

Protecting your brand under the new rules

Though the revised Trademark Law has made substantial improvements, protection and enforcement tactics against trademark squatters still remain crucial in the IP environment of China

The revised *PRC Trademark Law* came into effect on May 1 2014, and has attracted the attention of both Chinese and foreign rights owners.

The revisions cover both procedural and substantial aspects, including registration and opposition proceedings (“sound” and electronic trademarks can be now be applied for registration and multi-class application has been adopted), time limit for trademark examination and review and a simplified opposition procedure.

These changes are very important for the establishment of trademark rights in China. However, there remain concerns over the practical influence of the revised trademark law on the protection and enforcement of rights, leading rights owners in China to adopt different strategies and tactics.

Trademark administration and market order

Restriction on the use of the “well-known” status for promotion purposes

Before the Trademark Law revision, lots of companies in China used the “well-known” status of the trademark for promotion and advertisement purposes. The application and recognition of the “well-known trademark” was even subsidised by some local governments. Therefore, the original purpose of the “well-known” status of the trademark had been alienated to some extent.

Aimed at resolving this situation, the revised law not only clarified the original meaning of the “well-known trademark” and the principles of “case by case recognition” and “passive protection” (Article 13), but also restricted the usage. Those who commercially use the words “well-known trademark” in advertising or promotion

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will be imposed a fine of Rmb100,000 (US\$16,700) by the local Administration for Industry and Commerce (AIC) (Article 53).

Increased protection of unregistered trademarks

■ Bad faith applications based on the other party’s prior trademark use shall be rejected.

According to the Article 15.2 of the revised law, identical or similar trademark applications of the same or similar goods shall not be approved if the prior unregistered trademark has already been used by another party, and the applicant clearly knows the existence of the other party’s trademark due to contractual, business or other relationships with the party. This aims to deter bad faith applicants as many are professional trademark squatters who try to apply prior

unregistered trademarks to sell them in the future or for other purposes.

■ Trademark coexistence.

The revised law also provides certain protection to the prior trademark used by a party with a reputation. In such circumstances, the trademark holder shall have no right to prohibit the party from continuing to use the trademark within the original scope of use, but the party may be required to add suitable logos for distinguishing purposes (Article 59.3).

Article 59 provides protection to the prior use right of the trademark, however, the principle of no confusion still applies.

■ Trademark rights against bad faith trade name applications.

It is common for infringers to use the difference between the two registration systems (trademark and trade name) to apply the other party’s prior trademark as its trade name, and then use the same to mislead the consumers. This article aims to prevent applicants of bad faith trade names.

Although protection has been stipulated in the judicial interpretation even before the revision of the Trademark Law, clarification within the Trademark Law itself is still a positive sign which makes the performance of the law smoother (Article 58).

■ Recording of trademark licenses.

Before the revision, the trademark license agreements were recorded by the China Trademark Office (CTMO) within three months of signature. Foreign trademark owners were generally confronted with two problems: they did not want to disclose the agreement since it generally includes trade secrets or other important confidential business information and by the time they became aware of this regulation, the three-month deadline had already expired.

The revision fully addressed these concerns.

The three-month time limit has been cancelled; recording can be proceed within the term of validity of the licensing contract. The license contract is also not required; as a replacement, the record-filing materials shall state the licensor and the licensee of the registered trademark, the licensing period, the scope of products or services covered under the license and other matters.

Enforcement of trademark rights

Strengthened trademark rights protection and penalties against infringement

■ Improved compensation regulation against trademark infringement.

The revised law has added compensation methods with reference to

the multiples of the trademark royalties if both the loss of the rights holder and the gains of the infringer are difficult to determine. Also introduced was the punitive compensation against bad faith infringers (one to three times that of trademark royalties). It alleviated the rights owners' burden of proof, where if the infringer fails to provide its account books and materials or provides false documentation, the court may render a judgment on the amount of damages by reference to the claims of the rights owner and the evidence furnished. The statutory compensation has been increased by six times from Rmb500,000 to Rmb3 million.

■ Increased administrative penalty.

The specific amount of penalty has been clarified. If a party has gained Rmb50,000 or more of illegal business revenue, a fine of up to five times the illegal business revenue may be imposed. If a party has no illegal business revenue or has gained less than Rmb50,000 of illegal business revenue, a fine of up to Rmb250,000 may be imposed.

Penalties for repeated infringement have also been increased. Parties are subject to heavier punishments if they have committed trademark infringement on two or more occasions within five years or fall under other grave circumstances.

The law also clarifies the liability exemption condition for *bona fide* third parties. If a party has no knowledge of the infringing nature of the products, is able to prove that the products are obtained by legitimate means and can provide information on the suppliers of the products, it shall be ordered to stop selling the infringing products, and will not be imposed any compensation.

The tools and instruments mainly (not specially) used for manufacturing the infringing goods and forging the registered trademark shall be confiscated and destroyed.

■ Protection of the prior legitimate rights and interests.

