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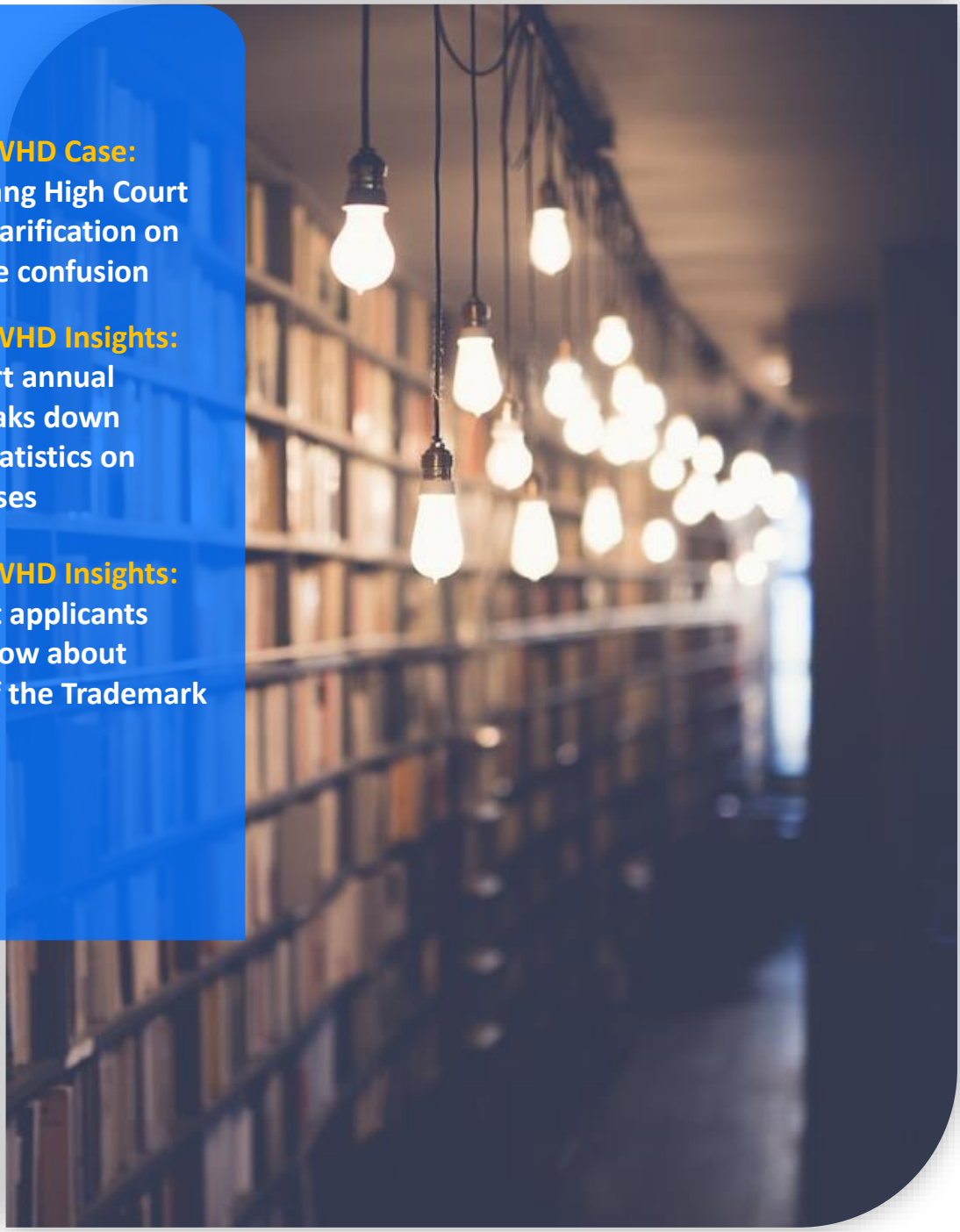

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n° 46 WHD Case: TN | Zhejiang High Court provides clarification on trade name confusion

Bruce Yu, Nan Jiang and Paul Ranjard, 19 May 2023, first published by *WTR*

Background

Plaintiff Johnson Electric, which was incorporated in Hong Kong on 25 April 1960, manufactures electric motors in mainland China via half a dozen affiliated companies, with the first one having been created in 1992. These affiliates use 'Johnson' as their English trade name and the Chinese characters '德昌' as their Chinese trade name.

