
China: Despite Appeal Decision Reducing Damages Award, New Balance Loss Emphasizes Key Strategic Points for Brand Owners

Zhou Lelun v. Xin Bai Lun Trading (China) Co., Ltd., 2015 Yue Gao Fa Min San Zhong Zi No. 444 (Guangdong Higher People's Court, June 16, 2016)

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In September 2015, [our earlier article](#) reported that the Chinese subsidiary of New Balance Athletic Shoes, Inc. (Xin Bai Lun Trading (China) Co., Ltd., hereinafter “New Balance”) was ordered by the Guangzhou Intermediate People's Court to pay approximately US\$15 million—which some commentators have since noted to be the highest damages award ever granted by that court—to an alleged trademark hijacker named Zhou Lelun (hereinafter “Zhou”). See *Zhou Lelun v. Xin Bai Lun Trading (China) Co., Ltd.*, 2013 Hui Zhong Fa Min Chu Zi No. 547 (Ghangzhou Interm. People's Ct., April 21, 2015). In that case, Guangzhou shoe manufacturer Zhou successfully sued New Balance for using his registered 新百伦 (XIN BAI LUN in Chinese) mark, obtaining the above damages, a favorable injunction, and an order that New Balance publish relevant clarifications.

New Balance appealed, and on June 23, 2016, the Guangdong Higher People's Court affirmed the trial court's decision regarding trademark infringement but reduced the awarded damages from US\$15 million to around US\$800,000. *Zhou Lelun v. Xin Bai Lun Trading (China) Co., Ltd.*, 2015 Yue Gao Fa

Min San Zhong Zi No. 444 (Guangdong Higher People’s Court, June 16, 2016). This second instance judgment is final and currently effective, although New Balance could further seek a retrial before the Supreme People’s Court (SPC).

The case stems from New Balance’s adoption of 新百伦 (XIN BAI LUN in Chinese) as a Chinese “translation” and transliteration of its registered NEW BALANCE mark (“新” is the Chinese word for “new” and “百伦” is the transliteration of “balance”), for which it claimed use since 2003. Zhou claimed infringement based on his 1996 registration for 百伦 (BAI LUN in Chinese) and a 2008 registration for 新百伦 (XIN BAI LUN in Chinese) both covering “shoes,” among other goods, claiming use of these marks since 2005 and 2007, respectively, in connection with shoes.

Notably, in 2007, New Balance had opposed Zhou’s application to register 新百伦 (XIN BAI LUN in Chinese), but its claims were rejected in 2011. New Balance did not take additional steps to fight Zhou’s registration of this mark, such as seeking review of the opposition decision or filing a first-instance administrative litigation action (which would have been appealable in a second-instance administrative litigation action).

Local practitioners familiar with the trial opinion suggested that New Balance should have emphasized prior use as its primary defense. Additionally, some speculated that New Balance’s rights may not have been sufficiently supported with admissible, notarized evidence. And they generally agree that New Balance’s failure to continue fighting Zhou’s registration and use became a key issue, as the trial court noted that New Balance was aware of Zhou’s mark due to the prior unsuccessful opposition.

On appeal, New Balance raised several defenses, all of which were refuted by the court.

New Balance claimed that Zhou did not use his registered trademarks, so there was no likelihood of confusion. But the court disagreed, finding that the evidence on record could show trademark use by Zhou’s family enterprises and licensee.

Additionally, New Balance claimed prior trade name rights to the three Chinese characters 新百伦 (XIN BAI LUN in Chinese). But the court found that New Balance’s December 27, 2006 company registration was later in time than the filing dates of Zhou’s two registered marks (August 25, 1994 and June 4, 2004, respectively).

New Balance's prior use defense also failed for similar reasons, namely, because the court did not find sufficient evidence in the record to establish use by New Balance before Zhou's trademark filing dates, and the court also did not find sufficient evidence to show that New Balance had established the relevant claimed reputation in the mark. For essentially these same reasons, the court refused New Balance's counterclaim grounded in unfair competition, which claimed prior use and reputation of 新百伦 (XIN BAI LUN in Chinese).

For similar reasons, the court did not find that Zhou acted in bad faith, given Zhou's earlier registered rights and that the record did not establish New Balance's prior use or relevant rights. Also, in refusing to find bad faith, the court took into account that 新百伦 (XIN BAI LUN in Chinese) was not the only phonetic or meaningful Chinese translation or transliteration of NEW BALANCE, something the trial court had also pointed out.

New Balance also raised the defense that their use of 新百伦 (XIN BAI LUN in Chinese) was a fair use of their company name. But the court held that the full name of the company, New Balance Trading (China) Co., Ltd., was not used, and that the abbreviated version that was instead used was not an appropriate use of a company name, and thus would cause a likelihood of confusion with Zhou's marks.

Finally, New Balance argued that its Class 35 registration for 新百伦 (XIN BAI LUN in Chinese), covering advertising and sales promotion for others, insulated their activities from a claim of trademark infringement. The court held, however, that New Balance's activities were for their own purposes, not undertaken for others, so the infringing behavior did not constitute "use" of the mark covered by the Class 35 registration.

The court's decision to significantly lower the amount of damages in this case is only somewhat encouraging, in that New Balance still lost on the merits in a trademark infringement claim, and accordingly New Balance remains prohibited from using its Chinese-language mark in China. Thus, overall this decision still highlights the practical importance of (i) carefully clearing and adopting a Chinese translation or transliteration of a mark, no matter how famous, and doing so as soon as possible; (ii) registering alternative translations/transliterations, even as merely a defensive measure; and (iii) taking all available steps to stop use of or invalidate registration(s) of an important competing mark beyond a failed opposition or other first-instance decision.

Primary Contacts

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