

Feature  
By Luckie Hong

# China's dilution of the dilution doctrine

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**While Chinese law does not specifically recognize dilution, new analysis of 100 of the most recent cases shows that some courts have been applying dilution principles. However, the Supreme Court's latest guidelines indicate that China is a very long way from adopting the US approach to dilution**

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owards the end of last year, the Supreme People's Court of China released its latest position on the ambit of protection of well-known marks under Chinese law. The question of protecting well-known marks has been hotly debated in China since the adoption of the current Trademark Law in 2001.

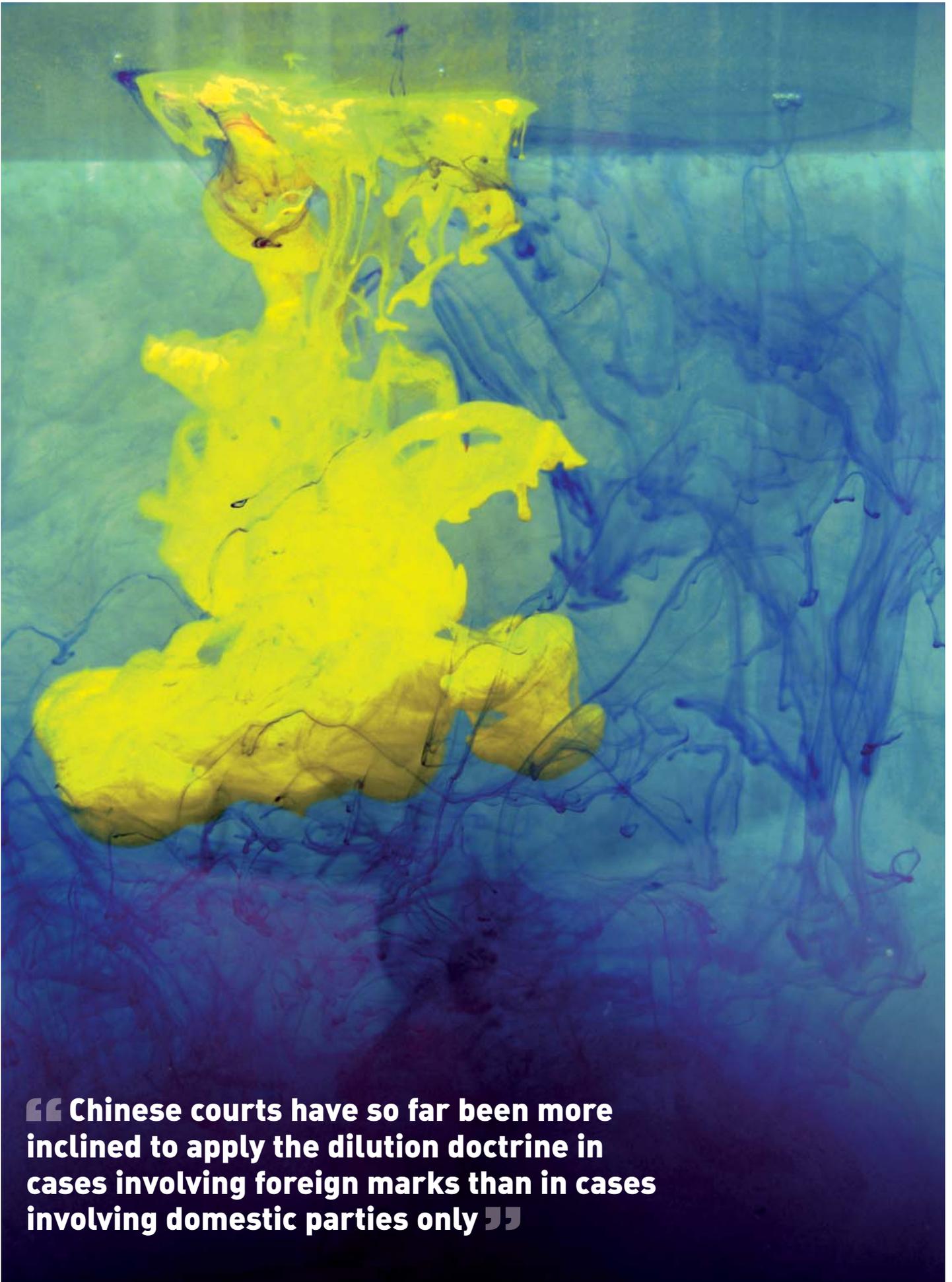
Up until the end of the consultation period for the court's current document (the Judicial Interpretation on Well-known Trademark Recognition and Protection (Consultation Draft)) in October 2008, a key question had been whether China should officially adopt the dilution doctrine. The Chinese courts have been divided over the issue of dilution, as an analysis of the most recent 100 trademark rulings shows. However, the Supreme Court's draft interpretation now leaves little space for the adoption of such a doctrine.

