

SPONSORED UPDATE

IP



## HOW CAN TRADEMARK RECORDING AFFECT THE BONA FIDE THIRD PARTY



Regarding “Without record-filing, the trademark licensing is not effective against bona fide third parties” stipulated in Article 43 of the revised Chinese Trademark Law, there are still misunderstanding and arguments in this regard. We would like to address the issue based on our understanding of the Chinese laws.

### I. The General Principle of Relevant Laws

- a) The trademark license is still a contract; therefore, principle of autonomy of the will in Contract Law and the principle of bona fide acquisition in Civil Law are the primarily applicable principles.
- b) On the other hand, China adopts the “First Filing Principle”. Therefore, demonstrative principle is also important for the system.
- c) Based on the above principles:
  - i. Even without recording at the CTMO, the trademark license agreements are still valid and effective after the execution by both parties;
  - ii. For the possible conflicts regarding trademark licenses, the opinion of the Supreme Court and the revised Trademark Law both clarified: “Without record-filing, the trademark licensing is not effective against bona fide third parties”

### II. Different Situations

There could be many situations involving the bona fide third party in the trademark licensing; the most discussed situation is the conflict raised by the repeated licenses by delinquent licensor.

- a) How can the recorded License against the Bona Fide third party
  - i. For the recorded non-exclusive license:
    1. If both licenses (whether recorded or not) are non-exclusive, both licenses will be valid and enforceable since there is no conflict;
    2. The recorded non-exclusive license (whether prior or posterior) may oppose the bona fide exclusive and/or sole license due to the conflict of the licenses.
  - ii. For the recorded exclusive and/or sole license:
 

The recorded exclusive and/or sole license (whether prior or posterior) may oppose other bona fide license due to the conflict of the licenses.
  - iii. Result
    1. Although the bona fide license without recording is still valid, it could not be actually performed due to the conflict with the recorded license.
    2. For the bona fide exclusive and/or sole license without recording and opposed by the recorded Non-exclusive license, it may change to non-exclusive license to avoid the conflict; in that scenario, both licenses will be valid and enforceable.
    3. Since the above conflicts were caused by the delinquent licensor, the bona fide victim licensee may pursue the civil liabilities of the licensor based on contract law.

### III. Other Issues

- a) Based on above, the trademark license agreement is still valid even it conflict with the recorded license. However, the license without recording can not be performed partly due to failure of the trademark recording; the demonstrative principle will be applicable in such situation.
- b) So long as the license is bona fide and valid, the assignment of the trademark by the trademark holder shall not affect the license even the license is not recorded.

#### ■ MR FRANK LIU

■ T: +86 10 8836 9999

■ F: +86 10 8836 9996

■ E: frankliu@changtsi.com

■ A: **Chang Tsi & Partners**, 7th-8th Floor Tower A, Hundred Island Park, Bei Zhan Bei Jie Street, Xicheng District, Beijing, 100044

■ W: www.changtsi.com