

Introduction to the Third Amendment of the Trademark Law of China

August 30, 2013

Background

China started to work on the third amendment to its *“Trademark Law”* in 2003 (the second amendment was adopted in 2001 when China joined WTO). After six years of research, investigation and soliciting opinions and comments from the public about many drafts, the State Administration for Industry & Commerce, submitted to the State Council a final draft on November 18, 2009.

On October 31, 2012, the Standing Committee of the State Council issued the *“Draft Amendment to the Trademark Law of the People’s Republic of China”*, which was then submitted to the National People’s Congress, where the law went through three readings.

Finally, on August 30, 2013, at the 4th Session of the Standing Committee of the Twelfth National People’s Congress, the *“Amendment to the Trademark Law of the People’s Republic of China”* was adopted.

The newly amended *“Trademark Law”* (the New Law) will enter into force **on May 1, 2014**. The New Law features the following major changes:

I. Trademark Registration and Use

1. The Principle of Good Faith

The New Law introduces, in Article 7, “good faith” as a general principle, ***“The application for registration and the use of a trademark shall be made in good faith”***.

The application of this “good faith principle” can be found in a large number of articles:

- The applied trademark is the same as or similar to a trademark that is already used, but not registered

Article 15.2 : *“Where a trademark applied for registration is identical with or similar to another person’s prior used but yet unregistered trademark, in respect of same or similar goods, and the applicant has contractual or business contacts, or other relations other than those prescribed by the preceding paragraph, with the prior trademark user so that the applicant definitely knows the existence of this person’s trademark, if this person files opposition, the applied trademark shall not be registered.”*

WAN HUI DA comment: The restriction, contained in previous drafts, that prior use only refers to “in China” has been deleted in the New Law. This is such an important issue that it would be advisable to make this perfectly clear, in the future amended “*Implementing Regulations*”, for example by adding the words “...in China and elsewhere”.

- Behaviour of Trademark Agencies :

Article 19: “Trademark agencies shall act in good faith and abide by relevant laws and administrative regulations.”

Article 68: “ ...Any trademark agency that violates the principle of good faith... shall be held liable for the civil liability...”.

- Five Year Limit for Invalidation of a Registered Trademark, except:

Article 45: “...In the case of malicious registration, the registrant of the well-known trademark shall not be subject to the five-year time limit.”

- No retroactive effect of the approval of a trademark following an opposition where a third party has used the trademark (identical or similar) between the decision rejecting the opposition and the date of validity of the trademark, which is retroactively fixed at the end of the 3 months opposition period, except:

Article 36: “.....However, the registrant of the opposed trademark is entitled to compensation where another party acts in bad faith and causes damages to the said registrant”.

- No retroactive effect of the declaration of invalidity of a registered trademark, (no reimbursement of money received while the trademark was valid), except :

Article 47: (If the person who received the money - compensation for infringement, assignment fee, royalties - refuses to reimburse and is deemed to : “...violate the principle of fairness, total or partial refund should be made”.

- “Repeat offenders” (more than two times within 5 years) and “other serious circumstances”: Article 60 stipulates a higher administrative penalty.
- Infringement made in “bad faith where circumstances are serious” : article 63 provides for punitive damages no more than three times but no less than the amount (of the prejudice).

2. Protection of the Prior User of a Trademark

The New Law introduces an exception to the basic principle of “first application”. The exception is in favour of someone who has been using the same or a similar trademark and had already achieved a certain level of reputation, when the trademark was applied. However, this exception has a limit: the prior user is allowed to continue using but only within its “previous usage range”.

Article 59.3: “Where, prior to the application date of a registered trademark, a person has been using a trademark identical with or similar to such registered trademark in respect of the same or similar goods, and such use has started before the registrant of the registered trademark, and has acquired a certain influence, the holder of the registered trademark has no right to prohibit such person from continuing using his trademark within its previous usage range. However, the holder of the registered trademark may ask such person to properly attach distinguishable marks.”

WAN HUI DA comment: What is unclear is the scope of this “usage range”. Is this geographical range or more? This term should be clarified in the future revised “Implementing Regulations”.

3. Definition of Use

The New Law “upgrades” Article 3 of the current “Implementing Regulations” into the law and adds a reference to *distinguishing the origin of the commodities*:

Article 48: “...affixing trademarks to commodities, commodity packages or containers as well as commodity exchange documents or using trademarks to advertisements, exhibitions and other commercial activities to distinguish the origin of the commodities”

4. Consequences of NON Use

- Revocation

In the previous law (Article 44), the situation of non use for three consecutive years was cited as one of those “acts” that the Trademark Office shall “order to rectify” within a specified period, or that may “even” justify revocation of the trademark.

