

How to succeed in trademark litigation

While litigation as an enforcement tool is on the rise, it should be used sparingly, as it does not suit every case

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A white paper on IP rights protection issued in 2012 by the Supreme People's Court reported a dramatic increase in IP-related litigation. A total of 87,419 cases were lodged in 2012 – a 46% increase on the previous year. Trademark cases accounted for 19,815 of the total number. For many years, enforcing IP rights in China was synonymous with anti-counterfeiting; the current trend in IP rights enforcement is litigation. But why is litigation so popular? What are its advantages? This article advises on initiating, managing and concluding effective trademark litigation in China.

Raid versus litigation: how to choose

The common initial reaction to trademark infringement is usually to lodge a raid action with the local administration for industry and commerce (AIC). A raid is a fast and efficient way to enforce IP rights, especially if its objectives are to seize the infringing goods and impose an injunction. However, an anti-counterfeiting programme consisting of dozens (if not hundreds) of raids may not be the best option in terms of efficiency and deterrence. A good programme should include other types of action, such as cease-and-desist letters, civil litigation and criminal enforcement. Figure 1 illustrates a hypothetical quantitative allocation of efforts.

The key to successful litigation is to launch an action only in the right circumstances. Litigation does not suit every case: it should be used on appropriate occasions, but otherwise avoided.

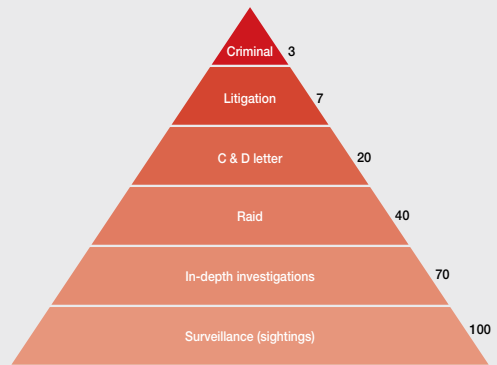


Figure 1. Of 100 cases, 30 are abandoned and 70 are further investigated. Of the 70 investigated cases, 40 are treated with raid actions and 20 with cease-and-desist letters, while only 10 are abandoned. Of the total number of trademark infringement cases, litigation represents 7% and criminal cases 3%. These percentages may vary according to the specific industry and company philosophy

Initiating litigation

An entity should consider litigation when:

- there is a high probability of it being awarded damages compensation (eg, many infringing products were sold and the target has the financial capacity to pay damages);
- it is not possible to execute a raid action (eg, because the AIC refused the case for any reason);
- more than one raid has already been executed, but failed to curtail the infringing activity ; or
- it is convenient to initiate an action in a jurisdiction other than the infringer's

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place of residence (forum shopping is not permitted in administrative actions).

Coordination between administrative and criminal actions

In cases where it is foreseen that litigation will be initiated after a raid has been executed, the plaintiff is advised to proceed with gathering evidence before the raid. Moreover, it is advisable to employ a notary to participate in the raid action, in order to have the raid execution itself formally collected as evidence. Private video footage, photographs and reports might not be accepted by the courts. In such circumstances, the plaintiff can initiate litigation as soon as the notary has issued the deed. It is not necessary to wait for the AIC to finalise the investigation and issue a decision. A similar strategy should be taken into consideration for criminal enforcement.

Jurisdiction and forum shopping

In China, jurisdiction over trademark litigation rests with the people's courts. The criteria under which the plaintiff chooses the court are laid down in Article 21 of the Civil Procedure Law (amended in 2012). The plaintiff can sue the other party either in its place of residence (registered or habitual) or in the place where the infringement occurred. Considering that selling, using, promoting and offering to sell infringing goods all constitute trademark infringement, the plaintiff has considerable flexibility when it comes to court selection. Indeed, notarisation of a promotion or an offer to sell infringing goods taking place in a certain

city allows the plaintiff to launch the litigation before the people's court of that city.

