THE 2008 BFSU CUP INTELLECTUAL PROPERTY MOOT COURT

In The Court of Appeals of Beijing[1]

Huxley International, as Petitioner

v.

H.E. Bags & Luggage Co., Ltd., as Respondent

While the proverb "action speaks louder than words" can euphonize something better done than said, so does a trademark to its owner, even if anonymous, to retain a valuable good-will amongst its customers, for a reputation, much like a person's face, is sometimes said to be more important than who the person is, which in ancient times was well worth a duel.

Time has changed a lot of things, and decision by the sword is no longer; but the traditional duel has taken on a new form – to fight out the matter in the courtroom through litigation – which is the stage of the present story.

BACKGROUND

The parties do not dispute the following description of facts, and all the documents, references, information, or testimonies as evidence are properly admitted under the Civil Procedures of People's Republic of China.

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[1] The Organizing Committee is mindful of the complexity of the issued involved in this Moot Court Problem, as well the unique judicial procedures relating to intellectual property disputes. For this reason, the litigation procedure is arranged for the purpose of this Moot Court so that all procedural issues are supposedly resolved. See explanation in the Official Rules 2008 (Rule 1.5).

I

1. Huxley International (Huxley) is a U.K.-based international conglomerate that operates in many countries and areas throughout the world, producing different lines of product from agricultural products to consumer electronics, and from simple every day useful things to high-tech machinery, many of which have received worldwide patent protection in various countries. It also lends its name to the fashion industry by making a complete line of exquisitely handcrafted luxury personal bags, including women's shoulder bags and men's wallets, briefcases, belts, business card holder, etc. One of its hallmarks is, of course, the stylized word HUXLEY which is prominently displayed on every one of its products.

2. While the Huxley firm originated from a tanner's over a hundred years ago (Mr. Huxley, to be exact, who had no blood relation to that famous biologist in any way), and the company has changed hands many times over the years, it always takes great pride in its leather products, and has carefully, even to the point of jealously, guarded its trademark interests, by registering the mark HUXLEY in every country where it has a business presence.

3. The fashion industry has its unique tendency to follow the taste of the customers, by making various changes to the styling, the shape, the colors, or even the way the trademarks are displayed. In recent years, as many of the world famous brand names have been copied and sold cheaply on the streets, the elegant society would disdain certain fake-looking products with the cheap display of a famous mark – such trademarking is considered as being noisily "too loud." For this reason, some of the high end manufacturers quietly changed the way their trademarks are displayed.

4. For example, the French mark Louis Vuitton is woven faintly into the fabric

materials for handbags as LV, and the Bally mark becomes a B, first as a button on bags, then a mere shoulder belt buckle, leaving the entire products appear to be "brandless."

5. The Huxley move is one step to the next stage. It first took out a design patent for a buckle in the shape of

somewhat like a Chinese character of "the sun,"[2] which is used for connecting the belt end to the bag end by having the ends folding over the upper and lower bars so that the remaining part of the buckle becomes an upper case letter "H." Huxley uses platinum for the buckle material and each bag carries a price tag of well over £1,000.00. The design patent was issued by the State Intellectual Property Office (SIPO) in January 10, 2005 under Patent No. ZL 2005 3 123456.0.

6. Huxley entered China's market around the 1930's and had maintained a trademark registration for HUXLEY until 1949 when the entire trademark system was abandoned, and Huxley left. As soon as China adopted its modern trademark law in 1983, Huxley reapplied for registration of its HUXLEY mark on leather bags in international class 18, as well as for other products in pertinent classes, and has timely renewed these registrations at various intervals.

7. After receiving the patent on the design in 2005, Huxley tried to obtain a trademark registration in China for the letter "H," in either block letter form or stylized form, but the application was rejected under Article 11(3)(a) of the Trademark Law, for lacking distinctiveness.

[2] **Note from the Moot Court Organizer**: the showing of the Design should be understood as depicting an elegant lettering of "H" made of platinum.

