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Chongqing Zhengtong Drug Industry Co., Ltd. et al. v. Sichuan Huashu Animal Drug Industry Co., Ltd.

Citation: The Supreme People's Court's Administrative Judgment No. Xingtizi 2/2007

Date of judgment: August 31, 2007

Procedural history

In March 2005, the Trademark Review and Adjudication Board (TRAB) made the trademark cancellation decision at the request filed therewith by the Chongqing Zhengtong Drug Industry Co., Ltd. (Zhengtong) for cancellation of the “Toubaoxilin” trademark registered by the Sichuan Huashu Animal Drug Industry Co., Ltd. (Huashu). Dissatisfied with the decision, Huashu sued in the Beijing No. 1 Intermediated People's Court, which upheld the TRAB's decision. Huashu then appealed to the Beijing Higher People's Court, which had reversed the former decision and judgment. Zhengtong and TRAB both requested the Supreme People's Court for retrial of the case.

Issue

1. Whether a sales agent was an “agent” as mentioned in Article 15 of the Trademark Law?
2. Establishment of the legitimate agent relationship
3. Whether the ownership of a commodity name of a trademark owner was changed because of its agent's acts of publicity and use of said name during cooperation between them?

Facts

Zhengtong applied for, and was granted, the regulatory approval by the Chongqing Agricultural Bureau to make and market the animal drug by the generic name “compound potassium penicillin

injection (type I)” and by the commodity name “Toubaoxilin powder injection”. As shown in the label of said drug, the commodity name “Toubaoxilin” was written in a special typeface and size, and was put in a noticeable place therein.

Later, Zhengtong and Huashu concluded the Agreement on Exclusive Sale of “Toubaoxilin” Products, in which it was agreed that Zhengtong authorized Huashu to exclusively market the product of “Toubaoxilin” powder injection nationwide, Zhengtong should not market, and Huashu should not make, said products. If the “Toubaoxilin” was registered or any other IP-related matter should arise, Huashu was to be responsible therefor.

On the package of the products made during their cooperation, the four Chinese characters for “Toubaoxilin” were written in a special typeface and put in a noticeable place thereon, with the size of the characters obviously larger than the other ones. Besides, on said package were indicated the words “Developed by the Sichuan Province Longchang Huashu Animal Drug Industry Co., Ltd., and made by Chongqing Zhengtong Animal Drug Industry Co., Ltd. with the package bearing the registered trademark “Huashu”.

During the cooperation, Huashu applied to the Trademark Office for, and was granted in February 2004, the registration of the mark “头包西林(the Chinese name for “Toubaoxilin”)Toubaoxilin”. Huashu was the mark proprietor.

In January 2004, Zhengtong and Huashu terminated, in writing, their cooperation in connection with “Toubaoxilin” and other products. It was agreed that Zhengtong should no longer make products bearing the device of the “Huashu” indication, and Huashu not make the products bearing “Made by Zhengtong” and its regulatorily approved indication.

In March 2004, Zhengtong applied to the TRAB for canceling the mark. In March 2005, the TRAB decided to have cancelled it on the ground that said mark was contrary to Article 15 of the Trademark Law.

The first-instance court decided to have upheld the TRAB decision, holding that “Toubaoxilin”

was a commodity name coined and first obtained by Zhengtong itself, and was always written in a conspicuous form and typeface and put in a noticeable place on the label or package of the product. It objectively functioned to show the source of the goods as a mark did, so it should be regarded as a non-registered trademark put in use by Zhengtong. The mark in suit and Zhengtong's commodity name "Toubaoxilin" were similar. Zhengtong and Huashu had formed relationship of sales agent. Huashu's act to apply, without authorization, for the registration of the mark in suit similar to Zhengtong's non-registered trademark was contrary to the principle of honest and credibility.

The second-instance court held that while Zhengtong had first obtained the commodity name "Toubaoxilin", the practical user of it was Huashu; hence "Toubaoxilin" should be deemed to be Huashu's non-registered trademark. While the mark in suit and the commodity name "Toubaoxilin" were similar, Huashu had made it a mark by virtue of use of the "Toubaoxilin" commodity name, so its act to apply for registering it as a mark was not contrary to the law provisions. The "agent" mentioned in Article 15 of the Trademark Law referred to a trademark agent attending to matters of application for trademark registration. Huashu and Zhengtong cooperated in making and marketing the products. They were not the agent and mark proprietor as provided for in said Article 15 of the Trademark Law.

In their application for retrial of the case, Zhengtong and the TRAB argued that the "agent" mentioned in Article 15 of the Trademark Law was not limited to trademark agent; an agent might also be a dealer. As an exclusive commodity name first obtained by one party and conspicuously used on the products of the animal drug made by Zhengtong, the name "Toubaoxilin" had become a non-registered trademark by virtue of Zhengtong's actual use of it.

