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On 23 June 2016, the Guangdong Higher People's Court handed down its long-awaited judgment in the New Balance/新百伦-case. In its judgment, the Court upheld the finding of trademark infringement by New Balance, but reduced the damages granted in first instance from RMB 98 million by nearly twenty-fold, to 'only' RMB 5 million (approximately USD 750,000). This judgment comes in the wake of the Castel judgment handed down by the Supreme People's Court, which reduced the damages granted by a lower court in a somewhat similar case of opportunistic trademark filing by a local Chinese entity. The New Balance judgment was long-awaited, because the damages that New Balance was ordered to pay in first instance were seen by many as excessive, and as a further incentive for trademark squatting in China.

Background

Zhou Lelun, a local shoe manufacturer from Guangdong, Southern China, initially sued New Balance for infringement of Zhou's "新百伦" ("Xin Bai Lun") and "百伦" ("Bai Lun") trademarks. Those marks were formerly used by New Balance as its Chinese brand and trade name.

The Guangzhou Intermediate Court found that New Balance's unauthorized use of the 新百伦" mark constituted bad faith trademark infringement, and, consequently, awarded Zhou record damages amounting to RMB 98 million (i.e. half of New Balance's profits obtained while using Zhou's trademarks). For more details on the first instance judgment, please refer to our article "New Balance ordered to pay RMB 98m in damages to alleged hijacker".

Appeal decision

Upon appeal, the Guangdong Higher People's Court upheld the lower court's finding of trademark infringement and maintained its injunction, but reduced the damages to 'only' RMB 5 million. The Higher Court motivated its decision as follows:

- Zhou did not provide any direct evidence of his losses caused by the use of his trademarks by New Balance.
- The court also held that granting half of the profits New Balance obtained while using Zhou's trademarks was wrong, because not all of New Balance's profits could be attributed to the use of the "新百伦" mark. Those profits were also attributable to New Balance's own marks and to the intrinsic quality of its products. Specifically:
  - In its product description and promotional materials, New Balance consistently used the "新百伦" mark in combination with its own "N", "NB" and "New Balance" marks.
  - Given New Balance's size, scope of business and reputation, and given the superior quality of its products, the goodwill in the "N", "NB" and "New Balance" marks carried more weight than the Chinese "新百伦" mark when consumers decided to purchase New Balance products.
- The Court then held that it must grant reasonable damages, at an amount higher than the highest statutory damages (i.e. RMB 500,000, under the former Trademark Law, applicable to this case) because New Balance's own evidence showed that the use

of the "新百伦" mark resulted in a profit of at least RMB 1.45 million.

- On the basis of these elements, the Court fixed damages at RMB 5 million and found:
  - willful infringement of Zhou's trademarks: New Balance continued to extensively use the "新百伦" mark even after losing its opposition procedure against that mark;
  - Zhou suffered losses arising from New Balance's infringement;
  - New Balance infringed Zhou's marks on a large scale: New Balance had large sale volumes and over 800 brick-and-mortar and internet stores in China.
  - New Balance's infringement took place over several years (July 2011 to February 2014); and
  - Zhou's had to make considerable expenses for the enforcement of his rights.

Conclusion

The main point of interest in this case is the guidance from the Higher Court on damages calculation for trademark infringement, which, in China, typically varies widely from case to case and court to court.

In the case at hand, both the first instance and the appeal courts held that New Balance committed willful infringement, and also took into account the scope and actual use of the marks. However, the essence of the appellate court's decision was its finding that not all of New Balance's profits were directly linked to New Balance's unlawful use of the "新百伦" mark. This was one of the most contentious points in the case.

According to the appellate court, the plaintiff bears the full burden of proof regarding the amount of damages. However, by referring to a third party audit report submitted by New Balance itself, the Court seemed to hint that such reports could be acceptable evidence of the extent of profit connected to the use of an infringing mark.

This judgment comes with a sigh of relief for both right owners and the China IP practice, which generally saw the record damages granted in first instance as excessive, especially given the factual background of the case. Similar to the Supreme People's Court's Castel judgment, the Guangdong Higher People's Court seems to be willing to reduce the incentives for and financial gains of trademark squatting or IPR grabbing (as was arguably the case here).

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