



Nikita Xue

# Reluctance to reveal evidence causing negative legal consequences

Nikita Xue, HongFangLaw, discusses the China Supreme People's Court's Sustention on trademark infringement by 3N against 3M with USD \$53,000,000.00 monetary compensation.

**M**innesota Mining & Manufacturing Company, known as 3M, has finally announced an end to their civil lawsuit from March 2016 against a local Chinese company at the China Supreme People's Court ("SPC"). The key claim was that the "3M" registered trademarks were being infringed by Changzhou Hua Wei Advanced Material Co. Ltd. through production of a kind of retro-reflective film for automobile by using the trademark of "3N". This claim was supported by the courts. The battle between 3M and 3N has lasted nearly three years and has been through three instances – the first instance judgment was made on June 30, 2015; the second instance judgment was made later on September 9, 2015 adjudging on court and; the review verdict by SPC was made finally on March 24, 2016. This could still be called efficient, if we compare it to the common law system in other countries.

Let us have an understanding, firstly, about the involved trademarks and products through the table overleaf.

The case was firstly brought to Hangzhou City, Zhejiang Province, east of China by 3M and its Chinese affiliated company on Nov. 27, 2013 against the manufacturer of the 3N retro-reflective film and its distributor in Hangzhou City<sup>1</sup>. Thus, the defendants included Changzhou Hua Wei Advanced Material Co. Ltd. (hereinafter as "Hua Wei Company") and a retailer owned by Nie Shaojie. The claim on the lawsuit included the trademark infringement activity by 3N and the monetary compensation of RMB 13,000,000.00 (approx. USD \$2,000,000.00) along with RMB 200,000.00 (approx. USD \$30,000.00) for

covering the plaintiff's cost in stopping the infringement. The plaintiff's evidence mainly included the following specifications:

- The effective trademark registration certificates of No. 884963 & No. 5966501 on 3M characters in China;
- The business development of 3M and 3M China, and also their good reputation achieved in many years' effort in China; the wide coverage of 3M products in Mainland China and also the good ranking of 3M in Fortune 500 and local media in China;
- The audit report of Hua Wei Company (2012), containing the statistics of Hua Wei Company's sales turnover in 2011 and 2012; the value analysis report issued by third party (non-litigant) in the same industry about the gross profit rate for retro-reflective film products in 2011 and 2013; 3M and 3M China then calculated and evaluated the sales turnover of Hua Wei Company in 2012 and 2013 on the infringing product that should be around RMB 392,000,000.00 (approx. USD \$59,000,000.00), leading the profit earned by Hua Wei Company through the infringement activity should be over RMB 13,960,000.00 (approx. USD \$2,000,000.00);
- Hua Wei Company has applied for "3N" trademark in class 19, but the application has been opposed by 3M later and finally rejected.

In order to defend themselves, Hua Wei Company submitted their evidences, mainly as:

- The business information and promotion of Hua Wei Company and their 3N products, as earlier launching as 2007, being certified as good quality product by local organizations;
- The 3N products purchased from Hua Wei Company premises and also their retailer;
- The long term and wide coverage of 3N products being sold in 27 provinces in China;
- The purchase of both 3M and 3N product at one retailer, claiming that the products could be distinguished by

