

# VIVIEN CHAN & Co.

YOUR GREATER CHINA LAWYERS

HONG KONG | BEIJING

## NEWSLETTER

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### IP UPDATE



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## Landmark Case on Trademark Infringement – Damage to Packaging

### I. BACKGROUND

We acted for a multinational direct selling company, and this case concerns the sale of health supplement products in the mainland China. Our client's health supplement products are distributed through specific channels, and unauthorized sales through third parties' online platforms were discovered.

While claimed to be genuine products, it was revealed that the packaging of the products so sold on these third parties' online platforms, in particular the batch codes and tracking information printed on the packaging, were damaged. Our client therefore could not track the source and batch of the products (assuming that the products were genuine products) so distributed through these third parties' online platforms, and could not pursue contractual claim against the contractors who may be responsible for such unauthorized selling activities. Worse still, it was found that the information printed on the inner side of the container was also damaged, meaning that the infringer had to unseal the container and take out the content before the information printed inside could be removed.

Even if the products were originally genuine products, there was no guarantee that the content (being capsules and powders, depending on the type of health supplement products) was safely stored and kept, and therefore free from contamination, when it was taken out during the information removal process. There was further no guarantee that the genuine content was refilled instead of mixing with unknown ingredient. In view of the serious health risk posed to the public, litigation was commenced against the seller, on the ground of trademark infringement.

### II. OUR LEGAL ARGUMENTS

The infringer claimed that the products were genuine. To establish that this was a case of trademark infringement, we relied upon different levels of legal arguments: -

1. The products were actually counterfeits, on the basis that genuine products would contain all the batch codes and tracking information, which were missing in the products sold by the infringer. Notarized purchases were done, and detailed comparisons were made to show to the Court the differences between the genuine products and the products sold by the infringer on these third parties' online platforms.

2. Even if the products were originally genuine products (which was denied and the infringer shall have the burden showing the same when we had made out our case as aforesaid), the infringer's conducts caused damage to our client as the owner of the registered trademarks, infringing our client's trademark rights as per Article 57(7) of the Trademark Law in China:-

(i) The removal of the batch codes and tracking information severely impaired the rights of our client in tracking the source of the products, and therefore affected our client's ability in tracking and controlling the quality of the products. For example, the rights of our client in recalling a particular batch of products when required was affected.

(ii) The breaking of the sealed container would affect the quality of the products, and the refilling of unknown content back into the containers, would prejudice and damage the fame and reputation of our client. Serious health risk was also posed to the public.

3. The claim from the infringer that the products sold were genuine also constituted false advertisement and unfair competition, when the products were at least damaged and may well be modified, and were different, from genuine products.

In finding trademark infringement, the Court accepted our arguments, and held that without contrary evidence from the infringer showing that the products so sold were genuine, the infringer infringed the trademark rights of the client as the products bear the trademarks of the client. On the other hand, the selling of products with batch codes and tracking information removed, even if the same were originally genuine products, constituted trademark infringement. The main reasoning of the Court was that the ability of the trademark to serve as a badge of trade origin was impaired by the removal of source information, and the trademark owner's ability to track and control quality was also damaged. The Court further reasoned that confusion would be caused and the right of

consumers to information about the source of the product was also harmed, and therefore the same constituted the circumstance as stipulated under Article 57(7) of the Trademark Law in China.

The Court also held that the infringer violated the Anti-Unfair Competition Law in China. The infringer was ordered to stop infringing the trademark rights of our client, to stop publishing false advertisements and to pay damages to our client (around USD 100,000).

### III. TAKEAWAY

A key feature of this case is that there is a possibility that the infringer was selling genuine products, but with source and tracking information removed. Still, when the ability of the trademark owner to track the source of products and to control the quality was impaired, the Chinese Court would accept that this is a kind of trademark infringement under Article 57(7) of the Trademark Law in China. This would be a helpful precedent case for trademark owners to take action against unauthorized sales through unauthorized channels, when the infringers destroy source information to stay away from contractual claims.