

## Asia-Pacific

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# On the up – practical lessons from IP cases in China

**In 2010 the Beijing courts accepted a total of 8,923 first instance IP cases and concluded 8,855. This increase has resulted in some significant pointers for international brand owners wishing to secure protection in China**

Trademark filings in China continued to increase in 2010, with 1.07 million registrations ranking the country first in the world. Valid trademark registrations have now reached 4.6 million and, in order to fulfil the goals set by the National Intellectual Property Strategy Compendium, the Trademark Office (TMO) and the Trademark Review and Adjudication Board (TRAB) have been continuously clearing the huge backlog of cases over the past three years, notably with 1.48 million applications examined by the TMO and 39,000 review cases handled by the TRAB. All of the above, coupled with an increased awareness of rights protection on the part of trademark owners, has resulted in a tremendous increase in the number of trademark administrative litigation cases in the country. As such, last year saw some important decisions, particularly over the issue of three-dimensional (3D) marks and opposition reviews.

Looking ahead, the 12th China Five-Year Plan, issued this year, sets specific goals for trademark development, which include “cracking down on infringement against foreign-related trademarks and well-known trademarks and the bad-faith squatting of trademarks”. This will certainly build on the experience of 2010, when the Beijing courts accepted a total of 8,923 first instance IP cases and concluded 8,855 cases, an increase of 44.8% on the previous year.

In March 2011 the Beijing High Court, for the ninth consecutive year, issued its Top 10 IP Cases of 2010. For the first time it included administrative cases on the determination of trademark

authorisation – for example, the review of the opposition against the trademark XINGHUACUN.

### A blossoming dispute

'Xinghuacun' refers to a village of apricot blossom and can be found in many ancient poems, the most famous being "*Qingming*", written during the Tang Dynasty in 842AD by a well-known poet: "Where can a winehouse be found to drown his sadness? A cowherd points to Apricot Blossom Village (Xinghuacun) in the distance".

Presently, there are at least 10 villages named Xinghuacun in various provinces in China. The most prominent is Shanxi Xinghuacun in Shanxi Province, which has now been adopted as the name of one of the biggest alcohol manufacturers in China, Shanxi Xinghuacun Fenjiu Group.

This company owns the trademark XINGHUACUN, which is officially recognised as well known for alcohol products in China and was valued at Rmb4.7 billion in 2006. However, the Xinghuacun village which was actually referred to in the poem is located in Anhui Province. Company Anhui Xinghuacun Group Co subsequently filed for the same XINGHUACUN mark over "trees, cereal, distillery malt" in Class 31, which was opposed by Shanxi Xinghuacun.

After the opposition was dismissed by the TMO, Shanxi Xinghuacun filed for review. The TRAB partially supported the opposition by rejecting the application over "distillery malt", but granted permission of the registration over "trees, cereals".

Shanxi Xinghuacun then brought the lawsuit before the court, which ruled that the word 'Xinghuacun' itself does not have much originality because it has been adopted in various ancient poems. In addition, it stated that Anhui Xinghuacun is located in the right Xinghuacun village, as referred to in the poem, and therefore has a fair reason to apply for the opposed mark. Thus, although Shanxi Xinghuacun's trademark has become well known for alcohol products through its wide use, the protection for well-known trademarks should be limited within a reasonable scope, instead of extending to all classes.

As a result, it is worth noting that, particularly in instances when such a mark comes from a widely known public resource, the scope of protection should not be unreasonably widened if the use and registration by a third party do not infringe on the rights of the prior mark owner and do not mislead the public.

With regard to the above, if an applicant with a later filing date has a fair reason for choosing an existing word in the Chinese language as a trademark, then even though the prior mark owner can claim the trademark as well known, it will be difficult for it to obtain cross-class protection over those different businesses.