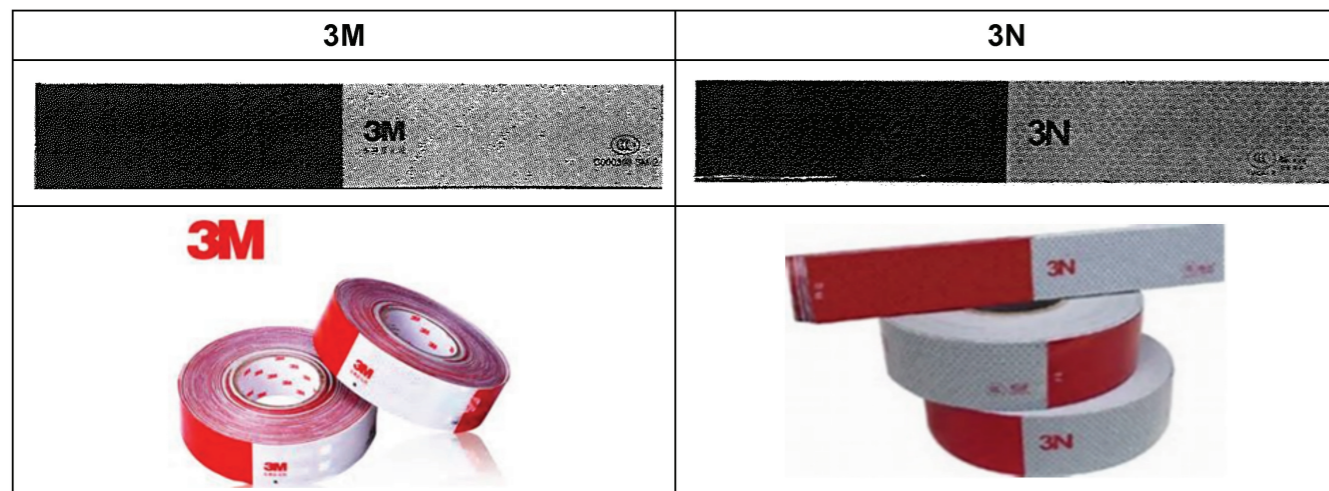
<sup>1</sup> According to Article 28<sup>th</sup> of Civil Litigation Law of People's Republic of China, the court of the infringement activity venue has the jurisdiction of the civil lawsuit.

## Résumé

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Ms. Xue has been practicing in the IPR industry in China since 2002 and has rich experience in trademark acquisition, brand protection and dispute solution in China. She was recently awarded with Excellence Performance by a famous brand from USA. Nikita has been a member of the International Trademark Association (INTA) since 2006 and served as a committee member of the INTA Pro Bono Committee (2013-2014 & 2014-2015) and the INTA Bulletin Committee (2016-2017).

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consumers and their prices are very different (the price of 3M is 2.8 times over the 3N same product).

After the hearing, Hangzhou Intermediate Court deemed that:

- 1) The trademarks of No. 884963 & No. 5966501 both with “3M” characters were registered effectively in China Trademark Office and owned by 3M Company, used on the retro-reflective film for automobile falling in class 17.
- 2) The trademark of “3N” used by Hua Wei Company on the same product has constituted similarity with “3M” from the marks’ component elements (number 3 plus one letter), and both products contained same “CCC” certification marks.
- 3) The “3M” trademarks have obtained good reputation in the market and the trademarks are distinguished.
- 4) Both 3M and 3N products are in strip design with red and white colors, which consumers could easily get confused and misunderstand that both products might have some visual connection. Hua Wei Company defended by illustrating their brand reputation and good market share by long-term promotion and usage in the industry for over 7 years, and they have their stable market share, which the consumers could clearly differ the 3M products and 3N products.

Eighteen months later, Hangzhou Court has made the first instance judgment on June 30, 2015 (court docket file number (2013) ZHZCZ #424), affirming the trademark infringement by 3N against

3M in respect of automobile body reflective product in accordance with Article 52<sup>nd</sup> (1), Article 52<sup>nd</sup> (2), Article 56<sup>th</sup> of the *Trademark Law of China (2001)*, and also the relevant articles stipulated by *Judicial Explanation in Trialing Trademark Civil Dispute of China*. With regard to the economic compensation, the Court took into consideration the scale and duration of Hua Wei Company’s infringement and distribution, in particular the prima facie evidence secured by 3M to infer the profits gained by Hua Wei Company, although Hua Wei Company refused to provide their financial documents. Due to the defendant’s refusal to provide evidences about their production, sales volume, and profit – even though they were capable to do so – the court deemed they should take the liability and the adverse consequence. On the other hand, the evidences and calculation methods submitted by 3M about the possible profit earned by Hua Wei Company on 3N have taken effect to influence the court make such judgment. Eventually the Court has ordered Hua Wei Company to compensate RMB 3,500,000.00 (approx. US\$ 500,000.00) to 3M. The number of compensation has much exceeded that of the statutory limit (when hearing the case, Court adopted *the Trademark Law of China (2011)*, and the maximum statutory compensation was RMB 500,000.00, (approx. USD \$70,000.00).