8. Although the HUXLEY mark has been undisputedly recognized as an internationally famous mark, and the letter “H” has been used by a small band of extremely wealthy “new pennies” to refer to such highly positioning goods, much like the way a college student would hush an “LV” which she would dream of owning one, the H design has not been used long enough to establish a publicly recognizable secondary meaning that would permit the mark to be registered under Article 11(3)(b) of the Trademark Law. Therefore, when the trademark application was rejected, Huxley did not go any further to argue for the “H” mark, and abandoned the application in 2005. Nevertheless, it continued to use the design on its products, as well as the marking of “TM” in advertizing and all written communications whenever the “H” mark was mentioned.

9. While Huxley maintains a standard intellectual property licensing policy by granting permissions to various retailing establishments to use its proprietary designs and trademarks, it takes a strong position in protecting the values of its intellectual property by requesting guarantee of the quality of the products. In order to achieve this, it demands, e.g., a trademark license may be granted only if a licensee purchase the platinum logos from Huxley to be applied onto the products which may be manufactured under its supervision. It would never allow others to produce its trademark logos for any purpose at any rate.

II

10. H.E. Bags & Luggage Co., Ltd. (“H.E.”), originally known as “Hong E” (pronounced as “hoong eh,” meaning in Chinese “Red Alligator”), is a manufacturer of various leather products located in a southern province of China, which makes, inter alia, men’s and women’s shoulder bags, purses, handbags, luggage, briefcases, suitcases, and so on. It has a regional sales office in Beijing, and maintains a sales booth in Beijing’s Fashion Market where it carries both retail business to walk-by

tourists, and wholesale to its long term buyers who would transport the products to as far as eastern European countries.

11. Despite the name, H.E. has never really made any product with the red alligator skin, but its products nonetheless have the outer appearance of being carefully made to look elegant on the shelf. Like many venders in Fashion Market, H.E. would ask a price of 200 ~ 500 RMB for its products, but would not hesitate to slash the price to 50 ~ 100 if a buyer looks serious.

12. H.E. secured in 2001 its own trademark registrations for HONG E, under Reg. No. 7654321, and for the Chinese characters of red alligator, both in international class 18 for "bags, and parts and fittings." Beginning in 2005, it also started to use an unregistered mark H.E. to follow the fashion trend, on all of its products, and on men's shoulder bags in particular.

13. As a further move, at the suggestion of some of its customers, H.E. started in mid-2008 to use the 日 buckle as well on all of its men's shoulder bags so that the products would look more elegant. But the H.E. products are no comparison to those of Huxley's, either in quality or in styling. The buckle, however, is made of some platinoid material that has an expansive tint but does not last very long. The wholesale price for each piece was 50 yuan for a dozen, 40 for more, and even lower at bulk rate. Sales were good, and soon enough, large orders were placed for significant quantities by Chinese as well as international buyers.

14. At one time, the owner of H.E., Ms. FAN Yajie, at the suggestion of her lawyer, thought of taking out a license from Huxley for using the buckle device, at least to avoid possible I.P. conflict, but when she heard the Huxley licensing policy, she angrily brushed the idea aside as she yelled to the lawyer, "Who's gonna buy this piece of shxx with such an expensive logo that can't even be seen? We have our own trademark registration, haven't we? And 'H' is also our initial. We're going to use it anyway."

III

15. Upon learning of H.E.'s use of the buckle device, Huxley took immediate action through its attorneys in Beijing by obtaining a few sales samples with a sale receipt carrying the red stamp of "H.E. Bags & Luggage Co., Ltd." as evidence, and proceeded with filing a complaint with the district court in Beijing alleging
    (1) patent infringement under the Patent Law of China, and
    (2) trademark infringement under the Trademark Law and Unfair Competition Law.

16. H.E. responded by first requesting a stay of the trial proceeding while filing a petition with relevant authorities for invalidation of the Huxley patent. In specific, it denied infringement upon
    (1) either the design patent, pending decision from relevant authorities on its validity; or
    (2) an unregistered and unregistrable "trademark" that is highly, if not entirely, functional;

    stating as its reasons that: (1) the "H" design is a commonly used buckle device which should not be appropriated for exclusive use; (2) it has its own trademark registration, and the initial "H" lawfully signifies its brand name and business name; and (3) since Huxley does not have a trademark registration on the "H" logo, its trademark accusation is meritless. The trial court granted the stay pending a solution from the Patent authorities.