Defendant Ningbo Dechang is a small household appliance manufacturer located in Ningbo, Zhejiang Province. Ningbo Dechang has been using '德昌' as its trade name since its inception on 21 January 2002.

In 2021 Johnson Electric, complaining that Ningbo Dechang was using '德昌' as its trade name, initiated a litigation before the Ningbo Intermediate Court on the ground of unfair competition, requesting an injunction to change the trade name, and damages in the amount of Rmb100 million. The case was dismissed by the Intermediate Court and Johnson Electric appealed to the Zhejiang High Court, reducing its claim to Rmb30 million. The High Court upheld the first-instance decision and dismissed all the plaintiff's claims.

Decision

According to the appeal court, the dispute boiled down to the following issues:

- whether the Chinese trade name '德昌' of Johnson Electric had generated a "certain influence" in Mainland China prior to the creation of Ningbo Dechang in 2002; and
- whether the use of such trade name by Ningbo Dechang was likely to create confusion with Johnson Electric.

On the issue of influence, the court found that the evidence of use of the trade name by Johnson Electric's affiliate companies, prior to the creation of Ningbo Dechang in 2002, was only localised and regional in Mainland China, so that such use had generated little impact in the electric motor industry.

In addition, the court ascertained that Johnson Electric had actually been using the following sign on its products, and not the trade name '德昌':

The court therefore held that there was no evidence suggesting that Ningbo Dechang attempted to free-ride on the goodwill of Johnson Electric.

Concerning the likelihood of confusion, the court found that the sign used by Johnson Electric and its affiliated companies, as depicted above, was quite different from the trade name at issue, so that there was no link between the name Johnson and the characters '德昌' which could give rise to a likelihood of confusion.

Further, the main business of Johnson Electric was the manufacturing of motors, motion sub-systems and related electro-mechanical components for automobiles, whereas Ningbo Dechang focused on manufacturing vacuum cleaners and components. There was little overlapping of their main businesses that would lead to confusion.

Finally, the marketing channels and the consumer bases were different. Johnson Electric was the biggest buyer of the products manufactured by its affiliated companies, which was almost equivalent to an OEM situation (with very few products being sold in the domestic market), while Ningbo Dechang's household appliance products were sold in mainland China. Therefore, both sides had different marketing channels and consumer bases, and the chance of confusion was, at best, slim.

The court thus concluded that the use of the trade name at issue by Ningbo Dechang did not constitute unfair competition.

Comment

Article 6 of the Anti-unfair Competition law (2019) provides that "business operators shall not commit any of the following acts that create confusion, misleading the consumers to believe that their products are those of another person or induce a special relationship with another person", including the "use, without authorisation, of a business name or trade name… which has a certain influence".

Proving the likelihood of confusion is of the essence for the application of Article 6. The fact that the defendant had the same trade name as the Chinese affiliates of Johnson Electric was not, as such, sufficient to establish that there was a risk of confusion. The plaintiff had to prove that the name had acquired a certain reputation in China and that the defendant was committing "acts that create confusion". Given that Johnson Electric could prove only a very limited influence of its Chinese trade name, the courts meticulously assessed multiple parameters that may serve as indicators of confusion. Since there was no confusion, there was no infringement. The courts, therefore, justly dismissed the claims.

The case has been selected to be included in the "Top 10 Innovative IP Judicial Protection Cases of the Ningbo Courts of 2022".

n° 44 WHD Insights: IP | IP court annual report breaks down valuable statistics on appeals cases

Johnson Li and Mo Li, 26 April 2023, first published by *IAM*

The IP Court of the Supreme People's Court of China released its 2022 annual report at the end of March 2023. The report provides a holistic overview of the IP court's operation since its inception in 2019 with key statistics on its cases handled in the last year, revealing vital information for rights holders seeking to bring appeal cases before the court and raise questions about its future.