In practice and pursuant to the “Implementing Regulations”, the situation is handled on the basis of an application by a third party, and no opportunity to “rectify” is given.

The New Law brings the issue in line with the “Implementing Regulations” and the practice.

Article 49: “Where the registered trademark has become the generic name of the designated goods or has not been used for three consecutive years without proper reason, any entity or individual may file an application with the Trademark Office for the revocation of the registered trademark”.

- No Compensation In Case of Infringement

The infringer may argue that the trademark has not been used, and if the trademark owner cannot prove having used the trademark within the last 3 years ... :

Article 64: “... *the accused infringer shall not be held liable for compensation*”.

WAN HUI DA comment: At least, the infringement will cease. But it might be useful to clarify, in the future revised “*Implementing Regulations*”, whether the “compensation” includes the reasonable cost that the trademark owner has incurred in order to obtain a judgment ordering the cessation of the infringement.

II. Well-known Trademark Recognition

1. Conditions for Requesting to Be Recognised as a Well-known Trademark

The New Law adds a general principle governing the request for this special protection :

Article 13.1: “*Where the owner of a trademark that is well-known by the relevant public, believes that his right is being infringed, he may request the protection of the well-known trademark in accordance with the provisions of this Law*”.

WAN HUI DA comment: The conditions in paragraphs 13.2 and 13.3 are unchanged. Therefore, the only purpose of this new paragraph seems to emphasize that the issue should be handled strictly “in accordance with this law”.

2. Authorities Who Have the Power to Recognise a Well-known Trademark

Article 14 upgrades to the status of legal provisions the regulations governing the recognition of the well-known status of a trademark: those who have the power to make such decisions are

- the Trademark Office (in an opposition case or in the course of administrative enforcement by a local AIC bureau) ,
- the TRAB (when handling a trademark dispute), or
- the People’s Court in the trademark civil or administrative cases.

3. Conditions for Recognising Well-known Trademark Status

Article 14 adds a limit to the power of the authorities. They may recognise a trademark as well-known only “***where the recognition decision is a necessary fact of the case***”.

4. Prohibition to Use of the Well-known Trademark Status as an Advertising Tool

Finally, Article 14 adds a clause stipulating that:

“The manufacturer or operator is not allowed to use the “well-known trademark” expression on the commodities, the commodity packages, the containers, or in advertisement, exhibition or other commercial activities”.

Violations of this prohibition are sanctioned under Article 53:

Article 53: “ ... the local (AIC) shall order him to rectify the situation and may, in addition, impose a fine of 100,000 Yuan”.

III. Substantial Conditions for Trademark Registration

1. More Signs May Be Registered

Article 8 removes the restriction of the word “visual” and gives an example of non visual sign : “ sounds”. The word is followed by the symbol “etc”, which implies that the door is open for other non visual signs.

Correlatively, the list of prohibited signs in Article 10 is expanded, with the reference to the “national anthem” and “military song” of China.

2. Reinforcement of the Principle that Non-distinctive Signs Cannot Be Registered

- Article 11.1.3: “those lacking distinctive features”, is changed into “others lacking distinctive features”.

WAN HUI DA comment: The intention behind this apparently modest change is more significant than it seems. The word “others” implies that there is only one general category of non-distinctive signs, and that the references to “generic” and “descriptive” in the first two sub-paragraphs are only to give the main examples of such general category.

- Article 49: allows any entity or individual to file an application with the Trademark Office for the revocation of a registered trademark that “has become the generic name of the designate goods”.
- Article 59 stipulates that, when a trademark contains non-distinctive or functional elements the “holder of the registered trademark has no right to prohibit others from fairly using” such elements.

IV. Application, Renewal, Opposition, Revocation, Invalidation of Trademarks

1. Facilitation of the Trademark Application

- Article 22 allows one trademark application to designate goods or services in “several classes” and accepts “electronic” applications.
- Article 29 re-introduces the principle of the “*examination notice*” that was put into practice from 1993 until 2001, which allows the applicant to “describe” or “amend”

the application.

WAN HUI DA comment: What should be clarified in the future revised “Implementing Regulations” is whether the amendments that the applicant is requested to make refers to the mere form of the application or to the substance, or both.

2. More Flexibility for the Renewal Procedure

Article 40 allows the trademark owner to proceed with the renewal procedure within 12 months (instead of 6 months) before the expiration of the registered trademark.

3. Important Modification to the Opposition Procedure

- Article 33 provides that (only) “a prior right owner or interested party” may raise opposition based on *relative grounds* whereas “any person” may raise an opposition based on *absolute grounds*.
- Article 35.2 provides that when an opposition is rejected by the Trademark Office the trademark is immediately approved for registration and the only recourse is to file an application to declare the trademark invalid with the Trademark Review and Adjudication Board (TRAB).