PROCEEDINGS BELOW

I

17. An invalidation request was duly filed with the State Intellectual Property Office

(SIPO), Patent Reexamination Board (PRB), in which H.E. argued that the subject matter of a design patent should be decorative and not functional, according to the Implementing Regulations under the Patent Law, Article 2, Clause 3; and the Huxley design does not rise to the level worthy of patent protection in that (1) it consists essentially of the letter H, with two horizontal bars bridging upper and lower ends of the vertical bars, which does not present any unique nor aesthetical appeal; and (2) it basically works as a buckle for shoulder bag straps, and is therefore, primarily *functional*. As in any conventional buckle device for bag straps, the upper and lower horizontal bars connect the straps; the vertical bars are for holding the horizontal bars; and the middle bar is for reinforcing the connection between the vertical bars. In fact, every single element of the Huxley design is purely functional and none other. For this reason, the patent should not have been issued, and should now be invalidated.

18. Upon examination, the Board made a decision in due course under No. 20081234 in which the Board upheld the patent with the following reasons:

> The Patent Law allows protection for a new and aesthetic design on a product or a combination thereof with colors or shapes. The determination of aesthetic appeal is difficult to make as beauty is more or less in the eyes of the beholder; normally, a design would meet this requirement as long as it does not appear to be *ugly* to the visual sense if by common standard it does not provoke aversion.
>
> In terms of functionality, in many circumstances, a design such as the present one may include certain functional aspects. For example, the design of a cell phone certainly *functions* as a casing for the electronic components of a cell phone; and the exterior design of a car usually effects aerodynamic styling which is not only pleasing to the eye, but at the same time comports with physics requirement. The determination of patentability of an industrial design should be based on the entirety of the design, rather than on an analysis of each and every single element to find for functionality. In other words, a design does not have to be dysfunctional or useless to satisfy the statutory requirement. Even if some or all of the elements are functional to some extent, they will not be regarded as patentability-debilitating as long as the overall visual impression of the design is aesthetically decorative and not functional. (Emphasis added.)

II

19. The district court, upon noticing the PRB decision, proceeded to the merits of the case and ordered a hearing in which both parties presented their evidence in support of their respective arguments.

20. On the patent issue, Huxley presented no further argument, but based its claim entirely on the PRB decision upholding the validity of the patent, and sought damages. H.E., however, requested that the court overrule the PRB decision, because, it argued, the PRB's "not ugly" standard is a misinterpretation of the patent law, and, together with its determination on functionality analysis, would effectively eliminate the already very low requirement for a design patent, which would confer monopolistic control by the patentee over a design that is merely the first to be used, no matter what it looks like and what utilitarian function it may perform, because, for the simple reason that even an ugly design may be claimed by its inventor to be unusually pleasant; when the Patent Law speaks about aesthetics requirement, it must be accorded some substance, and the "not ugly" doctrine, in light of a featureless, plain-looking, simple letter with functional additions, should not be permitted as a proper interpretation for the patentability requirement of a design.

21. On the trademark issue, Huxley based its infringement arguments on the theories of unfair competition and the special protection of well-known marks accorded by the Trademark Law. Huxley acknowledged that its H design logo was denied trademark registration in 2005 for lack of distinctiveness, but that does not prevent the mark from acquiring distinctiveness by establishing "secondary meaning" through extended use, and by extensive advertising to increase brand-awareness. In fact, it not only has established "acquired distinctiveness" but also has become "well-known" which qualifies the mark to be protectible under the Trademark Law of China, Article 13. To further back up its argument, Huxley adduced consumer survey evidence showing public recognition of the "H" design as trademark. H.E., on the other hand, counterargued that (1) certain marks, such as the "H" design, is so inherently indistinguishable as a trademark it

can never become a source indicator; (2) the design is so highly, if not entirely, functional, it should remain in the public domain and not be exploited for exclusive use by any single trader; (3) by the evidence of its own consumer survey, the purchasing public has failed to recognize the "H" design as a trademark, let alone a famous mark; and (4) to seek trademark protection for a design which has been the subject matter of patent protection is an impermissible attempt to defeat the purpose of the patent law, and therefore would constitute, and has constituted, misuse of the purported patent rights under the Anti-Monopoly Law.

22. Per the last argument, H.E. further argues that even if the Huxley design is upheld for its validity, the patent should not be enforceable due to the fact the patentee has unlawfully attempted to extend the patent term beyond the statutory duration by obtaining potentially indefinite monopoly through trademark protection.

