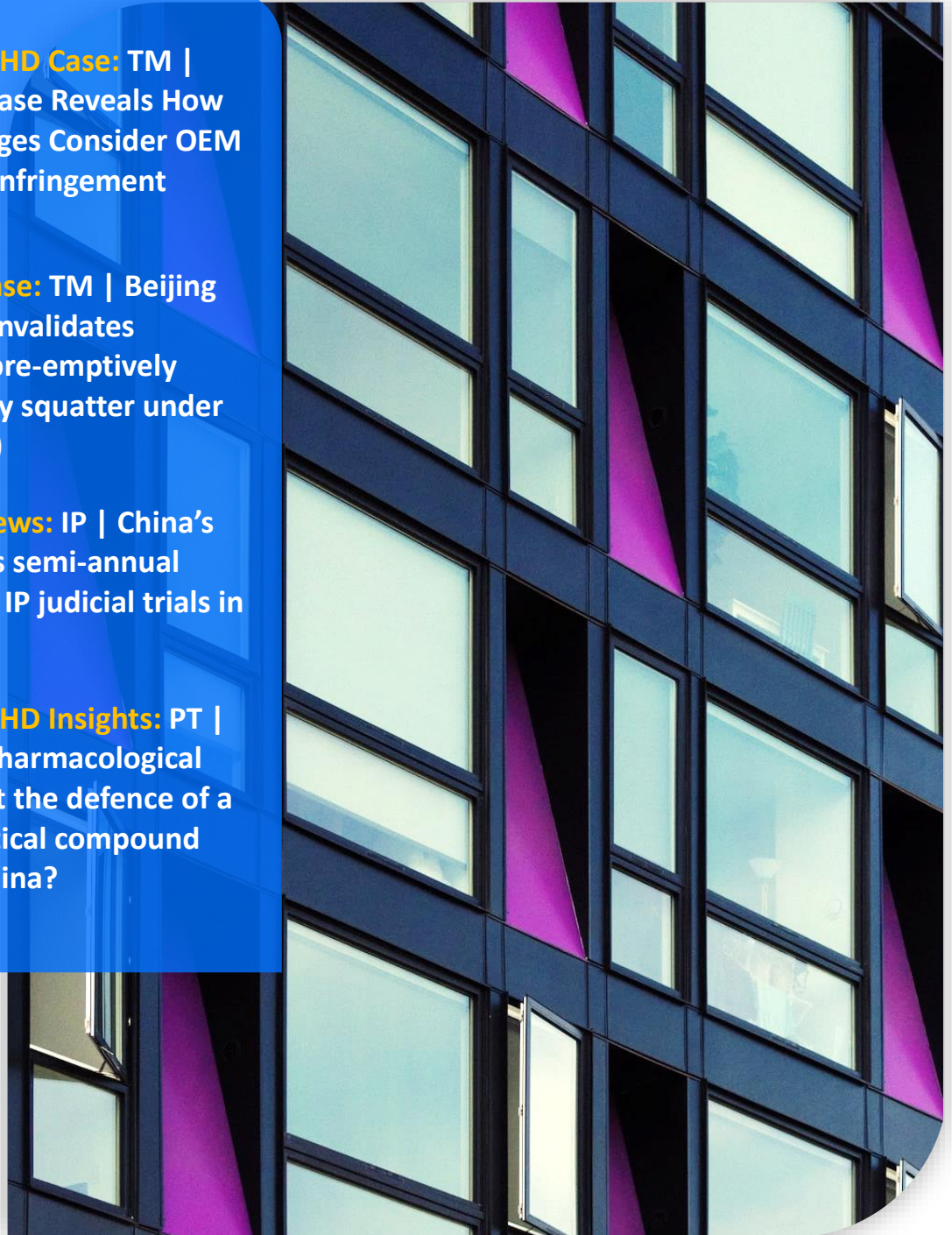


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## n° 47 WHD Case: TM | Stahlwerk Case Reveals How Chinese Judges Consider OEM Trademark Infringement Litigation

Zegang (Bruce) & Zihan Shi, 12 July 2023, first published by [INTA](#)

The Higher People’s Court of Zhejiang Province issued its civil ruling (*Shenzhen Stahlwerk Welding Technology Co., Ltd. v. Zhejiang Laoshidun Technology Co., Ltd.*, (2021) Zhe Min Shen No. 4890) on January 4, 2022, in a retrial case between Weike, the retrial applicant, and Laoshidun, the respondent.