#### **Dilution in the law**

The rationale underlying trademark law is that a trademark identifies the source of the goods or services to which it applies. To protect that function, Chinese law (as any other trademark law) provides a confusion test to determine how likely it is that the trademark applied to specific goods or services could be confused with another mark applied to identical goods or services. Since 2001 Chinese law has also provided extra protection to the owners of well-known marks in some circumstances.

Thus, Article 13 of the Trademark Law provides that "where the trademark of a different or dissimilar kind of goods is a reproduction, imitation, or translation of another person's well-known trademark registered in China and it misleads the public so that the interests of the owner of the registered well-known trademark are likely to be impaired, no application for its registration may be granted and its use shall be prohibited". In addition, the Supreme Court in its 2002 judicial interpretation held that the imitation, reproduction or translation of the whole or main part of another party's registered well-known trademark on a different or dissimilar kind of goods, which would mislead the public and impair the interests of the owner of the registered well-known trademark, shall constitute an infringement.

Accordingly, the entitlement afforded by Chinese law to the owners of well-known marks is an exclusive right to prevent other parties from using the mark, even on completely different products or services. However, the basis for granting this extra protection is ambiguous. Many judges, as well as many attorneys, have interpreted the phrase 'misleads the public' (used in both Article 13 and the Supreme Court's interpretation) as meaning dilution.



**“ Chinese courts have so far been more inclined to apply the dilution doctrine in cases involving foreign marks than in cases involving domestic parties only ”**

The origin of the dilution concept is an article written by Frank Schechter for the *Harvard Law Review* in 1927. The doctrine was incorporated in the US Lanham Act in 1996. The key portions of the dilution clause under US law provide that the term 'dilution' means the lessening of the capacity of a famous mark (a 'well-known mark' under Chinese law) to identify and distinguish goods or services, regardless of the presence of:

- competition between the owner of the famous mark and other parties;
- likelihood of confusion;
- mistake; or
- deception.

Because of the great impact of US trademark law doctrines on Chinese academics and practitioners, there has been considerable support for the inclusion of a dilution clause in the next round of amendments to China's Trademark Law.

However, there are also many opponents in China to the dilution doctrine. It is arguable that some of these opponents resent any foreign influence on national law. But the main basis for opposing dilution is that the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), on which the current Chinese law is based, provides no US-style dilution clause. Under the TRIPs Agreement, the key element for granting extra protection to well-known trademarks is whether the use of the mark "would indicate a connection between those goods or services and the owners of the registered trademark", in parallel with the likelihood of damage caused by such use to the interests of the mark owner. A connection, in the general sense, provides a basis for confusion, not dilution.

#### Dilution in practice

As mentioned above, the debate over whether a dilution test is consistent with the Chinese Trademark Law divides not only academics but also the courts. The author reviewed the 100 most recent trademark decisions in China, of which 31 referred specifically to the term 'dilution'.

#### Supplement to confusion

Of the 31 decisions referring to dilution, 21 interpreted the dilution doctrine as a supplement to the confusion test. For instance, in *Fujian Longjing Environmental Co Ltd v Quanzhou Longjing Environmental Technology Consultation Inc* (Case 211 of (2005) Xia Min Chu Zi, September 19 2005), the Xiamen Intermediate Court in Fujian Province held that the defendant's registration of the plaintiff's well-known trademark would:

- cause confusion as to the origin of the relevant service; or
- indicate a false connection between the plaintiff and the defendant leading to dilution of the well-known trademark (LONGJING in that case).

The court found that the defendant's use of the mark created confusion – the finding of dilution was only an extension of the finding of confusion and one that did not significantly influence the court's conclusion that an infringement had taken place.