As a consequence, Article 42 of the previous law, which prohibited filing an application for invalidation based on the facts and grounds as a previous opposition is deleted.

WAN HUI DA comment: The main concerns raised by this radical change is that, notwithstanding the acceleration of the administrative procedure before the Trademark Office and the TRAB, there is still a possibility, in case of judicial appeal(s), that a long time may pass before a final decision is rendered. Therefore, it is still hoped that additional modification will be added to allow any prior right owner to introduce a legal action before the Courts, even before the attacked trademark is finally invalidated (for the moment, this possibility is opened to “other prior right owners” and to the owner of well-known trademark, but not to the owner of an “ordinary” registered trademark).

4. Effective Date of the Revocation

Article 55 provides that when a trademark is revoked, the termination date of the exclusive right is the date of publication of the decision and not anymore “the date when the decision is made” (Article 40 of the Current “Implementing Regulations”).

5. Date of Entry into Force of All CTMO & TRAB Decisions

The New Law clarifies in Article 36, Article 46 and Article 55 that all the decision of the Trademark Office or of the TRAB, relating to refusing a trademark application, rejecting the registration upon opposition, declaring a trademark invalid and revoking a trademark enter into force when “... *at the expiration of the legal time limit, no party concerned has applied for a review or has instituted legal proceedings with the people’s court*”.

6. Assignment of Trademarks

The New Law upgrades the provisions of Article 25.2 and Article 25.3 of the Current “*Implementing Regulations*” into Articles 42.2 and Article 42.3 and imposes the assignment of all other identical or similar trademarks:

*“When applying for the assignment of a registered trademark, the registrant shall, **at the same time, do the same assignment in respect of all his other registered trademarks, those are similar to the said registered trademark in respect of the same goods or those are identical with or similar to the said registered trademark in respect of the similar goods.**”*

“Where an application for the assignment of a registered trademark may cause confusions or exert any other unhealthy influences, the Trademark Office shall grant no approval thereof...”

WAN HUI DA comment: The New Law does not address the issue of transfer of the exclusive right to use a registered trademark due to reasons other than assignment.

7. Requirement of Trademark License Recordal

Article 43 of the New Law only provides for the recordal of the “*trademark license*” whereas Article 43 of the current “*Implementing Regulations*” provide for the recordal of a “*duplicate of the trademark license contract*”.

WAN HUI DA comment: For the avoidance of doubt, it would be useful to specify in the future revised “*Implementing Regulations*” that *trademark license* does refer to the main identification features of the license (names, date, description of the trademark, duration etc...) and not the entire agreement.

The New Law also adopts the provisions of Article 19.2 of the “*Interpretation of the Supreme People’s Court on Certain Issues Concerning the Application of Law in the Trial of Civil Cases Involving Trademark Disputes*” by prescribing that “*A trademark license, without being recorded, cannot be used against a third party of good faith.*”

8. Time Limits for CTMO and TRAB Procedures

The New Law imposes time limits to all procedures in an effort to shorten the whole process:

Articles	Competent Authorities	Procedure	Time Limit	Extension
Article 28	CTMO	Preliminary Examination of Trademark Application	9 months	None
Article 34	TRAB	Review on CTMO's Rejection of Trademark Application	9 months	3 months
Article 44	TRAB	Invalidation Decision based on Absolute Grounds	9 months	3 months
Article 49	CTMO	Revocation Decision	9 months	3 months
Article 54	TRAB	Review on CTMO's Revocation Decision	9 months	3 months
Article 35	CTMO	Decision on Opposition	12 months	6 months
Article 35	TRAB	Review on CTMO's Opposition Decision	12 months	6 months
Article 45	TRAB	Invalidation Decision based on Relative Grounds	12 months	6 months

9. Introduction of the Suspension Procedure

In order to avoid contradicting decisions, when a decision is directly dependant on the outcome of another pending procedure, the New Law provides that the TRAB or the local AIC may suspend their procedure until the other procedure is finished:

This applies to the following situations

Article 35: *"During the review procedure conducted by the Trademark Review and Adjudication Board ...of a decision made by the Trademark Office on an opposition.*

Article 45: *"During the examination procedure of the declaration of invalidity conducted by the Trademark Review and Adjudication Board ..."*

Article 62 : *" During the investigation and application of an administrative penalty in a trademark infringement case" by a local AIC Bureau, "where there is dispute over the ownership of the trademark concerned or the right owner simultaneously institutes a trademark infringement suit with the people's court..."*

V. Reinforcement of Trademark Administrative Management

1. The New Law specifies the administrative punishment over the trademark-related offences:

Article	Offence/Offender	Punishment
Article 51	Breach of Compulsory Registration of Trademark on Certain Goods (Article 6)	File an application for the registration within a specified period, and possible fine
Article 52	Passing off an unregistered trademark as a registered one or Breaching the prohibitions of Article 10	Stop the use of the trademark, order to rectify the situation within a specified period, and may, circulate a notice of criticism and impose a fine
Article 53	Using WKTm as an Advertisement Tool	Order to rectify the situation and possible fine of 100,000 yuan.

