

Non-use of Plaintiff Trademark in Infringement Action

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China's Trademark Law (2001) does not require that commercial use of a registered trademark by the registrant (or use controlled by the registrant such as licensed use) be a prerequisite in claiming one's trademark right against unauthorized use. But case laws and judicial opinions put more and more burden on the trademark registrant to prove actual use of its own trademark, either to prove "actual confusion" or as a prerequisite for claim of damages. This trend is culminated in the draft third amendment of the Trademark Law.

Article 52 of China's Trademark Law provides that

A person infringes the exclusive right to use a registered trademark if he

(1) uses a trademark that is identical with or similar to a registered trademark in relation to identical or similar goods without consent of the owner of the registered trademark.

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It does not require that the trademark registrant must have used the trademark. Numerous court decisions have rejected the defendant's defense that the trademark in question has not been put into use by the trademark registrant itself. In the civil lawsuit against CCTV's unauthorized use of trademark "Glad Meeting During the Weekend" registered by the plaintiff, Beijing No. 1 Intermediate Court held that "the plaintiff admitted that it has never used the trademark, but this admission cannot be used as valid defense of non-infringement by the defendant".¹ In the civil lawsuit against "SU FEI YA" trademark, the Court of Shanghai Pudong New District held that non-use of a registered trademark is only a basis for revocation of that trademark in administrative actions, but not a valid defense in civil lawsuits.²

But some court holds different views, finding no infringement on the part of the defendant if the trademark registrant has never been put its trademark into use, on grounds that there will be no confusion at all with the plaintiff's goods or services if the plaintiff has not put the trademark into use. In the famous "Red River" beer case retried by the Supreme Court in 2008³, the Court vacated the decisions of the courts of both first instance and second instance, holding that since the plaintiff has not used its registered trademark "Red River" on beer, this trademark has not functioned in distinguishing the plaintiff's goods from the others'. Consumers will not associate the defendant's "Red River Red" beer with the plaintiff. But the Court found infringement on the part of the defendant in the use of "Red River Beer" in advertising. As a result the court lowered the damages from 10 million RMB to 20,000 RMB only.

¹ Civil Court Decision No. (2007) Yi Zhong Min Chu Zi 1747

² Civil Court Decision No. (2008) Pu Min San (Zhi) Zi 489

³ Supreme Court's Retrial Decision (2008) Min Ti Zi 52

The "Red River" case was cited as a precedent in the Supreme Court's 2009 Annual IPR Report. The Supreme Court further clarified the policy in the Judicial Opinion 2009/23. Article 7 of this Opinion provides that

... If a trademark registrant seeks protection while his trademark has not been put into commercial use, in determining civil liabilities one may use "ordering to stop infringement" as the major way of bearing liabilities; in determining compensation liabilities one may take into consideration of the non-use fact. Besides the reasonable expenses for protecting the trademark right, one usually should not base compensation on the profits of the infringer, if the plaintiff suffers no actual loss or other detriments. If the trademark registrant or assignee has no intention to use the trademark, but only use the registered trademark as a tool to seek compensation, one may not compensate him; if the registered trademark has constituted non-use of three successive years as provided by the Trademark Law, one may not support the claim of damages.

One background of this article is that before 2009 quite a few "bad faith litigants" took legal actions against big companies on grounds of trademark infringement based on their registered or assigned trademarks to claim large sum of damages, while the plaintiffs have never used such trademarks in China. The plaintiffs always claim damages based on the profits of the alleged infringers, who are big companies or even multinationals. To deter such "bad faith actions" the Supreme Court timely clarified the position in this judicial opinion.

Article 67 of the draft third amendment of China's Trademark Law incorporates the above judicial opinions, and it goes further in requesting the plaintiff to provide evidence of use of his own trademark:

Article 67 The amount of compensation for infringing the right to exclusive use of a trademark shall be determined in accordance with the actual losses suffered by the right holder as a result of the infringement, and where it is difficult to determine the amount of the actual losses, the amount of compensation shall be determined in accordance with the proceeds obtained from the infringement by the infringing party. The amount of compensation shall also include the reasonable expenses paid by the infringed to stop the infringing acts.

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In claiming damages, the owner of a registered trademark shall provide evidence proving the use of the registered trademark in the prior three years and other related evidence.

Compared with current law, the draft amendment puts the loss of the trademark registrant as the first factor to be considered. This change of order is very telling. The logic behind is as follows:

- if the trademark registrant has not used his trademark, then unauthorized use of the trademark by the third party will not cause any confusion among the relative public;
- since there is no confusion, the trademark registrant has suffered no losses;
- no losses, no compensation.

The four paragraph of draft Article 67 even requires that to claim damages the trademark registrant must provide evidence of his own use of the trademark in the recent three years. That means if one fails to produce evidence of actual use, the court may only order the defendant to stop infringement, but will award no damages. In case the registration has passed three years, the plaintiff will even expose himself to the risk that the registration be revoked, if the defendant chooses to file such an application with China Trademark Office.

Comments and suggestions

In view of this change of law, foreign companies should review their trademark practice in China carefully. In the past years foreign companies have registered numerous trademarks with China Trademark Office, but many of them have not been put into use in China: The purpose of such registrations is purely defensive like registration of patents. Foreign companies register their trademarks either aiming to tap on Chinese market in the future, or just aiming to stop the outflow of fake goods into the international market. China has become the world factory and the second largest exporter in 2010, and may become the largest exporter soon. Among the exported goods fake goods pose a great threat. With a registered trademark on hand, the foreign company can take legal actions to stop the unauthorized use either by administrative raid actions, by border interceptions or by lawsuits, and may even collect handsome damages. So far this strategy works fairly well. But with the change in judicial practice and the imminent amendment of China's trademark law, one must think of serious commercial use of their trademarks registered in China, both to maintain the validity of the registrations and to build up solid grounds before taking actions against unauthorized use by third parties.

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