
China: New Balance Loss Emphasizes Key Strategic Points for Brand Owners

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)

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On April 21, 2015, 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, representing 50% of profits since 2011, to an alleged trademark hijacker named Zhou Lelun. In *Zhou Lelun v. Xin Bai Lun Trading (China) Co., Ltd.*, a Guangzhou shoe manufacturer 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. A key unsuccessful defense for New Balance was that it used 新百伦 (XIN BAI LUN in Chinese) as a necessary 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.")

Commentators already have criticized the damages award as unjustifiably large, and cited this case as yet another example of a Chinese trademark squatter using China's "first-to-file" practice to hold up a foreign brand owner, as in recent high-profile matters involving Australian winemaker Treasury Wine Estates, French winemaker Castel Frères, and American car maker Tesla.

As background, New Balance owned a 1983 Chinese registration for NEW BALANCE covering “shoes,” while Zhou owned a 1996 registration for 百论 (BAI LUN in Chinese) and a 2008 registration for 新百伦 (XIN BAI LUN in Chinese) both covering “shoes,” among other goods. New Balance claimed use of the Chinese characters 新百伦 (XIN BAI LUN in Chinese) with its products and as a company name since 2003. On June 4, 2004, Zhou applied to register 新百伦 (XIN BAI LUN in Chinese) for “clothing and shoes,” among other goods. Zhou claimed use of 百论 (“BAI LUN” in Chinese) since 2005, and of 新百伦 (XIN BAI LUN in Chinese) since 2007, with shoes. In 2007, New Balance 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 to a second-instance administrative litigation action).

In 2013, Zhou sued New Balance for trademark infringement and eventually won, as the court recognized his ownership of a valid Chinese trademark registration for 新百伦 (XIN BAI LUN in Chinese) and at the same time did not consider 新百伦 (XIN BAI LUN in Chinese) to be a necessary translation or transliteration of the NEW BALANCE mark, going so far as to state that the proper translation of the English name should have been a different Chinese phrase 新平衡(XIN PING HENG in Chinese).

In its defense, New Balance had claimed that (i) its use of the disputed mark was out of good faith, not based on copying; (ii) its use of the disputed mark did not infringe on Zhou’s trademark rights/cause confusion or likely confusion; (iii) the disputed mark was the name of an entity owned by New Balance and well-known products offered by New Balance; (iv) New Balance’s prior use of the disputed mark did not infringe Zhou’s later registration; (v) Zhou’s registration was preemptive in nature and should not be a basis for an infringement action against a prior user of New Balance; and (vi) Zhou’s claims lacked merit and should not be the basis for awarding him large profits through litigation. In support of its defenses, New Balance submitted, inter alia, its trademark registration for NEW BALANCE in Class 25, various reports, newspapers, and periodicals showing prior use of the disputed mark by New Balance, documentation of its local entity name filing, judicial decisions by government authorities stating that

NEW BALANCE was a well-known mark, and seizure decisions and notifications by government authorities stating that the disputed mark was used with New Balance's well-known products.

Local practitioners familiar with the opinion have stated that New Balance should have emphasized prior use as its primary defense. Additionally, local practitioners have speculated that New Balance's rights in the disputed mark as a name of a well-known product or local business, and as a translation of the English NEW BALANCE mark, may not have been sufficiently supported with admissible, notarized evidence. Further, commentators generally agree that New Balance's failure to continue fighting Zhou's registration and use became a key issue, as the court noted that New Balance was aware of Zhou's mark due to its earlier unsuccessful opposition.

New Balance has filed an appeal to the Higher People's Court in Guangdong. This decision highlights, however, 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 decision of first instance.

Primary Contacts

Ashford Tucker