Actually, *Article 56 of the Trademark Law of China (2001)* stipulated that the economic compensation during the trademark infringement lawsuit usually could rely on either the profit earned by the infringer during the infringement activity, or the loss to the brand owner caused by the infringement (plus the reasonable cost spent to stop the infringement activity), or to be decided by the court within the statutory compensation of RMB 500,000.00, (approx. USD \$70,000.00) if it is too difficult to decide. However, in the first instance judgment, Hangzhou Court’s attitude towards Hua Wei Company’s reluctance to reveal their financial documentary, considering they had those documents, gave an impact to the judicial circles. It is Hua Wei Company as main liability to cause unclear profits earned by

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manufacturing and selling 3N products, and on the other hand, 3M has tried their effort to calculate and provide the possible industrial similar product profit issued by third party, although the court did not accept all those statistics.

After the announcement of the first instance judgment, however, both the plaintiffs and the defendants were not satisfied and they both appealed to Zhejiang Provincial High Court. In view of the High Court, they sustained the first instance judgment by ruling that Hua Wei Company, as the competitor in same industry, started to use “3N” trademark earlier in 2007, with an obvious business purpose to take the free-side on the brand reputation of 3M, and even Hua Wei Company has established their stable market share and their brand impact these years, but the so-called “reputation” of 3N was established upon other’s prior rights, and did not have the legitimation, therefore they should not be supported or encouraged. The second and final judgment was made on September 9<sup>th</sup>, 2015 (Court docket file number (2015) ZZZZ #152), sustaining the 1<sup>st</sup> judgment.

Despite of the 2<sup>nd</sup> instance judgment made by Zhejiang Provincial High Court, Hua Wei Company filed a review to the Supreme People’s Court in Beijing, alleging that the previous courts’ judgments were lack of fact and evidences and the monetary compensation was obviously much exceeding the statutory compensation, and they requested to withdraw the judgments, retrial the case, or change the original compensation to no more than RMB 500,000.00, (approx. USD \$70,000.00). However, the Supreme People’s Court deemed that Hua Wei Company’s refusal of providing financial record and documents was the main reason to make the trial court have difficulty to investigate their profits, and even during the filing of the review procedure, Hua Wei Company still did not provide any documents to refute the 1<sup>st</sup> and 2<sup>nd</sup> court judgments. Consequently, the Supreme People’s Court rejected Hua Wei Company’s review application on March 24<sup>th</sup>, 2016 (Court docket file number (2016) ZGMFS #187). The court judgments have been effective.

In the lawsuit between 3M and 3N, there is no disagreement by

the courts on the trademark infringement activity constituted by “3N” against “3M”, although Hua Wei Company self-explained that their 3N represents for “New Technology, New Material, New Product”. The courts, however, did not accept it, considering the confusingly similar trademarks and the way they used on the similar products being sold in the same market. The monetary compensation judged and sustained by the courts delivered a positive attitude to the society that the infringement should be paid with high cost, especially those with obvious bad faith and reluctant to cooperate, despite of any so-called “good reputation” and high awareness owned during their long-term infringement duration. For what concerns Hua Wei Company then, the more they tried to prove the reputation and high customers’ awareness of their 3N products the more disadvantage they finally had when being judged on the trademark infringement of 3N. Unfortunately, those evidences changed into advantageous ones for the opposite side.

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