taking into consideration a range of factors, including the following:

“the nature, the period and the consequences of the infringement, the reputation of the trademark, the amount of trademark licensing royalties [normally paid on sales of the genuine item], the types, periods and scope of trademark licenses for the mark, the reasonable expenses incurred in stopping the infringement, etc.”

How each of these factors will influence Chinese courts in the future remains to be seen.

Recovery of Enforcement Expenses

The Trademark Law now explicitly encourages courts to award damages that include compensation for “reasonable expenses incurred in stopping the infringement.” The interpretation clarifies that such expenses should include the costs incurred by rights holders and “appointed agents” in “investigating and collecting evidence” regarding an infringement. This provision is useful in that it suggests private investigators acting as “appointed agents” should be compensable, notwithstanding the fact that the investigation profession is not yet formally recognized and regulated in China.

The interpretation further confirms the discretionary power of the courts to award compensation for legal fees. However, this power is discretionary (whereas by contrast courts appear obligated to compensate investigation expenses). Furthermore, the interpretation states that legal fees must “comply with the stipulations of the relevant State departments within the calculation of the scope of compensation.” It remains to be seen whether the legal fees normally charged to foreigner trademark owners by local lawyers and trademark agencies (normally between US\$80 and US\$200 per hour) will be fully compensable under these provisions.

Recognition of “Well-Known” Marks

In line with the Supreme People’s Court’s June 2001 interpretation on the handling of disputes domain name disputes, the new interpretation confirms the power of the courts to formally recognize the “well-known” status of trademarks pursuant to Article 14 of the Trademark

Law. Such status can provide additional support for claims against parties using well-known trademarks in relation to dissimilar goods or services, in trade names and (as suggested above) in domain names.

The interpretation implies that the courts may determine well-known status independently and without the intervention of the Trademark Office. In cases where a mark has already been recognized as well-known by the Trademark Office or other courts, and the defendant does not dispute the well-known status of the mark, the court hearing a dispute can apparently conclude that the mark in question is indeed well-known without conducting its own detailed review.

The SAIC is currently in the process of revising its rules relating to the review of applications for well-known status. It is anticipated that these rules will be issued shortly after the New Year. It is not yet clear, however, just what impact these rules will have on the review of applications for well-known status brought before People's Court in the course of law suits for infringement.

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