23. At the conclusion of the court hearing, the district court ruled for the plaintiff on the patent infringement issue, and denied its claim for trademark infringement, with the following observations:

> The Patent Office is established under the Patent Law of China to administer the patent affairs, including examination of applications and adjudication of certain disputes over the validity of an issued patent, according to the relevant laws and administrative procedure. Although a litigant may challenge a decision made by the Office (the Patent Reexamination Board on the validity issue, to be exact), judicial deference must be given to such decisions because such is a judgment made with highly professional knowledge in determining the patentability issue with reference to prior art and recognition of the level of aesthetics standard based on the record presented to the examiner. Unless a decision from the Office is in clear contradiction to the record, or is a clear abuse of its discretion, or in violation of the law, we should refrain from disturbing the daily routines of the administrative work. Here, the "not ugly" standard is not clearly wrong, and at least it provides some workable guidance to follow in patent examination. The defendant's complaint that this standard would defeat the purpose of the patent law is meritless and fails to indicate any workable guidance. For this reason, we would leave the "ugly" issue for another day.

As to the patent misuse allegation, defendant's attack appears to be wide of the mark. The "misuse" of a patent monopoly has to be related in some way to the exploitation of the patent rights, such as those enumerated under the antitrust statute like "tying," etc. Here, the plaintiff merely asserts a trademark right, which in and of itself is lawful; whether that right exists or not is another question. Therefore we reject the defendant's allegation on patent misuse.

And finally, the survey result produced by the plaintiff is extensive, lucid, and apparently very costly; yet we are of opinion that it is insufficient to support its claim. And even if the mark could be established as well-known, though not likely per the evidence before us, it would still be viewed as a functional buckling device which, unless covered by a patent, is to be used freely by all, absent some evidence of consumer confusion. As we do so, we need not comment on Defendant's counterarguments, along with its equally sophisticated survey evidence.

For the reason set forth above, we find patent infringement and dismiss the trademark claims.

THE APPEAL

24. Both parties are dissatisfied with the district court ruling and now appeal, for which, Huxley presents the following issues:

(1) Whether a trademark, being registered in more than half of the countries of the world and used in more countries, including China, thus having become famous, should be accorded protection under the Chinese trademark law, and if so, whether the district court erred in rejecting the survey evidence in support of Plaintiff's claim for trademark infringement; and

(2) If the Court of Appeals rules favorably on the preceding issue, whether distinction must be made between *de jure* and *de facto* functionality in order to sustain protectibility of the "H" design mark.

Defendant, H.E. Bags & Luggage Co., Ltd., sees the issues differently, and raised the following questions on appeal:

(1) Whether the district court abused its discretion for giving deference to the PRB decision thereby rendering ineffective the statutory requirement for design patent; and

(2) Whether the district court erred in dismissing the patent misuse claim as irrelevant under the Anti-Monopoly Law of China.

APPENDIX I: Huxley's Exhibit of Worldwide Registrations for the H Design

1. The evidence includes a list of trademark registrations of the stylized "H" in 40 countries in Europe, North and South Americas, Asia and Africa, dating back to the year of 2001, along with photocopies of the registration certificates, duly notarized or certified where necessary.

2. Huxley's Invoices, Shipping Documents, and Advertising Expenditure

   a) Sales of men's shoulder bags bearing the "H" design in China:

Year	Beijing	Shanghai	Hongkong
2001	20	30	250
2002	40	60	600
2003	20	54	150
2004	35	100	350
2005	80	300	480
2006	180	400	630
2007	300	650	800

   b) Advertising Activity in China

   - Documents showing Huxley distribution of its sales brochure in more than 20 cities in the years from 2003 to 2007.
   - Documents showing Huxley advertising expenditure.

     2005 0
     2006 20,000RMB
     2007 1,000,000RMB

3. A consumer survey was conducted in Beijing-Lufthansa Shopping Mall, at the entrance of a Huxley Specialty Store. Thirty-five surveyees answered questions, all of whom recognized the "H" design. Fifty customers refused to take part in the survey. The following is a sample conversation recorded in the survey:

Q: Hello, do you mind spending one minute for answering some survey questions?
A: Not at all.
Q: Are you familiar with the "HUXLEY" brand name?
A: Yes, of course. All my bags are HUXLEY, and I buy them as gifts for my friends and clients.
Q: Are you going to buy this (Surveyor showed an H.E. bag) at great discount?
A: (After examining it at the buckle). I don't think so; I think it's a fake.
Q: Do you mind if we ask what your profession is?
A: I'm an advertising account manager.