Evidence collection

An important phase of successful litigation is intelligence and evidence collection. The case should be prepared in such a way that the judge can easily compose and draft his or her decision. Each reason should be based on solid evidence. Judges do not like to risk their decisions being challenged and overturned on appeal. Decisions should be grounded on clear facts supported by cast-iron evidence. Any doubt surrounding the facts or weakness in the evidence might cause a judge to issue a decision that fails to meet the plaintiff's expectations.

Gathering evidence is a private activity and differs from evidence preservation carried out by the court. It often requires the participation of a notary public to guarantee the authenticity of the evidence. Evidence collection usually covers the following:

- Plaintiff's identity and documentation – if the rights holder is a foreign company, official documents (including power of attorney, legal representative statement and company registration certificate) must usually be notarised and legalised in the country of origin, or a general power of attorney must be issued to a Chinese entity, which will then issue documents for the specific case.
- Registration certificates – trademarks to be enforced must be registered in China. The protection afforded to unregistered trademarks is limited. If the trademark is a Chinese national trademark, the original registration certificate must be presented to the judge. If the mark is registered via the Madrid System, a local certificate of protection must be submitted for verification. A registration certificate issued by the World Intellectual Property Organisation will not suffice.
- Use and reputation of the allegedly infringed trademark – the longer and more intensively that a mark has been used and the greater its reputation, the wider the scope of protection afforded to it and the higher the damage compensation. Therefore, the plaintiff should not limit itself to submitting only the registration

certificate with the court, but should prepare a file documenting the facts and supporting evidence of use and reputation of the mark in China and abroad. Such a file may include:

- foreign trademark registrations;
- records of foreign protection;
- trademark registration in China in other classes;
- records of protection in China by an AIC or court;
- invoices, contracts and audit documents issued by a certified public accountant in relation to sales in China of products bearing the mark;
- advertising samples, contracts and invoices; and
- details of any awards or prizes won by the product or company.
- Infringers – informal surveillance is generally required to identify the entities involved in infringing activities in China or abroad. Plaintiffs are advised to monitor the target company and retailers' operations, workshops or manufacturing bases, warehouses, distribution channels, logistics and so on.
- Infringement – the plaintiff should provide the court with an original of the product bearing the infringing mark. The acquisition process of the product must be notarised (and legalised if the infringement has occurred abroad). Other evidence of infringement includes the period over which the infringing goods were sold, the territory in which they were sold and the quantity of items sold through such infringing activity. In addition, if the plaintiff can prove that the infringer had actual knowledge of the rights holder, it could demonstrate bad faith or complicity.
- Profit generated via infringement – a primary tool at the plaintiff's disposal is the financial data submitted by the infringer for annual audit (if it is required to do so). Any reports published by the infringer relating to its financial position or sales can help to prove revenue levels, and subsequently profits.
- Defendant's assets – if the litigation succeeds, the defendant's assets will be

used to execute the court decision if it fails to comply voluntarily. Generally, an investigation of the defendant's assets aims to identify properties, bank accounts, commercial credits and the like.

All documents (including electronic documents) created outside of China must be notarised, legalised and authenticated by the relevant Chinese consulate in the country of origin.

It is worth checking any IP rights filed by the infringer. It is not unusual to find that the infringer has filed a trademark in other classes.

Property preservation

As mentioned above, one of the main reasons to initiate litigation is damage compensation. However, obtaining a favourable decision does not automatically mean that the plaintiff will be paid compensation. Indeed, plaintiffs usually face difficulties in executing decision against IP rights infringers. A useful tool to assess this risk is to request the judge to freeze the defendant's assets at the beginning of the litigation. This procedure is called 'property preservation' and is regulated by Article 101 of the Civil Procedural Law. In order to obtain such a measure, the plaintiff must provide the court with a bond, calculated as a certain percentage of the claim (generally between 50% and 70%), at the start of the litigation process.