The OEM (original equipment manufacturer) mode of production refers to a business model in which an overseas buyer authorizes a domestic manufacturer to produce and export goods under the overseas buyer’s brand.

Under the OEM model, the overseas buyer regularly owns a registered trademark in the export market country. However, due to the territorial nature of trademarks, the trademark rights in the target market country do not naturally extend to the exporting country. This includes China.

In the case before the Higher People’s Court of Zhejiang Province, the respondent manufactured STAHLWERK-branded goods for export to Germany. The overseas principal in this case was the German company Stahlwerk, whose owner registered the same mark in Germany. Stahlwerk authorized Laoshidun to manufacture STAHLWERK-branded goods under the OEM model. The plaintiff, Weike, is an intermediary with prior dealings with Stahlwerk. Weike had registered the STAHLWERK trademark in China (no. 10121635) on December 21, 2012, and, when Laoshidun started manufacturing STAHLWERK-branded goods for export to Germany, Weike sued Laoshidun for trademark infringement.

In its decision on January 4, 2022, the court ruled that Weike had exercised its trademark rights illegitimately and violated the principle of good faith, adding that the respondent’s OEM processing did not infringe the exclusive right of the Weike trademark concerned. The court held that Weike was aware of the existence of the German company Stahlwerk and the German trademark STAHLWERK, and that Stahlwerk had previously entrusted a Weike-affiliated company with designing and processing its branded products in China but had preemptively applied for registration of the same trademark on the same products in China. When Weike filed an infringement lawsuit against Laoshidun for its authorized OEM processing of the alleged infringing goods based on the preemptive registered trademark, the court concluded that Weike had exercised its trademark rights illegitimately and violated the principle of good faith.

The *Stahlwerk* case explicitly brought the principle of good faith into OEM trademark infringement trials and took it as the sole basis for the judgment. As discussed below, this is an important supplement to the principle affirmed in the *Honda* case.

### Principle Established by the *Honda* Case

In the *Honda* case (*Honda Motor Co. Ltd. v. Chongqing Hengsheng Xintai Trading Co. Ltd. et al. (Hengsheng), SPC, (2019)* Min Zai No. 138, Sept. 2019), the Supreme People's Court made important interpretations on issues regarding OEM cases, such as (1) the use of trademarks; (2) the doctrine of liability fixation for trademark infringement; (3) the identification of the relevant public; (4) the territoriality principle of trademark rights; and (5) the uniformity of the application of laws:

1. The use of a trademark is an objective act, which usually involves many components, such as the affixing of a trademark, market circulation, etc. Whether an act constitutes the use of a trademark in the sense of the Trademark Law shall be interpreted consistently as a whole in accordance with the Trademark Law and shall not be judged in isolation or according to a specific
2. A court shall apply the no-fault liability principle to trademark infringement, and actual damage is not a constitutive element of the infringement.
3. In the context of the Trademark Law, the "relevant public" shall include operators closely related to the marketing of the alleged infringing goods in addition to consumers of the alleged infringing goods.
4. Trademark rights are subject to territory. Trademarks registered overseas that have not been registered in China do not enjoy exclusive rights of trademarks in China. Correspondingly, the trademark authorization thus obtained by a civil subject to use the foreign trademark within the territory of China is not a legitimate trademark right protected by the Trademark Law and therefore cannot be used as a defense to infringement of trademarks.
5. The uniformity of the legal system shall be maintained when applying laws, and certain trade modes (such as the OEM processing concerned in this case) shall not be simply solidified as an exception to the infringement of trademarks.

The *Honda* case also sheds light on how understanding trademark infringement issues in OEM cases is evolving and deepening with the transformation of China's economic development. As other OEM trademark infringement cases come to trial, the people's court shall be able to fully consider domestic and international economic development and apply the law accurately, specifically analyzing the distinct period, market, and the underlying transaction.

The *Honda* case also left a question open for debate. Some people rashly conclude that OEM processing is a type of trademark infringement by following the reasoning in the *Honda* judgment, that is, that the authorization obtained to use the foreign trademark cannot be used as a defense to infringement of trademarks. For example, in the *Stahlwerk* case, Weike claimed that the *Honda* case had explicitly denied the non-infringement theory of OEM cases, and that Chinese law should not protect trademarks registered overseas by foreign companies.