Yearly statistics – 2022

Caseload

In 2022 the IP Court of the Supreme People's Court recorded 6,183 appeal cases concerning technology-related IP and monopoly disputes, comprising 4,405 new cases and 1,778 old cases from previous years. Of this total, 78.7% (ie, 3,468 cases) were closed. Compared to 2021, there has been an 18% increase in the number of cases accepted, a slight rise of 1.6% in new cases and a minor growth of 0.2% in closed cases.

Average trial period

The average trial period for all cases closed in 2022 was 165.2 days. On average, it takes the court 28.6 days to conclude cases concerning jurisdictional disputes, 179 days for civil appeals and 215 days for administrative appeals.

Average trial periods of civil appeals and administrative appeals have increased 49.6 days and 71.4 days respectively year on year. This surge can be attributed to the growing caseload per judge and impact of the pandemic.

Case closure

Of the 2,069 civil appeals closed in 2022, 41.3% were closed by maintaining the original judgment, 26.1% by withdrawing lawsuits, 13% by mediation, 0.7% by remanding for retrial and 18.1% by reversing judgments.

Among the 855 administrative appeals closed in 2022, 87.1% were closed by maintaining the original judgment, 6.4% by withdrawing lawsuits, 0.4% by remanding for retrial and 5.8% by reversing judgments.

This data corroborates the fact that it is much harder to reverse administrative decisions in appeal proceedings before the IP Court.

Case breakdown

In 2022, the IP Court accepted a total of 2,956 new civil appeals, including 615 invention patent infringement cases (up 6.8% year on year), 968 utility model infringement cases (up 20.1%), 312 patent application and ownership disputes (up 46.5%), 144 new plant variety disputes (up 111.8%), 78 technical secret disputes (down 1.3%), 648 computer software disputes (up 9.3%), 96 technology-related contractual disputes (down 37.3%) and 15 monopoly disputes (down 40%).

The IP Court also accepted a total of 887 new administrative appeals, including 241 disputes concerning reexamination of invention application dismissals (down 47.3% year on year), 234 invention invalidity disputes (down 17.3%), 27 disputes over reexaminations of utility model application dismissals (down 25%), 207 utility model invalidity disputes (down 11.5%), 84 design invalidity disputes (down 17.6%) and 24 monopoly disputes (up 1100%).

The numbers of civil and administrative appeals filed in 2022 diverge into starkly contrasting trajectories. The number of civil appeals has steadily increased for four consecutive years. Conversely, the number of administrative appeals has dwindled for the first time. This decrease seems to align with the China National Intellectual Property Administration's relentless efforts to curb abnormal and low-quality patent filings.

Aggregate statistics – 2019 to 2022

Caseload

Since its inception on 1 January 2019, the IP Court has accepted a total of 13,863 technology-related IP and monopoly cases and closed 80.4% (11,148) of them. Between 2019 and 2022, a total of 8,436 civil appeals were accepted, of which 6,420 were closed. Similarly, the court accepted 3,088 administrative appeals and closed 2,462 of them.

Case closure

Among the 6,420 civil appeals closed during this period, only 107 (1.7%) were remanded for retrial and 1,068 (16.6%) were closed by reversing judgments. Of the 2,462 administrative appeals closed, a mere five (0.2%) were remanded for retrial and 156 cases (6.3%) were closed by reversing judgments.

The proportion of cases remanded for retrial has declined for three consecutive years, from 2.2% in 2020 down to 0.5% in 2022. Meanwhile, the reverse rate of civil appeals has been on the rise for four consecutive years. It reached a record high of 18.1% in 2022, compared to 10.4% in 2019.

