

## **New Balance's Lessons on Trademarks in China**

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On June 16, 2016, the Guangdong High People's Court made its final ruling on the trademark lawsuit between New Balance Trading (China) Co., Ltd./新百伦贸易（中国）有限公司("New Balance") and Zhou Lelun/周乐伦 (the plaintiff). The High Court sustained the first-instance Court's main conclusions below:

1. New Balance shall cease infringement on Zhou Lelun's registered trademarks "百伦 (Bailun)" No. 865609 and "新百伦 (Xin Bailun)" No. 4100879;
2. New Balance shall make an online declaration to clear the influence (i.e., an apology of sorts);
3. An associated company of New Balance, (Guangzhou Sheng Shi Chang Yun Trading Chain Co., Ltd./广州市盛世长运商贸连锁有限公司) shall stop selling the trademark infringing goods; and
4. New Balance shall pay damages of RMB5 million to Zhou Lelun.

As an international giant, New Balance's loss in this trademark case in China has attracted wide scale attention. From the perspective of a Chinese trademark legal practitioner, we hope to summarize the lessons found in New Balance's case for the benefit of other foreign companies doing business in China.

- **Lesson One: File trademark applications in China as early as possible .**

From the ruling we can take note that New Balance initially used the trademark "新百伦 (Xin Bailun)" in 2003 and has used the same trade name since 2006, whereas the plaintiff initially used the trademark in 2007, later than that of New Balance. If this case had happened in the USA, a first-to-use jurisdiction, New Balance could likely have been the winner because of its earlier use of the mark.

Unfortunately, this case happened in China, a first-to-file jurisdiction, where earlier use carries much less weight. Instead, an earlier filing date often plays the decisive role in determining the trademark ownership. Moreover, China has no use requirements to keep a trademark valid unless a registered mark is requested for three-consecutive-year non-use cancellation.

From the filing history of the two parties concerned, we can also note that Zhou Lelun and his related entity filed an application for the mark “百伦 (Bailun)” No. 865609 on “footwear”, etc. in class 25 on August 25, **1994** and filed the mark “新百伦 (Xin Bailun)” No. 4100879 on “footwear, boots, slippers, T-shirts, clothing, leather clothing, socks, necktie, belts for clothing, and sports jerseys” in class 25 on June 4, **2004**.

On the other hand, New Balance filed the mark “新百伦 (Xin Bailun)”, No. 5608740, in class 25 on September 15, 2006, more than two years later than Zhou Lelun, and encountered partial rejection. In addition, New Balance also filed the same mark No. 4213560 on “advertising and sales promotion services”, etc. in class 35 on August 10, 2004, also later than Zhou Lelun’s filing date, not to mention the irrelevance between the goods and services in the different classes.

Legally, Zhou Lelun was in a decisively advantageous position over New Balance in terms of the filing date. Pursuant to the Chinese Trademark Law, there is no denying that New Balance’s use had constituted trademark infringement. Accordingly, we can learn the first lesson—**Whenever possible, foreign companies should always consider filing trademark applications in China at as early a date as possible.**

- **Lesson Two: Conduct trademark searches before use and/or application.**

Trademark resources are relatively limited. People usually select elements of words or designs carrying positive connotation or implications as a priority. If such positive trademarks are not available, people will be forced to select neutral elements. Certainly, people often try to avoid elements carrying negative connotation or implications. Once an element has been selected, used and applied for by a party, other parties are obliged to avoid using the same or similar elements on the same or similar goods or services to avoid confusion or conflict. In other words, the later comer should be forbidden to use or apply for the same or similar elements on the same or similar goods or services.

In China, once a trademark is registered, the owner shall enjoy the exclusive right thereto. Other parties are not allowed to use the mark without the owner’s

authorization; otherwise the unauthorized use of the same or similar goods or services might cause confusion and constitute infringement of the registered trademark.

In this case, New Balance should have found, in advance, Zhou Lelun's prior registrations and applications through trademark searches and avoided using the mark “新百伦 (Xin Bailun)” on the similar goods “shoes” unless Zhou Lelun had granted consent. In fact, New Balance had indeed noted Zhou Lelun's trademark “新百伦 (Xin Bailun)” and duly filed an opposition, but had done so unsuccessfully. New Balance also requested a non-use cancellation of the same mark, but was unsuccessful yet again. When the opposition or cancellation failed, New Balance should have immediately stopped using the trademark to minimize the potential to be sued for damages. However, for unknown reasons, New Balance continued to use the mark and gave Zhou Lelun an opportunity and evidence to petition for damages.

For other companies, Chinese or foreign, it is always advisable to conduct prior trademark searches to ascertain the availability of one's own mark before using or applying it. If such obstacles are found, the companies should immediately avoid conflict or possible loss.

Before filing an application, it is usually advisable to search the Chinese Trademark Register, the official database for looking up prior pending applications or registered trademarks. If no obstacles are found, the company can then proceed to file an application.

Nevertheless, during the course of examination, the Chinese Trademark Office's examiners may hold different views about the issue of similarity and cite some prior marks. In addition, the aforesaid Register can only reveal the prior same or similar marks in its database. Problems may possibly arise from other, prior-attained rights, including but not limited to:

1. Prior trademarks influential or well-known in mainland China, but not applied for or registered;
2. Prior copyright;
3. Prior industrial design;
4. Prior personal names, portraits, images; and/or
5. Corporate names or trade names.

If such problems arise, the company should appraise the situation carefully before continuing to use the trademark.

**Lesson Three: Design a trademark in the Chinese language.**

Needless to say, Chinese consumers are generally more comfortable with trademarks in the Chinese language. As a result, most international companies design and file Chinese marks before they do business in China. Although New Balance is well known for its English brands NEW BALANCE and NB LOGO, it needs a Chinese mark to help the Chinese consumers remember and accept its products. This has been well reflected in the battle between the two parties concerned, which focused on the Chinese mark “新百伦 (Xin Bailun)”.

Usually, a Chinese version can be designed on the basis of the original Latin concept, the pronunciation, or in a manner combining the two. The mark in question is actually a mixed conversion. The term “new” is translated directly, whereas “balance” is transliterated, though the last syllable of “balance” is silent.

It is highly advisable for international companies to consult a trademark counsel’s opinions on the Chinese versions before officially launching a Chinese brand. Of course, as mentioned above, it is a good idea to conduct prior search and file application(s) for the Chinese version at an earlier date.

#### **Lesson Four: Design around the problem or seek other feasible solutions.**

When New Balance was faced with the obstruction of the plaintiff’s mark and its efforts to remove the obstruction failed, it was always an option to design around it. To be frank, the original, Latin mark could have been converted into numerous valid Chinese versions. When a particular obstacle cannot be overcome in any event, it behooves one to consider alternative solutions as these other options might also prove to be feasible and available. There is no need to pursue one option and one alone, especially when there is a very real financial and legal risk associated with it.

We hope that New Balance can recover from this setback soon. At the same time, New Balance’s lessons will be helpful to other companies to make the sound trademark strategies in China in order to achieve their business goals.