Similarly, in *Luobo* (Case 17 of (2005) Luo Jing Yi Chu Zi, May 10 2005), the Luoyang Intermediate Court in Henan Province held that the defendant's activity caused confusion among the relevant public on the defendant's status and the origin of the defendant's products. This, the court reasoned, would falsely lead the public either to perceive the defendant as a subsidiary of the plaintiff or to believe that there was some kind of connection between the parties. Accordingly, the court concluded that:

- this caused a dilution in the public's minds of the unique connection between the well-known trademark and the glass products manufactured by the plaintiff; and
- it would erode the public's attraction to the mark.

#### Independent test

The other 10 cases show a more proactive approach to the application of the dilution test. In these cases, most judges first clarified the different theoretical bases for the protection of common marks against those of well-known marks and distinguished the subjects to which the confusion and the dilution tests apply. From there, the courts went on to apply the dilution test without making any reference to any possible confusion involved in the case at hand.

For instance, in *Guangdong Yajie Hardware Co Ltd v Shenzhen Yashida Hardware Plastic Inc* (Case 5 of Fo Zhong Fa Min San Zhong Zi, November 22 2006), the Foshan Intermediate Court in Guangdong Province intimated that there was not much room in the case for a confusion test and, therefore, the only applicable test was the dilution test. The court held that if the marks in dispute (YAJIE and LANGGAO) had been common trademarks, the test to determine infringement would have been whether the defendant's use of the mark caused confusion as to the product's origin. However, the court went on, as YAJIE is a well-known trademark, infringement derives not only from the existence or likelihood of

#### Shanzhai: brands gone awry

While lawyers, academics and legislators in China are busy debating whether or not to recognize dilution (indeed, if it even exists), teenage trend-setters are proudly, knowingly sporting fake fashion labels such as 'Odidos' and 'Hike'. This is not 'ordinary' counterfeiting; the trend, known as 'shanzhai', covers fakes that are so obvious that consumers were neither confused nor deceived. "It has become very popular to exchange photos of bizarre parody products," says Lucy Nichols, director of global brand protection at Nokia. "It has developed into a competition to find the strangest shanzhai."

In China, brand owners have few legislative tools with which to fight *shanzhai* or 'sham glam' as it is sometimes known. It does not fit into the usual category of confusion protected against in the trademark and unfair competition laws. Interestingly, Chinese courts blend confusion and dilution: only after confusion has been established is there scope for a dilution test. Proving that a parody of the ADIDAS mark consisting of adidas's familiar device alongside the word 'avivas' is confusing should be relatively straightforward. But using the mark 'tuna' in a style similar to that of the PUMA mark (only with a big fish instead of a big cat), is much trickier. In this case, the brand owner would find it difficult to make an argument using either China's trademark or unfair competition laws because the association is much harder to prove – and contrary to the US doctrine, the dilution test cannot be applied where confusion is impossible to establish. "In China we do not have the concept of dilution," admits Chan. "That would benefit brand owners significantly."

But while most brand owners discourage *shanzhai*, they also recognize that there is little commercial logic in fighting it. Wilful counterfeiters are much more dangerous than teenagers sporting witty imitations that do not really cause confusion. "The damage can be very minimal," says Chan. "You can tell if the trademark has been modified slightly to make the point that this does not identify source. However, although there's not necessarily infringement there will be some dilution or harm to the goodwill in the trademark."

confusion, but also from the dilution or blurring of the mark's distinctiveness. Thus, the registration by the defendant of the term 'Yajie' as a domain name would cause a degradation of the distinctiveness of the registered YAJIE mark, which in turn would "inevitably trigger the dilution of the mark".

The Zibo Intermediate Court in Shandong Province set forth explicitly in *Shandong Bobeng Technology Co Ltd v Zibo Boshan District Chishang Yulong Food Process Factory* (Case 1 of (2005) Zi Min San Chu Zi, June 17 2005) that the protection of well-known trademarks should not be limited to the confusion theory. The court indicated that the fundamental function of a common trademark is to distinguish the supply of the marked products or services and, thus, confusion or likelihood of confusion among the public is a required element to the finding of infringement of a common trademark. The court further reasoned that determining the infringement of a well-known trademark aims to protect the particular function of such a mark, which is not included in a common mark. That is to say, a well-known trademark should be entitled to a higher level of protection than that based on confusion or likelihood of confusion. Even where the relevant public is not confused by the unauthorized usage of a well-known trademark, the fact that the public would be misled to perceive falsely that there is any connection between the user and the trademark owner, or that the trademark owner provides any warranty to the quality of the product or service supplied by the user, can also prove that the mark user is piggy-backing on the mark's goodwill and abusing the interests of the mark owner. Accordingly, the court concluded, any activity that dilutes another party's well-known trademark degrades its distinctiveness and blurs the unique connection between the mark and the product or service also constitutes an infringement.