As one can see, controversies regarding OEM trademark infringement cases have not disappeared after the *Honda* case.

### **Application of the Principle of Good Faith in OEM Cases**

Against this background, the principles affirmed in the *Stahlwerk* case are noteworthy. The trial court pointed out that when hearing OEM trademark infringement cases, the people's court shall:

- Strike a proper balance between the interests of the trademark rights holder and the OEM manufacturer; and
- Neither simply solidify the OEM processing as an exception to trademark infringement nor hold that all trademark uses under such trade mode constitute infringement.

The court also pointed out that Paragraph 1 of Article 7 of the Trademark Law provides that the registration and use of trademarks shall follow the principle of good faith, and trademark infringement trials shall also demonstrate its guiding role. The law shall not protect any illegitimate exercise of trademark rights in violation of the legislative intent and purpose of the Trademark Law. Knowing the existence of the German company Stahlwerk and the German trademark STAHLWERK, Weike preemptively applied to register an identical trademark for the same kind of goods in China and filed a lawsuit for OEM trademark infringement on the basis of this trademark. This exercise of trademark rights was illegitimate and violated the principle of good faith.

The Higher People's Court of Zhejiang Province firstly points out that not all uses of trademarks in OEM mode shall be deemed as infringement. This adds significantly to the principle affirmed in the *Honda* case that one cannot employ the trademark authorization obtained to use the foreign trademark as a defense to infringement of trademarks. The court then analyzed the *Stahlwerk* case from two dimensions:

1. The illegitimacy of the way to exercise rights; and
2. The violation of the principle of good faith.

### ***Whether The Way to Exercise Rights Is Legitimate***

Guiding Case No. 82 of the Supreme People's Court (*Shenzhen Ellassay Fashion Co., Ltd. v. Hangzhou Yintai Century Department Store Co., Ltd.*, (2014) Min Ti Zi No. 24) is the most typical case regarding the illegitimacy of the way to exercise rights. The case pointed out that the principle of good faith is a basic principle that all market participants shall abide by, and that civil litigation shall also follow the principle of good faith.

On the one hand, it guarantees that the parties concerned have the right to exercise and dispose of their civil rights and litigation rights within the scope prescribed by law. On the other hand, it requires the parties concerned to exercise their rights in good faith without prejudice to the interests of others and the public.

Any act that goes against the purpose and spirit of the law, damages legitimate rights and interests of others, maliciously acquires and exercises rights, or disrupts the fair competition order of the market, shall be deemed as abuse of rights, and is not legally defensible. Therefore, a lawsuit that one party initiates against another's fair

use of marks based on a trademark acquired in bad faith constitutes an abuse of rights.

The latest case at Zhejiang Higher People's Court regarding the illegitimacy of the way to exercise rights is *Geng Jinxu v. Hangzhou Alibaba Advertising Co., Ltd., Yiwu Dongge Trading Co., Ltd. and Li Weifeng*, from December 2021 ((2021) Zhe Min Shen No. 5338). The court pointed out that Paragraph 1 of Article 7 of the Trademark Law provides that the registration and use of trademarks shall follow the principle of good faith, and the trial of trademark infringement cases shall also demonstrate its guiding role. Any act that (i) violates the legislative intent and purpose of the Trademark Law, (ii) harms the legitimate rights and interests of others, or (iii) maliciously obtains and exercises trademark rights shall be deemed as an abuse of rights, and the law shall not protect the relevant infringement claims. The plaintiff in this case had registered many foreign board game logos as trademarks, which it then used as the basis for the infringement lawsuits it filed. The way the plaintiff obtained and exercised the trademark right was against the principle of good faith and constitutes abuse of rights.

The principle established in Guiding Case No. 82 to curb the protection of malicious rights also applies both to general cases and OEM cases. The *Stahlwerk* case confirms this view.

#### ***Whether the Principle of Good Faith Is Followed***

The application of the principle of good faith in the trial of OEM cases has long existed. For example, in the *Iska* case (*Merry Food International Co. Limited v. I. Schroeder KG (GmbH & Co.) and Xiamen International Trade & Industrial Co., Ltd.*, (2012) Min Zhong Zi No. 378, June 2012), the Higher People's Court of Fujian Province pointed out that Article 4 of the General Principles of Civil Law of the People's Republic of China provides that civil activities shall follow the principle of good faith. This principle is the "imperial clause" applicable to all civil activities, including trademark registration and transfer.