Accordingly, when a foreign applicant is selecting a Chinese equivalent to a Latin mark, it should try prudently to avoid using any existing terms in the Chinese language in order to prevent the risk that when taking action against future infringement, it would not receive cross-class protection due to the weak originality of the Chinese mark that it has adopted.

To Chinese consumers, compared with a Latin word mark, a mark in Chinese characters is much more convenient for them to remember and pronounce, and thus is more capable of identifying the origin of products. Therefore, it is important to select a Chinese word mark prudently and reasonably.

### 3D disputes take centre stage

China began to protect 3D marks when the new Trademark Law was passed in 2001. In the time since the passage of the legislation, only a few 3D marks have been granted registration. These include the Coca-Cola bottle shape in 2005; Kraft's Toblerone chocolate bar in 2004; the shape of Zippo lighters in 2008; the Spirit of Ecstasy 'flying lady' of the



**Rolls Royce is one of the few international brands to achieve a 3D trademark registration in China**

Rolls Royce brand; and the Pfizer blue diamond pill. During 2010, however, several cases involving the 3D marks of famous international enterprises have featured prominently on the legislative agenda.

In October 2002 the Coca-Cola Company filed Application 3330291 for the 3D shape of Fanta bottles in respect of non-alcoholic beverage products in Class 32. The TMO rejected the application on the grounds that the mark did not distinguish the origin of products; this was sustained by the TRAB in the review procedure on the grounds of lack of distinction. Coca-Cola appealed against the TRAB's decision before the court, claiming that after continuous promotion and use in China, the mark could be distinguished from other beverage bottle shapes and is solely linked to the Coca-Cola Company. In December 2010 the first instance court held that the mark was likely to be regarded by the relevant public as a type of beverage container rather than a 3D mark acting as a source identifier, and therefore the mark lacked distinction and should be refused registration.

Coca-Cola has appealed this ruling to the Beijing High Court, which is expected to issue a final judgment during 2011. Thus, it remains to be seen whether the Fanta bottle will receive the same recognition as the Coca-Cola bottle.

### Court bottles up its rulings

Another notable case centred on the shape of a square brown bottle filed by Nestlé under International Registration 640537. Since 1995 this registration has been approved in various countries, but it was rejected by the Chinese TMO. After Nestlé filed a review, in 2007 the TRAB ruled that although this 3D sign would normally be regarded by the consumer as a product container and could not itself indicate the origin of products, Nestlé had submitted much evidence of use during the review procedure to prove that the sign could function as a source of origin and had acquired the necessary distinctiveness as a trademark. The TRAB therefore granted permission for its publication.

Since the trademark gazette for international registrations does not have a Chinese version, Chinese companies cannot monitor such international registrations effectively; as a result, no Chinese companies filed oppositions against Nestlé's 3D mark, which was registered in 2007. However, in the past 20 years, before the approval of Nestlé's mark in China, various Chinese soya sauce manufacturers had already been using similar packages for their products. In 2008 Nestlé, based on its international registration, sent

## “ If a 3D mark is difficult to register due to its inherent features, some other distinctive elements can be added to increase registrability ”

cease-and-desist letters to several soya sauce manufacturers against their infringement of its registered trademark right, warning them to stop the use and destroy all products using similar shape bottles.

Among the companies targeted by Nestlé was Kaiping Weishida Co. The owner of the well-known trademark WEISHIDA, Kaiping began using a square brown bottle as its product packaging in 1983 (at the latest) and has achieved annual sales of over Rmb100 million, surpassing the market share of Nestlé's soya sauce. Weishida filed a cancellation against Nestlé's registered trademark, alleging that Nestlé's 3D mark lacked distinctiveness and had been used by many companies over a long period of time, meaning that the registration would impair public interest.

In a July 2010 decision the TRAB reaffirmed the distinctiveness of Nestlé's mark, and Weishida sued the TRAB before the Beijing No 1 Intermediate Court. In its recent ruling, the court ordered the TRAB to reconsider its decision on the grounds that the procedure previously adopted by the TRAB was illegal.

