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Sichuan Province Yibin Qijiu Liquor Brewery v. Sichuan Province Shehong County Tuopai Leavened Liquor Brewery

Citation: The Supreme People's Court's Civil Judgment No. Zhizhongzi 2/2007

Date of judgment: June 16, 1998

Procedural history

The Sichuan Province Shehong County Tuopai Leavened Liquor Brewery (Tuopai) and other ten entities sued the Sichuan Province Yibin Qijiu Liquor Brewery (Qijiu) in the Sichuan Province Higher People's Court on the ground that the latter's registration of the trademark in suit in bad faith constituted an infringement. In the first-instance judgment it was decided that Qijiu had applied for the trademark registration in bad faith and abused the exclusive right to use the trademark, and Qijiu was liable for paying the 11 companies in compensation of their economic losses. Qijiu appealed to the Supreme People's Court.

Issue

Should a trademark proprietor be held liable for damages for its previous enforcement of the trademark right after the registration of said mark was cancelled?

Facts

Qijiu filed an application for registration of the word mark "Qi" (literally meaning "Chinese wolfberry") to be used in respect of its liquor products. In the forms of application for the trademark registration, Qijiu did not fill in "Chinese wolfberry" in the place indicating the main raw material. In May 1994, said mark was registered.

Before Qijiu's application for the registration of the word mark "Qi" in suit, the plaintiffs in the first-instance trial of the present case did neither make/market the "Qi wine", nor use the Chinese character "Qi" for their liquor products made of Chinese wolfberry, nor use the Chinese characters "Qi liquor" or "Qi" in advertising their wine or liquor goods.

Right upon the registration of the word mark "Qi", Qijiu brought an infringement action against the Tuopai's act to market the "Tuopai Qi liquor" using the name "Qi liquor" in the Yibin Prefecture Intermediate People's Court. Tuopai and the other 10 entities argued that Qijiu's act of reporting to, and requesting, the commercial and industrial administrative authorities for investigating and handling the case, or sending people to or writing to them or compelled them to stop their making and marketing the liquor made of Chinese wolfberry, and destroy the package and representations, and in this way it inflicted damage to them respectively.

In August 1994, the Chengzhong Branch affiliated to the Chengdu City Sugar and Liquor Corporation, Sichuan Province filed, with the Trademark Review and Adjudication Board (TRAB) of the State Administration for Industry and Commerce, the Application for Cancellation of Mark Registered by Unfair Means directed to the word mark "Qi". In August 1995, the TRAB made the final adjudication, holding that use of the "Qi" mark had direct reference to the main raw material of the goods (the main ingredients, regardless of the quantity). Accordingly, said mark as one used in respect of liquor was devoid of distinctive character, and should be cancelled.

The first-instance court noted that Qijiu applied for registration of the word mark "Qi", and withheld the fact that the "Chinese wolfberry" was the substantial preparation of "Chinese Qi Liquor" when it filed the application and secured the registration by deceptive means. Right upon being granted the trademark registration, Qijiu claimed damages from the manufacturers and sellers of the liquor made substantially of Chinese wolfberry; hence, it abused the exclusive right to use the registered mark, impaired the legitimate rights and interests of the manufacturers and sellers of the goods in identical class, and disrupted the normal economic order; it had acted in bad faith intentionally, so it should be held liable for damages. The court ruled for it to pay the damages amounting to RMB over 5.64 million yuan.

Rule of law

Rule 25 of the Implementing Regulations of the Trademark Law as of 1995 *The following shall be such acts as referred to in Article 27, paragraph one, of the Trademark Law, which are committed in acquisition of a trademark registration by fraud or any other unfair means:*

(1) to fabricate or withhold the truth or forge an application and the related documents in the registration; ... (5) to use any other unfair means to acquire a registration.

Where a registered trademark had been cancelled according to paragraph one and paragraph two of Article 27 of the Trademark Law, the exclusive right to use it shall be deemed not to have existed from the very beginning. Where a registered trademark has been cancelled according to a decision or adjudication, there shall not be any force retroactive to any such judgment or adjudication on any trademark infringement case as made and enforced by the people's court or in any such decision as made and enforced by the administrative authority for industry and commerce and in any such trademark assignment or trademark license contract as performed prior to said cancellation. But, if the bad faith of the trademark registrant has caused damages to any other party, damages shall be imposed therefor.

Reasoning

Before applying for the registration of the “Qi” word mark, Qijiu was the first to have made and marketed the Qi liquor, which made the liquor reputable to an extent. It decided to apply for registering the Chinese character “Qi” as a mark when no one else had made or marketed the products of the kind in the marketplace to prevent counterfeit or confusion. The TRAB cancelled the “Qi” word mark on the ground that use of the Chinese character “Qi” on the nutritious liquor would only result in consumers’ association with the Chinese wolfberry. For that reason, the Chinese character “Qi” used as a mark on the nutritious liquor directly showed the main raw material of the goods, and it did not possess distinctive character. In the TRAB’s adjudication was not stated the bad faith in which the registrant had applied for the registration of the word mark “Qi”.

While Qijiu withheld the fact that it would use the word mark “Qi” mainly in the nutritious liquor and Chinese wolfberry was the main raw material of the product, when applying for the registra-

tion thereof, its act was not measures taken to inflict injury to the interests of any other specific businesses in bad faith, so it was undue to establish that it had acted “in bad faith” by applying the relevant provisions of the Regulations for the Implementation of the Trademark Law. Under the provision of Rule 25 thereof that where a registered trademark had been cancelled according to a decision or adjudicating, it should not be retroactive to any such judgment or adjudication on any trademark infringement case as made and enforced by the people’s court or in any such decision as made and enforced by the administrative authority for industry and commerce, the Yibin Prefecture Intermediate People’s Court’s mediation award had taken effect and been enforced, and the relevant decision made by the commercial and industrial authority on dealing with the former plaintiffs were also effective and enforced; hence the TRAB’s decision on cancellation of the word mark “Qi” was not retroactive to said mediation award and decision.

Since no other party made or marketed or advertised the “Qi” brand liquor in the marketplace when Qijiu applied for registration of the mark in suit, it was impossible for the registration to inflict losses to any other party. While Tuopai et al. suffered some losses later on, the losses were not directly caused by Qijiu’s registration application, but by their own failure to request cancellation of said mark in a timely manner, and their blind production of the products of the Chinese wolfberry liquor at the time after the “Qi” word mark was registered as a mark.

Holding

Qijiu’s application for the registration of the mark in suit was not in bad faith. The first-instance judgment established that Qijiu had applied for the registration in bad faith and it was liable for the damages due to the appellants was not sufficiently based on the facts and law, and should be reversed.