The court therefore held that, although the registration and transfer of the claimed trademark were carried out in accordance with the statutory procedures, and the disputed logo authorized to use on the OEM products was similar to the claimed trademark, the motive and purpose of the rights holder, in the registration or transfer of the trademark concerned were illegitimate, and Guomao, the OEM manufacturer, had fulfilled its obligation of due diligence, and subjectively had no infringement intention and objectively did not cause actual loss to the rights holder in the domestic market. Therefore, the court found that the relevant OEM processing in this case was not trademark infringement.

The Intermediate People's Court of Suqian City, Jiangsu Province, in the *Soyoda* case (*Yu Dexin, Jiangsu Jiahong International Trading Co., Ltd., et al., v. Shuyang Zhongyuan Import & Export Co., Ltd., et al.*, (2011) Su Zhong Zhi Min Chu Zi No. 0008, June 2012) stated that civil activities, including trademark registration and the exercise of trademark rights, shall abide by the principle of good faith. This indicates that the protection for trademark registration and the exercise of trademark rights shall consider whether:

- Any party has conducted relevant acts in an illegitimate way;
- The market order for fair competition has been damaged; and
- The legitimate rights and interests of others have been damaged.

The registration of the SOYODA trademark in China constituted malicious preemptive registration of a foreign trademark and therefore violated the principle of good faith. The malicious preemptive registration of a foreign trademark shall not hinder the reasonable use of the foreign trademark by means of OEM processing in China.

As the Higher People's Court of Jiangsu Province noted in the *Dongfeng* case (*Shanghai Diesel Engine Co., Ltd. v. Jiangsu Changjia Jinfeng DYNAMIC Machinery Co., Ltd.*, (2015) Su Zhi Min Zhong Zi No. 00036, Dec. 2015):

If an overseas enterprise or individual, violates the principle of good faith and maliciously registers a domestic trademark with certain influence, especially a well-known trademark, and entrusts a domestic enterprise with OEM processing, the act of the overseas principal shall be deemed as illegitimate and substantially damaging to the legitimate rights and interests of Chinese trademark holders. In this regard, domestic OEM processing enterprises shall, as industry operators, fulfill [the] higher duty of due diligence. If a domestic OEM processing enterprise knows or should know that the overseas principal is suspected of malicious preemptive registration of a domestic trademark with certain influence or a well-known trademark, and it still accepts the entrustment, the domestic OEM processing enterprise shall be deemed to be at fault and shall bear the corresponding civil liability. Similarly, where a domestic trademark holder, in violation of the principle of good faith, is suspected of malicious preemptive registration of a foreign trademark, and there is evidence that the domestic OEM processing enterprise has fulfilled its obligation of due diligence, and all OEM products are exported, the domestic trademark holder, on the basis of the principle of good faith, may not prevent the domestic OEM processing enterprise from using the foreign trademark.

Unfortunately, applying the principle of good faith has not been the mainstream view in OEM trademark infringement disputes over the past 20 years.