The TRAB is expected to reissue its decision during the first half of 2011. In the meantime, Weishida lodged a lawsuit before the Guangdong Jiangmen Court, petitioning it to declare that no infringement had been committed by Weishida. After the Jiangmen court acknowledged that no infringement had occurred, Nestlé appealed before the Guangdong High Court, which in November 2010 ruled that Weishida used the square brown bottle shape not as a trademark, but rather as packaging. Thus, when comparing the two marks, all those parts visible to consumers, including the packaging, design and trademark, should be taken into account.

The high court also mentioned that the use of the square brown bottle by Weishida did not mean that the company was inappropriately freeloading, and did not in fact lead to consumer confusion; although Nestlé claimed that its trademark has over 100 years' history of use, the mark had not been put into use in China before the use of the similar packaging by Weishida. As a result, in November 2010 the Guangdong High Court made a final judgment rejecting the appeal and sustaining the first instance judgment by declaring that Weishida had committed no infringement.

The court considered that the distinctive character of a trademark, like the trademark right itself, should be bound by territorial scope. Accordingly, the recognition of the fame of a trademark should be limited to China; no matter how well known a mark is outside of China, its fame cannot be recognised if the mark has no or only weak fame within China. In this case, the earliest date of use of the square brown bottle in China by Nestlé was accepted as 1992, while Weishida had started its continuous use in 1983. Presently, brown square-shaped

bottles have become one of the public standards for the soya sauce industry. Therefore, the Guangdong High Court issued a final judgment rejecting the appeal and upholding the first instance decision.

### Striking a balance

In practice, 3D marks can be divided into four groups:

- a 3D design that is irrelevant to the product itself (eg, Rolls Royce's 'flying lady' figure);
- the shape of a product's packaging (eg, the soya sauce bottle shape in the present case);
- the shape of the product itself (eg, the shape of Zippo lighters); and
- part of the shape of the product.

Product packaging and the 3D shape of the product itself can also be protectable through a design patent. A design patent has a limited duration of 10 years and, after expiration, the design becomes part of the public domain. This is intended to encourage innovation and to balance the need to protect the public interest against owners' rights.

By contrast, if you register product packaging or the 3D shape of a product as a 3D trademark, protection is granted for an unlimited duration, provided that the mark is renewed. Of course, this would lead to the monopolisation of product shapes and packages by rights owners, while also restricting the public from freely using these designs and harming the public interest. Therefore, to some extent, the 3D trademark system and the design patent system are in conflict. Those countries adopting a 3D trademark system, including China, are therefore prudent towards trademark registrations for product packaging and shapes.

The soya sauce bottle case was the most influential 3D trademark dispute in China. The case sparked broad legal analysis, among which was the assertion that a 3D mark must possess distinctive character, whether by itself or through wide use, in order to be registered in China – and that such use should take place in the Chinese territory.

Another important stand in current legal thinking is that the use of a sign similar to a registered mark does not necessarily lead to infringement. Like fair use in copyright law, a trademark can also be fairly used by a third party; the test is whether the use complies with the principles of honesty and credibility, and whether an unfair goal exists.

One suggestion that has been made to 3D mark applicants is that they should select the most appropriate time to file their application. On one hand, they should not file at a time when the mark is newly designed and has not yet been put into use, or when the mark has been used outside China but not yet within the country. Otherwise, if the mark is refused, the applicant cannot submit sufficient evidence of use to prove the acquired distinctiveness.

However, the applicant should also not file in China when the mark has been in use for a long time; otherwise, it is likely that competitors can claim that the mark has become generic packaging and had entered the public domain, and thus cannot be registered.

In commerce, the collection of effective evidence of use is of high priority. If a 3D mark is difficult to register as a trademark due to its inherent features, some other distinctive elements (eg, words) can be added to the design so as to increase the whole registrability of the mark. This has proved to be a good alternative for many applicants in China. <sup>WTR</sup>

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