2. Administration of Trademark Agencies

The New Law introduces new and strict rules in order to govern the activity of the trademark agencies

- expressly specifying that the trademark agencies are **subject to the good faith principle** during their representation (Article 19);
- **forbidding** the trademark agency to **represent the client** where it **knows or should know** the trademark to be filed for registration by such client falls under the circumstances of **malicious pre-emptive registration or infringement upon others' prior right** (Article 19);
- forbidding the trademark agency to **file in its own name the application for registration of trademarks on anything else other than its services rendered** (Article 19);
- the trademark agency association should apply disciplinary measures to its own members (Article 20) and
- specifying the punishment on the trademark agency's offences.

VI. Enforcement

1. Circumstances Constituting Trademark Infringement

In Article 57 the New Law adds a few words in the definition of the act of infringement :

- 1) *“to use a trademark that is identical with a registered trademark in respect of the same goods;*
- 2) *to use a trademark that is similar to a registered trademark in respect of the same goods or use a trademark that is identical with or similar to a registered trademark in respect of the similar goods, which is likely to cause confusion.”*

WAN HUI DA comment: The New Law also introduces the concept of contributory infringement by adding a new clause in Article 57.

If the few added words mean to specify that confusion is likely to occur as a result of the degree of similarity, this is a welcome emphasis of the law, which may serve as guidance for enforcement authorities.

However, if the addition of these few words means that there is a possibility for a trademark, even though it is deemed similar, to be considered as not likely to cause confusion, there are serious causes for concern. Would this be considered as an adoption, in the law, of some recent judicial decisions rendered in OEM cases, where the goods are exported and cannot cause confusion? Or, would this be considered as the introduction, in the law, of the theory developed by the SPC about the coexistence in the market between similar trademarks, provided the second infringing trademark had reached a certain position in the market? These questions will need to be answered.

2. Administrative Enforcement

The penalties provided in Article 60 are increased:

Circumstances	Administrative Penalties
Turnover > 50,000 yuan	Penalty not more than five times
Turnover 0 to 50,000 yuan	Penalty not more than 250,000 yuan
Repeat offender within 5 years	Heavier punishment

WAN HUI DA comment: It may be noted that the figure of 50,000 yuan corresponds to the “criminal threshold”, beyond which a case should be transferred by the AIC to the competent enforcement authority for criminal cases (the Public Security Bureau).

In principle, the AIC should not be concerned with applying a penalty when the case qualifies as a crime. It should immediately transfer the case. Therefore, the future revised “*Implementing Regulations*” should specify that the calculation of the fine (for cases above the threshold) only applies to cases of *infringement* (similar trademark) and not to cases of *counterfeiting* (identical trademark).

3. Civil Enforcement

- Proof of the Infringement

The New Law prescribes in Article 63.2 that the judge may order the defendant to submit elements of evidence (such as account books) that are in his possession:

“Where the plaintiff has fulfilled his burden of proof in facilitating the people’s court in determining the amount of compensation, while the account books and any other materials as connected with the infringing act were mostly in the control of the infringer, the people’s court may order the infringer to provide such account books and materials. Where the infringer refuses to provide such information or provide false information, the people’s court may determine the amount of compensation at its discretion by taking into account the claims and the evidence submitted by the infringed.”

- Increase of Financial Compensation

The New Law specifies, in Article 63, the calculation standards for the civil compensation in trademark infringement cases.

1) The calculation methods are in the following order:

- *the actual damages that the right holder has suffered from the infringement;*
- *the profit that the infringer has earned through the infringement*
- a reasonable multiple of the royalty that the infringed registered trademark might have earned.

2) When the *circumstances are serious* an amount of compensation *not more than three times but also not less than one time* of the amount calculated by the preceding approaches; and

3) A statutory damage, when no calculation is possible, with a maximum of *RMB 3 million.*

- Applicable Law in Conflicts between Trademark and Enterprise Name

The New Law in its Article 58 specifies that when there is a conflict between trademark and an enterprise name, “*Anti-Unfair Competition Law of the People’s Republic of China*” shall apply.