### **Conclusions**

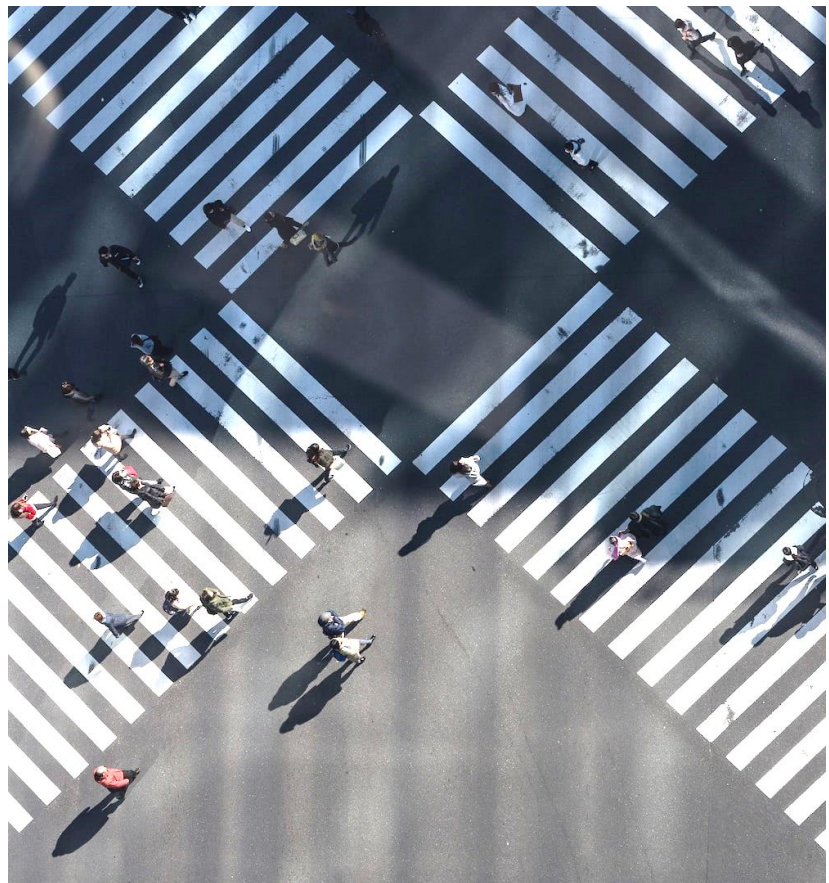
The impact of the *Stahlwerk* case on judicial trials for OEM trademark infringement and market operations in the future will be as follows:

The *Stahlwerk* case adds significantly to the *Honda* case, especially the principle it established that some trade modes should not simply become embedded as exceptions to the infringement of a trademark. The *Stahlwerk* case further clarified that the courts should not regard all uses of trademarks in OEM mode as infringement.

The application of Guiding Case No. 82 and the principle of good faith to the judicial adjudication of OEM trademark infringement cases can better balance the interests of all parties.

The principle of good faith should have a positive influence on trials of similar cases and gradually become the mainstream view in judicial adjudication in the future.

Compared with the principles established in other OEM cases, such as the constitution of trademark uses and the duty of due diligence, the illegitimacy of the exercise of trademark rights and the principle of good faith established by the *Stahlwerk* case are easier for market participants to understand and grasp. They set a clear benchmark for internal compliance review, and the guiding function of law. 



## n° 19 Case: TM | Beijing High Court invalidates trademark pre-emptively registered by squatter under Article 15(2)

Huimin Qin & Nan Jiang, 24 July 2023, first published by [WTR](#)

On 12 June 2023 the Beijing High Court rendered a decision finding that a trademark squatter that had not entered into business relations with the brand owner should be deemed as having “other relations” with the latter, as prescribed by Article 15(2) of the 2013 China Trademark Law. This clause was added to the law in 2013 to address cases of bad faith where a trademark applicant, even though it is not the agent or representative of the owner of an unregistered trademark, had “contractual, business or other relations” with it, so that it would “definitively know of the existence of this trademark”.

### Background

On 31 August 2016 Hefei Haichang Electrical Technology Ltd (‘Haichang’) filed a trademark application for the sign RAYCAP (depicted below) for “counters, power supply material (wires, cables), distribution boxes (electric), surge protective devices, lightning rods and lightning arresters” in Class 9. The sign was registered on 28 October 2017.

**Raycap**

This mark was already used, but not registered, in China for lighting arresters and other products, by Raycap Intellectual Property Ltd (Raycap IP) and Suzhou Raycap Protective Device Ltd (Suzhou Raycap). Raycap IP and Suzhou Raycap filed a request for the invalidation of the contested trademark, citing Articles 15(2), 32 and 44(1) of the 2013 Trademark Law.

### Decisions

On 3 June 2020 the China National Intellectual Property Administration (CNIPA) ruled in favour of Haichang and maintained the registration of the contested mark for all designated goods. Raycap IP and Suzhou Raycap brought an administrative lawsuit before the Beijing IP Court, but later dropped the claim based on Article 44(1).

On 24 September 2021 the Beijing IP Court partially upheld the plaintiffs' claims on the following grounds:

Prior to the application date of the contested trademark, the plaintiffs had already used the RAYCAP trademark on lightning arresters and other products, and Haichang, having requested and received product quotations from Suzhou Raycap, had had business contacts, or at least “other relations”, with the plaintiffs and was clearly aware of their existence.