#### Foreign marks

International mark owners will want to know whether they would be treated differently from Chinese owners of well-known marks by the courts. In *US Eastman Kodak Company v Suzhou Keda Hydraulic Pressure Elevator Co Ltd* (Case 0213 of (2005) Su Zhong Min San Chu Zi, April 6 2006), Kodak filed the following documents before the Suzhou Intermediate Court in Jiangsu Province as evidence to support the rationale basis of the dilution test in the case:

- the US court opinion in *Eastman Kodak v DB Rakow* (739 F Supp (WDNY1989));
- the summary of the US Congressional Record 1995; and
- the relevant sections of the famous trademark treatise *McCarthy on Trademarks and Unfair Competition*.

The defendant asserted that the common law of foreign jurisdictions, such as the United States, is not binding in China and the Chinese courts should not consider other nations' judicial theories.

The court dismissed the defendant's argument and ruled in Kodak's favour. After considering the facts of the case, the regulations prescribed in the Supreme Court's judicial interpretation, the Paris Convention for the Protection of Industrial Property and the TRIPs Agreement, the court held that the defendant's use of the mark KODAK was motivated by the prospect of a making a profit. Further, the court found that in view of the rationale behind the laws protecting well-known trademarks, the defendant's activity would erode the distinctiveness of the well-known mark KODAK and be detrimental to the goodwill of the mark.

Accordingly, the court ruled that the defendant had infringed Kodak's exclusive right over its well-known mark.

This case, along with the other cases involving foreign parties in the pool of decisions that the author considered, indicates that the

Chinese courts have so far been more inclined to apply the dilution doctrine in cases involving foreign marks than in cases involving domestic parties only.

However, this advantage may be called into question by the Supreme Court's latest draft interpretation of the protection to be afforded to well-known marks.

#### Outlook

In 2003 the Supreme Court published an official reply to a query from the Shanghai High Court concerning the application of the dilution test. In *Hangzhou Zhang Xiaoquan Scissor Factory v Shanghai Zhang Xiaoquan Sword Head Store and Shanghai Zhang Xiaoquan Sword Manufacturing Inc* (Case 1 of (2003) Min San Ta Zi, November 4 2003), the Supreme Court held that "where the characters of the pre-registered well-known trademark are used by another entity in its enterprise name or trade name, and ... the industries to which the trademark owner and the trade name registrant [belong] are identical or [closely] connected, a dilution of the well-known trademark would be caused and therefore the legitimate interests of the trademark owner would be impaired". This was the first time that the Supreme Court used the term 'dilution' formally.

In an early draft of the Judicial Interpretation on Well-known Trademark Recognition and Protection partially disclosed in 2007, the Supreme Court had included dilution as reason enough, on its own, to make a finding of infringement. Yet in the draft released at the end of last year, this provision has been amended to read that the "false perception of connection" is a prerequisite to the application of the dilution test.

This deceptively small amendment has big implications. It means that the dilution test cannot be applied separately from a finding of 'connection'. Only in cases where the public perceives a special connection (ie, some kind of confusion) can the dilution test be applied to determine trademark infringement. Given that this provision will not apply until a final judicial interpretation is adopted, it is expected that the Supreme Court will endorse the majority opinion of the lower courts (described above) that the dilution test is supplemental to the confusion test. In other words, a US-style dilution provision that would apply independently of a finding of confusion or likelihood of confusion will probably be abandoned by China's legislature.

However, the language of the current draft is far from clear, so ambiguities still abound. A recent press release from the *People's Court Daily* indicates that the debate is far from over and no definitive conclusion will be reached in the near future. This should be addressed in the forthcoming judicial interpretation or the new Trademark Law. In the meantime, multinational companies holding well-known trademarks in China should rely mainly on the confusion doctrine. A dilution claim may add weight to their case, but it should not be made on its own. [WTR](#)

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