Rule of law

Article 15 of the Trademark Law *Where the agent or representative of a person who is the owner of a mark applies, without such owner's authorization, for the registration of the mark in his own name, if the owner opposes the registration applied for, the application shall be refused, and the use of the mark prohibited.*

Reasoning

1. About the “agent” mentioned in Article 15 of the Trademark Law

The meaning of the “agent” as mentioned in Article 15 of the Trademark Law might be determined in the light of the legislative process and aim of said provision and with reference to the relevant provisions of international treaties.

According to the Explanation of the Draft Amendment to the Trademark Law of the People’s Republic of China made by Wang Zhongfu, Commissioner of the State Administration for Industry and Commerce, at the 19th Meeting of the Standing Committee of the Ninth National People’s Congress, Article 15 of the Trademark Law was made to meet the obligation under Article 6septies of the Paris Convention, and to prohibit agents or representatives from registering other parties’ marks in bad faith. Article 6septies (1) of the Paris Convention provides: “If the agent or representative of the person who is the proprietor of a mark in one of the countries of the Union applies, without such proprietor’s authorization, for the registration of the mark in his own name, in one or more countries of the Union, the proprietor shall be entitled to oppose the registration applied for or demand its cancellation.” The notation of said provision, the general practice of the member states and China’s constant position in its administrative enforcement, the agents and representatives mentioned in Article 6septies of the Paris Convention should be broadly construed as including those in the meaning of special dealership, such as general agents or dealers.

According to the above legislative process and aim, and the provision of the Paris Convention, to cease sales agents or representatives knowing about or using other parties’ mark due to the special dealership from acting in violation of the principles of honesty and credibility to preemptively register other parties’ marks, the agents mentioned in Article 15 of the Trademark Law should not be limited to trademark agents or representatives attending to mark registration application matters, but include those in the meaning of special dealership, such as general (exclusive) dealers or general (exclusive) agents.

2. About whether Zhengtong and Huashu were in an agent relationship

The trade relations between Zhengtong and Huashu were established under the Exclusive Dealership Agreement concluded therebetween. Whether they were in the relationship of agent under Article 15 of the Trademark Law should be determined according to the title of the agreement, and more importantly, in the light of the legal character of the contents thereof. It was an agreement on making and marketing the “Toubaoxilin” powder injection products, though focused on the marketing. It was expressly agreed that “Zhengtong authorized Huashu to exclusively market the product of ‘Toubaoxilin’ powder injection nationwide; Zhengtong should not market, and Huashu should not make, said products”. Under the agreement, the two parties had entered into a relationship equivalent to exclusive dealership under which Huashu was an exclusive dealer, so it was possible to be determined that Huashu was a sales agent in the sense of Article 15 of the Trademark Law.

3. About the ownership of the commodity name “Toubaoxilin”

The commodity name “Toubaoxilin” in suit was one particular to a drug Zhengtong had first obtained by way of regulatory approval. It was only agreed that, under the Agreement between Zhengtong and Huashu, Huashu could use, together with Zhengtong the commodity name “Toubaoxilin”, and its act to publicize and use said commodity name was one to execute the Agreement. The agreement, under the Agreement that “when the Agreement expired or was terminated before the date of expiry, Zhengtong would go on making and marketing the products, and cancel Huashu’s exclusive right of sale, but it could not continue to use the “Huashu” mark”, and “Huashu not make the products bearing ‘Made by Zhengtong’ and its regulatorily approved indication when the two put the Agreement to an end showed that after the relation of cooperation ended, the regulatory approved signs, including the commodity name of “Toubaoxilin”, were still to be owned by Zhengtong. While Huashu’s acts to use, publicize and promote it during their cooperation objectively enhanced the distinguishability of the commodity name of “Toubaoxilin” or the commodity name objectively indicating the source of the goods was the result of the Huashu’s special efforts made to advertise and market the goods, Huashu secured contractual consideration therefor. These acts performed under the Agreement might substantially be deemed to be Zhengtong’s special act to use the commodity name; the resultant facts and states did not necessarily altar the ownership of the right in the commodity name in suit. In other words, Huashu’s act to prac-

tically use the mark under the Agreement was not the legal fact that the ownership of the commodity name was changed. Accordingly, the ownership of the commodity name “Toubaoxilin” in suit was not changed because of Huashu’s acts of publicizing and using it in the course of their cooperation. It went to Zhengtong again after their cooperation came to an end.

Holding

1. The “agent” mentioned in Article 15 of the Trademark Law should be broadly construed. It should not be limited to agents or representatives attending to matters of application for trademark registration; it also included those in the sense of general dealers or general agents.
2. Zhengtong and Huashu were in an agent relationship.
3. Zhengtong’s ownership of the commodity name “Toubaoxilin” did not change because of Huashu’s acts of publicizing and using it during their cooperation. It went to Zhengtong again after their cooperation came to an end.