The contested trademark was identical to the plaintiffs' RAYCAP trademark, and the designated goods "power supply material (wires, cables), distribution boxes (electric), surge protectors, lightning rods and lightning arresters" were either identical or similar to those covered by the plaintiffs' mark due to their close association in function. Therefore, the registration of the contested trademark for these goods violated the provision of Article 15(2) of the law; however, the registration of the mark for the remainder of the goods (counters), which were dissimilar to the plaintiffs' lightning arresters, did not.

Moreover, the court held that the registration of the contested trademark for the same or similar goods also infringed Raycap IP's earlier trade name rights and earlier used trademark, which had generated a certain influence in terms of lightning arresters in China (Article 32).

The Beijing IP Court thus ordered the CNIPA to remake its decision. The CNIPA appealed and the appeal was dismissed by the Beijing High Court.

### **Comment**

This case is an example that "other relations" under Article 15(2) could serve as a catch-all clause for owners of earlier trademarks to fall back on, when the latter can prove that the squatters had knowledge of the trademarks based on their sporadic interactions, or even a one-off exchange, which do not qualify as contractual or business relations. 



## n° 21 News: IP | China's SPC releases semi-annual statistics on IP judicial trials in 2023

Huimin Qin & Nan Jiang

On 7th August 2023, the Supreme People's Court of China released on its website the semi-annual statistics of the judicial trials conducted by courts at all levels in 2023. The following highlights concerning IP cases are noteworthy.

The data shows that:

### TECHNOLOGY-RELATED IP CIVIL CASE

In the first half of 2023, a total of 12,000 technology-related IP civil cases were newly docketed at the first instance nationwide, witnessing a 33.4% growth year-on-year. Among which, 9,916 cases were concluded, increasing 18.4% year-on-year.

Technology-related IP cases usually refer to those cases concerning 1) the ownership and infringement disputes involving invention patents, utility model patents, plant varieties, integrated circuit layout designs, technology secrets and computer software, or 2) the disputes involving monopoly. Generally speaking, technology-related IP cases mirror more of the level of activity in respect of science, technology and economy of a nation. The growing court docket in this regard could be deemed as a positive sign.


### MEDIATION

The number of the IP civil cases settled through mediation reached 23,000 at the first instance level.

The Chinese judiciary has been promoting alternative dispute resolution mechanism, in particular mediation in dispute resolution. The Intellectual Property Protection by Chinese Courts in 2022, a judicial white paper compiled by the SPC, indicates that a total of 44,155 first-instance IP civil cases were settled through mediation nationwide last year, with a settlement rate of 9.64%. Courts are increasingly prioritizing pre-suit mediation to expedite the dispute resolution process.

### PUNITIVE DAMAGES

The punitive damages were applied in 139 cases. The highest punitive damages awarded reached 20 million yuan, which could serve as an efficient deterrent to infringement and illegal activities.

The courts are increasingly confident in slapping punitive damages against infringers. Brand owners could expect record-breaking damages with the trickle-down effect. 

## n° 50 WHD Insights: PT | How does pharmacological action affect the defence of a pharmaceutical compound patent in China?

Honghui Hu, 22 June 2023, first published by [MIP](#)

In April 2023, the China National Intellectual Property Administration (CNIPA) released the Top Ten Patent Reexamination and Invalidation Cases of 2022. Three of them relate to the pharmaceutical field.

One involves the inventiveness assessment of small interfering RNA inventions, another discusses the authenticity determination of experimental data recorded in a traditional Chinese medicine patent, and the third elaborates on the correlation between a pharmacological mechanism and a drug indication, between in vitro and in vivo experiments and the technical effect as required under the patent law.

The third case will be discussed in detail in this article.

### Background

The case relates to the Chinese invention patent ZL02819025.4, entitled ‘Phenyl-piperazine derivatives as serotonin reuptake inhibitors’, which is owned by Lundbeck. The patent is a compound patent covering an antidepressant marketed as Brintellix®.

The patent has survived four successive invalidation proceedings. The case discussed herein is the fourth invalidation decision, No. 54793, made by the CNIPA, which affirmed the validity of the patent at issue.

The patent claims a compound with a general formula, covering vortioxetine, the active ingredient of Brintellix®.