A positive side effect of successful property preservation is that the target company, deprived of its assets, is often forced to settle the case.

Interim injunction and seizure

In China, interim injunctions are rarely granted before trial. This is mainly due to the fact that AICs follow fast, lean procedures. If a rights holder wants to obtain a quick seizure and injunction, it is better to resort to the administrative authorities, rather than the courts.

Evidence preservation

A useful tool for plaintiffs is evidence preservation. This measure is common in continental Europe and is regarded as a distinctive characteristic of IP law from a procedural point of view. In China, this measure is regulated by Article 58 of the Trademark Law. The plaintiff requests permission from the judge to inspect and acquire evidence before

litigation is initiated or at the beginning of the procedure. The judge grants access to the defendant's premises in order for the plaintiff to conduct a search and identify and collect evidence of any illegal activity. The requesting party must provide the court with detailed preliminary information and evidence. Thus, evidence preservation generally supplements the evidence framework which the plaintiff should already have prepared through private intelligence and evidence gathering.

Bill of complaint

According to the Civil Procedure Law, the document through which litigation is initiated must be filed with a court and not directly served on the defendant. The court's chamber of acceptance examines the bill and, if accepted, issues an acceptance notice. The bill is subsequently served on the defendant.

Market survey and expert opinions

In complex cases where it is difficult to assess whether likelihood of confusion exists, it is possible to consult external experts. These professionals will investigate the market and provide their expert opinion in written form. Generally, judges do not appoint experts in trademark litigation; therefore, it is an *ex parte* decision to appoint and file expert reports as evidence.

Evidence exchange

Although this is not mandatory, judges will usually schedule a term or a hearing before which evidence should be filed with the court. A party is required to file evidence with the court a few days in advance, in order to allow the other party to examine and discuss it at the hearing. Either party can request a further term to file evidence in reply to evidence filed by the other party.

Mediation

Before the trial, the hearing judges are obliged to attempt mediation among the parties. In several cases, mediation is a mere token effort, but in other cases judges seriously push the parties to find a compromise and settle the case. The mediation document is drafted and issued by the court on the parties' agreement. If any party fails to execute or violates the

mediation decision, the other party can resort to compulsory execution.

Likelihood of confusion

When assessing likelihood of confusion, judges mainly focus on the following elements:

- similarity of the signs;
- similarity of the goods or services;
- reputation of the infringed mark; and
- bad faith on the infringer's part.

Trial hearing

The trial hearing is scheduled by the judges and notified to the parties in writing approximately two weeks in advance. The trial hearing allows judges and attorneys to discuss facts and evidence in relation to the legal grounds. The trial hearing can be lengthy – several days in complex cases or those involving a substantial amount of evidence.

Decision

A decision is issued some time after the trial hearing. There is no mandatory timeframe – it generally depends on the complexity of the case. A decision rendered between two Chinese parties (individuals or legal entities) shall be issued within six months of the filing date. If at least one party is foreign, such a term does not apply and thus procedures are longer (generally between one year and 18 months).

Appeal

A dissatisfied party can appeal to a higher-level court within 15 days of receipt of the decision notification (30 days if it is a foreign party). During the appeal, it is possible to file new evidence (not filed at first instance) if it is newly created or is needed to supplement evidence already filed at first instance, or if it was impossible for a good reason to file with the court of first instance. In general, all evidence must be relevant to the decision. ●●●●●

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He won the 2013 Client Choice Award for China – Trademarks, is recommended by the *Legal 500* and is mentioned in the *MIP IP Handbook* as an outstanding IP professional in China.

Mr Giacopello is a member of the International Trademark Association's Anti-counterfeiting Committee (China sub-committee) and was appointed in 2013 as an arbitrator at the Shanghai International Arbitration Centre. He has spoken at several seminars and has lectured on the Chinese and European IP systems at various education institutions and associations.