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Wuhan Silver Shark Leisure Products Co., Ltd. et. al. v. Harrow Street, Ltd.

Citation: The Supreme People's Court's Civil Judgment No. Minsanzhongzi 1/2005
Date of judgment: September 3, 2007

Procedural history

The Harrow Street, Ltd. sued, in the Beijing Higher People's Court, the Wuhan Silver Shark Leisure Products Co.,(WSS), Parkson Commerce Development In., (Parkson), Beijing City Xidan Department Store Co., Ltd. (XDS), Hong Kong Fuwen International Investment Co., Ltd. (Fuwen), and Zhongyi Hualian Co., Ltd. (Zhongyi Hualian) for infringement of its exclusive right to use its trademark and for unfair competition. It was ruled in the first-instance judgment that WSS, Parkson and XDS infringed the trademark right. Dissatisfied with the judgment, they appealed to the Supreme People's Court.

Issue

Non-infringement defence based on a license contract in trademark infringement litigation

Facts

Harrow Street had the proprietary right in trademark (No.341629) "MAUI and Sons and the round device" registered in goods of swimsuit and T-shirt in class 53, and then altered the goods into class 25 of the international classification. Besides, it was also granted registration of 16 more marks.

On August 1, 1995, Harrow Street concluded a trademark contract with Fuwen, licensing it to use the series of "MAUI and Sons" marks and trade names in mainland China and agreeing that Fuwen might sublicense for production of the licensed products. The contract was valid from July 1, 1995 to December 31, 1998.

On December 26, 1996, Fuwen licensed the series of "MAUI and Sons" marks and the franchised product right to Zhongyi Hualian.

On April 15, 1998, Zhongyi Hualian produced the written authorization, authorizing the Wuhan Moyi Leisure Products Co., Ltd. (Moyi) to exclusively deal in, under the franchise contract, the series of "MAUI and Sons" brand garments and apparel.

On April 29, 1998, Harrow Street notified Fuwen of terminating the authorization for its failure to pay the royalties for the licensed marks under the contract.

From May 1, 1998 to July 1, 2000, XDS concluded, with Moyi, five Joint Operation contracts, and on March 1, 2000, it also concluded a joint venture agreement with Moyi.

According to the plaintiff's complaint, the Beijing Xicheng District Industry and Commerce Branch Bureau seized and detained the goods bearing the "MAUI and the device" mark marketed by Parkson until March 3, 2000.

In June 2, 2000, Moyi changed its name into the Wuhan Silver Shark Corporation.

In July 2000, Harrow Street sued in the Beijing Higher People's Court, alleging that after writing to Fuwen notifying it of terminating the licensing contract, Fuwen put, through Zhongyi Hualian, WSS up to set up special stores in the venue of Parkson and XDS to sell the garments and sports products bearing the series of the "MAUI and Sons" marks, and the act infringed its exclusive right to use the registered marks. Meanwhile, Harrow Street also presented evidence of the goods it obtained in July 2007 from the special counters at XDS and Parkson.

The first-instant court found the accusation that Fuwen and Zhongyi Hualian had infringed the marks untenable, and also determined that the written authorization from Zhongyi Hualian on April 15, 1998 was not valid, and the acts of WSS, Parkson and XDS infringed the plaintiff's exclusive right to use its marks.

Rule of law

Article 26, paragraph one, of the Trademark Law as of 1993 *A trademark registrant may, by concluding a trademark licensing contract, authorize another person to use its registered trademark.*

Article 38 *Any of the following acts shall be an infringement of the exclusive right to use a registered trademark:*
(1) using a trademark which is identical with or similar to the registered trademark in identical or similar good without authorization from the owner of that registered trademark;
(2) selling goods, where one clearly knows they bear a passed-off registered trademark;
(3) Counterfeiting, or making without authorization, representations of the registered trademark of another person or selling representations of a registered trademark which are counterfeited or made without authorization;
(4) harming, in other ways, another person's exclusive right to use a registered trademark.

Rule 41 of the Regulations for the Implementation of the Trademark Law as of 1993 *Any of the following acts shall be an infringement of the exclusive right to use a registered trademark as provided for in Article 38(4) of the Trademark Law:*
(1) dealing in the goods that one knows or should know have infringed another person's exclusive right to use a registered trademark;
(2) using any word or device identical with or similar to another person's registered trademark in respect of identical or similar goods as the name or trade dress of the goods, which is sufficient to cause mis-identification;
(3) intentionally providing facilities for storage, transportation, mailing, and concealment for an act of infringement of another person's exclusive right to use a registered trademark.

Reasoning

Whether WSS had infringed the exclusive trademark right should be determined by making examination as to whether its act was lawfully licensed.

Under the licensing contract it concluded with Harrow Street, Fuwen secured the exclusive license

and the right to sub-license the products covered in the contract (it might sub-license the products). After that Fuwen sub-licensed Zhongyi Hualian, which sub-licensed WSS, the series of licenses were all exclusive ones. Harrow Street, Fuwen and Zhongyi Hualian did not make and market the products. Without subsequent sub-licenses, Harrow Street could not be able to make benefits from the licensing. From Harrow Street's act to send the notification on termination of the license to Zhongyi Hualian and WSS in April 29, 1998 at their places of registration, it might be assumed that Harrow Street was aware of the acts performed by Zhongyi Hualian or WSS, and it did not object to the series of licensing before notifying Fuwen of the termination of the licensing contract. Therefore, the acts of series licenses should be established as valid. Even if Harrow Street asserted that Fuwen did not have the right to sub-license, Fuwen's licensing contrary to the contract was also one of breach of contract, not an infringement.

The licensing agreement concluded between Harrow Street and Fuwen was valid between August 1, 1995 to December 31, 1998; that between Fuwen and Zhongyi Hualian between December 26, 1996 and December 31, 2003; and that between Zhongyi Hualian and WSS between April 15, 1998 and April 14, 2003. The term of latter two licensing agreements, in excess of the former one, should be established as invalid. The term of the licensing agreement between Zhongyi Hualian and WSS be established as between April 15, 1998 and December 31, 1998.

Under the lincensing agreement, WSS had 180 days to sell out the goods still in stock after December 31, 1998. Meanwhile, the period of time in which the Xicheng District Industry and Commerce Bureau seized and detained the goods bearing the "MAUI and the device" marks (from February 2, 1999 to March 3, 2000) should be deducted from the term of the licensing agreement. That was, the term thereof should be extended to August 3, 2000. During this period, WSS's making, and Parkson's and XDS's marketing, the licensed products did not constitute infringement of the trademark.

Holding

The WSS's act to make the licensed products with authorization did not constitute an infringement due to Harrow Street's knowledge of the act, and Parkson's and XDS's marketing during the term of the licensing did not constitute an infringement, either.