In addition to the protection of unregistered well-known trademarks (Article 13) and the respect to other prior rights and unregistered trademarks with certain reputation through prior use (Article 32), the revised law also added the following protection:

- Prior use defence: as stated in the trademark coexistence system, for a prior trademark used by a party with certain reputation, the trademark holder shall have no right to prohibit the party from continuing to use the trademark within the original scope of use, but the party may be required to add suitable logos for distinguishing purposes (Article 59.3).
- Proper use defence: the trademark holder shall have no right to prohibit others from properly using the generic name, graphics or models of a commodity, information directly indicating the quality, main raw materials, functions, purposes, weight, quantity or other features of the commodity or the names of geographical locations as contained in the registered trademark (Article 59.1 and .2).
- The trademark holder of a three-dimensional symbol shall have no right to prohibit others from properly using the forms shaped by the inherent nature of a commodity, commodity forms necessary to achieve technological effects or forms that bring substantive value to the commodity as contained in the registered trademark.
- No compensation for bad faith claims: although China still

adopts the application-first principle, the revised law stresses the original function of the trademark, namely the use of the mark in the market for the purpose of distinguishing the source of the products and/or services. If the trademark holder cannot prove the use of the mark in the past three years before the litigation and its damages, no compensation will be imposed to the claimed infringers. The purpose of this revision is to deter bad faith trademark registration and highlight the proper function of trademarks in the market.

Clarification of various IP practices

Does OEM constitute trademark infringement?

Prior to the new law, courts in different districts held different opinions and decisions, and even courts in the same district held different opinions in different cases. It was therefore necessary and important to have the same standard enforcing the Trademark Law.

The revision added Article 48, which defines the "use of trademark". This refers to the use of trademarks on goods, the packaging or containers of goods and the transaction documents of goods, or the use of trademarks for advertising, exhibition and other commercial activities for the purpose of identifying the sources of goods.

According to the *Several Issues Regarding the Application of the Revised Trademark Law* issued at the end of June 2014, the head of the IP tribunal of the Supreme People's Court, Justice Kong, is of the opinion that if the OEM products are all exported without causing damage to the trademark rights in China, they shall be deemed as non-infringing based on Article 48, which states that the use of the trademark in OEM is not for the purpose of identifying the sources of goods in Chinese market.

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Spring Chang is a founder and partner of Chang Tsi & Partners. She has earned an international reputation for creativity and efficiency over more than two decades of experience as an attorney assisting clients from around the world in China, as well as Chinese clients abroad. Ms Chang focuses on all aspects of IP rights, including applications for and the protection of trademarks, patents, copyrights and domain names. She advises and represents leading multinational corporations from various sectors in both contentious and non-contentious matters. Her successful representation of Air China was recognized as one of the 10 Most Influential Trademark Events of 2009-2010 at the 2011 China Annual Trademark Meeting, and she is regularly ranked as a leading trademark attorney in China. Ms Chang completed an LLM at China University of Political Science and Law and an LLB at Liaoning University.



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Frank Liu worked as a judge for five years from 1996 and began to practice law as an attorney in 2002. Through many years of practice, he has accumulated valuable experience in many fields. Mr Liu has provided legal services for many Fortune 500 companies and domestic clients regarding IP protection strategy and various other legal issues. Mr Liu has acted for clients in more than a hundred litigation and arbitration cases in China; some cases have been interviewed and reported by *Global Arbitration Review*.

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Is consumer confusion the precondition for trademark infringement?

Before the revision, there were many arguments regarding whether the confusion of consumers shall determine trademark infringement, and such arguments could also be heard from the internal court system.

The revised Trademark Law added a clause which states that “using a trademark that is identical with a registered trademark on the same goods without the licensing of the registrant of the registered trademark” shall be deemed trademark infringement. It clearly provides no requirement for consumer confusion.

Justice Kong has also voiced that there is no consumer confusion requirement for using an identical mark on the same goods. However, as a general condition, the use of the mark still needs to meet the requirements of usage defined by the Trademark Law.

How is the principle of good faith applied?

The Trademark Law revision introduced the principle of good faith as a guideline for authorities in deciding cases. Although good faith has already been stipulated in the *PRC General Principles of the Civil Law* (中华人民共和国民法通则) as early as in 1986, its introduction in the revised Trademark Law is still warranted as it is aimed at the situation of bad faith applications and abuse of trademark rights in China at the present stage.

The Several Issues Regarding the Application of the Revised Trademark Law, the principle of good faith can not be directly used by the administrative authorities (generally referring to the AIC) to enforce the law. However, the court may apply the principle to decide civil cases on certain occasions, especially when there are no applicable clauses in the law.

Although many aspects have been improved upon, there will be other issues which will arise in the future, since infringers will find new ways to avoid the laws

A never-ending struggle

The goal of the revised Trademark Law is to strengthen the protection of the trademark rights in China. It upholds efficiency, fairness and order as its core spirit. Although many aspects have been improved upon, there will be other issues which will arise in the future, since infringers will find new ways to avoid the laws. The battle against trademark infringement will remain long and require diverse efforts.

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