In the invalidation proceeding, the petitioner raised several grounds for invalidation, including sufficient disclosure and inventiveness, both challenging the technical effect achieved by the patent. In fact, the patent description has recorded an IC50 (the half maximal inhibitory concentration) value of the claimed compound for inhibiting serotonin reuptake in an in vitro experimental model. However, the petitioner asserted that the technical effect achieved by a pharmaceutical compound patent shall be ascertained based on the data showing the efficacy for an indication, rather than the in vitro data.

The main reasoning behind the assertion is that depression involves very complex mechanisms and the serotonin reuptake recorded by the patent at issue is just one of them. Therefore, the inhibition of serotonin reuptake is not sufficient to show the potential of the claimed compound as an antidepressant. On top of that, the petitioner also asserted that the inhibition effect claimed by the patent is an in vitro test result, which cannot be equated to effectiveness in treating depression.

### The CNIPA's decision

The panel dismissed the petitioner's assertions and clarified in the decision the interplay of pharmacological mechanisms, indications for treatment and the technical effect required by the law.

The panel elucidated that there is no legal provision mandating that the technical effect achieved by a pharmaceutical patent be established based on verification of the efficacy of the claimed compound in treating an indication. In other words, under the framework of patent law, it is not necessary for a patent to prove the medical use of a compound patent all the way up to the level of indication.

As the legislative purpose of the patent law is to encourage inventions and advance technologies, the parameters on which the law relies in deciding whether to grant a patent are markedly different from those in drug market approval.

Where a person skilled in the art could anticipate the medical use of a compound from the patent description and the prior art, the medical use would be recognised under the patent law. The patentee would be under no obligation to verify the efficacy of the compound in the patent by way of administering the compound to a human subject for treating an indication.

Moreover, if there is a general consensus over the correlation between the pharmacological mechanism and an indication in the art, and if the person skilled in the art could reasonably expect that the pharmaceutical compound has the potential for treating an indication based on the verified pharmacological mechanism, the patent claiming the compound shall be deemed as meeting the requirement for disclosure of the medical use and/or technical effect of a pharmaceutical compound.

The panel also affirmed the significance of in vitro data for proving the technical effect of a patented invention. The panel opined that different experiments or tests are needed at different stages of a drug R&D process. In vitro tests are used at an early stage to screen and narrow down compounds, which could also lay the groundwork for subsequent studies.

In vitro tests or animal experiments cannot be replaced by clinical trials, for cost and ethics reasons. The fact that some compounds with in vitro activity may not be considered as promising in the context of in vivo tests does not negate the significance of in vitro testing.

In this case, since the prior art has clearly established the correlation between serotonin reuptake inhibitory activity and alleviating depression, it would be understandable to a person skilled in the art that the patent used the in vitro tests to verify the compound's activity, so as to show its potential for treating depression.

The panel therefore recognised the technical effect of the invention, based on the activity of inhibiting serotonin reuptake verified in the patent at issue. Given the technical effect verified, the patent fulfilled the requirement of sufficient disclosure.

Accordingly, in assessing the inventiveness of the claimed compound, the panel ascertained that the technical problem actually solved is to provide a serotonin reuptake inhibitor, rather than to treat depression.

The panel thus concluded that the prior art evidence concerning the treatment of depression presented by the petitioner did not have merits, as it was silent on the serotonin reuptake inhibition, even though the prior art discloses a compound with a very similar structure to the claimed compound.

### Comments

Ascertaining the technical effect achieved by an invention patent is crucial to defend its validity. That is particularly true when the sufficient disclosure and inventiveness of a pharmaceutical patent is challenged.

The technical effect or experimental data of a pharmaceutical patent is an easy target of the petitioner in the invalidation proceeding. In that sense, the petitioner could launch attacks on various fronts, including:

- The pharmacological mechanisms;
- The correlation with an indication; and
- More specifically, the pharmacological action on a target.

In certain cases, with regard to inventiveness assessment, the petitioner overlooking the role of the action mechanism, such as the action on a target, would erroneously simplify the technical effect achieved by a patent as the treatment of the indication. This would inappropriately generalise the technical problem actually solved by the patent and lead to the conclusion that the patent is obvious and unpatentable.

This case, which elucidates the correlation between a pharmacological mechanism and an indication, could serve as a point of reference in assessing the patentability of a pharmaceutical compound. 