APPENDIX II: H.E.'s Survey Report

1. The H.E. survey as to the market influence of the "H" buckle design and its own mark was made over the telephone to 350 surveyees selected at random throughout China, which shows a relevant portion as follows:

Survey Questions	Result
Awareness of "H" design patent:	0
Awareness of HUXLEY mark:	3
Awareness of "H" design as trademark:	0
Willingness to buy a shoulder bag at over 10,000RMB:	0
Actual purchase/ownership of Huxley bags:	1
Awareness of H.E. mark:	25
Willingness to buy a shoulder bag at 200RMB:	35
Actual purchase/ownership of H.E. bags:	19

2. H.E. Sales Figures (omitted).
3. H.E. Advertising Expenditure (omitted).
4. Samples of H.E. Advertizing on Sales Pamphlets, Magazines, and TV (omitted).

APPENDIX III: Relevant Statutes as Cited by the Parties

Unofficial English Translation	Chinese Texts
Implementing Regulations Under The Patent Law **Article 2** (Clause 3) The design referred to under the Patent Law shall mean the new design of a product in respect of the shape, pattern, or the combination thereof, or colors, shape, patterns, or the combination thereof, that is of aesthetic appeal and industrial application.	**《专利法实施细则》** 第 2 条（第 3 款） 专利法所称外观设计，是指对产品的形状、图案或者其结合以及色彩与形状、图案的结合所作出的富有美感并适于工业应用的新设计。
THE ANTI-UNFAIR COMPETITION LAW **Article 5** A trader shall conduct business for injuring a competitor by: … (2) using without authorization the name, packaging, trade dress that are identical or similar to a well-known product, so as to cause confusion or passing-off.	**《反不正当竞争法》** **第五条** 经营者不得采用下列不正当手段从事市场交易，损害竞争对手： …… （二）擅自使用知名商品特有的名称、包装、装潢，或者使用与知名商品近似的名称、包装、装潢，造成和他人的知名商品相混淆，使购买者误认为是该知名商品；
THE TRADEMARK LAW **Art. 13** A trademark shall not be registered and shall be prohibited from using on or in connection with identical or similar goods of another's famous mark if it is a reproduction, imitation or translation of such a mark that has not been registered in China, and is likely to cause confusion. **Art. 14** In certifying a trademark as famous, the following factors shall be considered: a) Public awareness; b) Duration of continuous use; c) Duration, extent and geographical area of the continuous advertising activities; d) Evidence of protecting the mark as such; and e) Other considerations for establishing famousness.	**《商标法》** **第十三条** 就相同或者类似商品申请注册的商标是复制、摹仿或者翻译他人未在中国注册的驰名商标，容易导致混淆的，不予注册并禁止使用 **第十四条** 认定驰名商标应当考虑下列因素： a) 相关公众对该商标的知晓程度； b) 该商标使用的持续时间； c) 该商标的任何宣传工作的持续时间、程度和地理范围； d) 该商标作为驰名商标受保护的记录； e) 该商标驰名的其他因素。
ANTI-MONOPOLY LAW **Art. 3** The monopoly conduct as herein specified shall include: … (2) Abuse of dominant position in the marketplace; **Art. 6** A trader in a dominant position in the marketplace shall not abuse its dominant position by expelling or restraining competition. **Art. 55** This Law shall not apply where a trader enforces its intellectual property rights under pertinent laws and regulations relating thereto; this Law does apply, however, where a trader conducts abuse of its intellectual property rights to expel or restrain competition.	**《反垄断法》** **第三条** 本法规定的垄断行为包括： …… （二）经营者滥用市场支配地位； **第六条** 具有市场支配地位的经营者，不得滥用市场支配地位，排除、限制竞争。 **第五十五条** 经营者依照有关知识产权的法律、行政法规规定行使知识产权的行为，不适用本法；但是，经营者滥用知识产权，排除、限制竞争的行为，适用本法。