Statistics of foreign-related cases

In 2022 the IP Court recorded 457 new foreign-related cases (including those involving parties from Hong Kong, Macao and Taiwan). These accounted for 10.4% of all new cases, reflecting a year-on-year growth of 4.6%. Of these new cases, 274 were civil appeals and 183 were administrative appeals. A total of 372 cases were closed,

exhibiting a sizable year-on-year increase of 32.9% and accounting for 10.7% of the total number of closed cases.

From 2019 to 2022, a total of 1,444 foreign-related cases were accepted, accounting for 10.4% of the total number. Among them, 800 were civil appeals and 644 were administrative appeals. A total of 1,031 cases were closed, constituting 9.2% of all closed cases.

The number of foreign-related IP appeals filed before the court has been steadily growing. The number of cases in which both parties are foreign also continues to rise, accounting for approximately 4% of all foreign-related cases. China is emerging as a prominent international litigation destination for intellectual property.

The future of the IP Court

The IP Court has been honing its expertise in adjudicating technical cases and those related to emerging industries such as biopharma, SEPs, pharmaceutical patent linkages, integrated circuit layout designs and new plant varieties.

When the IP Court was installed as a branch of the Supreme Court, the National People's Congress set a pilot period of three years, which expired on 1 January 2022. Since then, there has been increasing demand for the creation of a national IP court. With the Supreme People's Court's IP Court now in its fifth year, it remains to be seen whether such proposal will materialise and how it would transform the current system.

n° 45 WHD Insights: TM | What applicants need to know about Article 4 of the Trademark Law

Ye Cai and Liangchen Zhang, 19 April 2023, first published by *IAM*

Trademark applicants in China need to be aware of Article 4 of the Trademark Law and, more specifically, how the China National Intellectual Property Administration (CNIPA) is using it to dismiss trademark registration.

Article 4 was introduced in the 2019 round of amendments and specifies that "any application for the registration of a trademark made in bad faith without intention to be used shall be rejected" as part of an effort to slow the proliferation of trademark filings and hoarding in China. In practice, the CNIPA has used this article to dismiss the registration of a large number of trademarks.

Trademark examiners can invoke Article 4 to refuse a registration ex officio. There are two conditions under which this article can be invoked:

- the trademark has been filed in bad faith; and
- there is proof that the applicant has no intention to use it.

However, in the absence of obvious circumstances (eg, large numbers of trademarks filed by the same applicant), it is difficult to know with absolute certainty whether an applicant intends to use the trademark. Therefore, in practice, the recourse to Article 4 is more often found in opposition or invalidation cases, when the applied-for mark has been preliminarily approved or even registered. There have been several recent opposition decisions that highlight some key ways that the CNIPA can prove lack of intention in trademark prosecution practice.

Business status

In China, if a trademark application is filed by a Chinese natural person, the applicant must submit proof of business and its activity. This is usually in the form of a licence of sole proprietorship.

In 2022 a Chinese individual filed two applications for the JAWKU mark in Classes 9 and 28. In the subsequent opposition procedures, the CNIPA found that the applicant's business licence had been cancelled before the filing date, without a legitimate successor. The CNIPA concluded that the individual had lost their eligibility as an applicant and that, in the absence of active business operations, the opposed mark could not be used on the designated goods and function as a source identifier. Therefore, the CNIPA did not approve the registration of the opposed trademarks based on Article 4.

Trademark trading record

The applicant for the AXV mark in Classes 5 and 42 and its affiliated companies applied for nearly 3,000 trademarks, some of which were a blatant imitation of other

brands. They were also found to be offering to sell some of these marks online. In the opposition decisions, the CNIPA held that the filing of such a large number of trademarks – combined with attempts to sell some online – was proof that the trademarks were not filed for normal commercial activities. The CNIPA refused registration for these opposed trademarks, again based on Article 4.

Statistics from Mozlen, an unofficial local trademark database, indicate that as of December 2022, the CNIPA had issued around 680 opposition decisions and 230 invalidation decisions on the basis of Article 4. While these examples do not showcase all of the possible ways the CNIPA could apply the article, in order to avoid rejection in trademark offensive actions, it is crucial that applicants be prepared for the CNIPA to conduct comprehensive searches and make use of what it discovers.