

## Hogan Lovells Client Alert: China Releases 3rd Draft Amendments to Trademark Law

Recently the Legislative Affairs Office of the State Council of the PRC released the 3rd draft amendments to the PRC Trademark Law ("the 3rd Draft Amendments") for public comments. As compared to the first two drafts released in June 2009 and March 2010, the 3rd Draft Amendments backtrack towards the current law by removing a few pro-brand-owner provisions that had appeared in previous drafts. For example, the list of acts constituting trademark infringement set out in the 3rd Draft Amendments is shorter than in the 2010 draft.

Nonetheless, the 3rd Draft Amendments retain and build on various novel features introduced in the earlier drafts which, once enacted, could enhance the efficiency of the trademark prosecution and enforcement process under the current regime.

Here are some of the salient points:

- **Scope of Registrable Marks Expanded**

Article 8 of the 3<sup>rd</sup> Draft Amendments expands the scope of protection of non-conventional trademarks by adding sounds and colours to the list of elements considered registrable as a trademark. Under the current law, sounds are not recognised as a registrable element, whilst colours are registrable only as a combination. Such an addition provides flexibility and presents opportunities to brand owners.

However, even though the earlier draft amendments signalled a possible extension of protection to cover scents and moving images as the China Trademark Office considers appropriate, such references are no longer contained in the 3<sup>rd</sup> Draft Amendments, most likely due to the difficulties in administering the registration of such non-conventional trademarks.

- **Recognition of Famous Marks**

Article 14 of the 3<sup>rd</sup> Draft Amendments recognises famous marks (著名商标) for the first time and states that the determination of these types of marks need to comply with local laws and regulations. Famous marks, different to well-known marks, are marks which have acquired a certain level of fame that may be recognised by local governments under local laws or regulations separately. They were in the past not codified in law and caused confusion with the well-known marks that were recognised under the national law and enjoy cross class protection.

However, by once again deferring to local laws and regulations in the recognition of famous marks, the 3<sup>rd</sup>

Draft Amendments do not clarify the legal value of such famous mark recognition.

- **Provision of E-filing and Multiclass Filing**

E-filings and multi-class filings are now firmly provided for.

- **Enhanced Protection against Trademark Hijacking**

Article 9 of the last draft included a provision which stated that applications are to be filed based on good faith. Unfortunately this has been deleted under the current draft and there are no references to bad faith in the new draft. This is disappointing and we are lobbying for its reinstatement.

Article 31 of the current law provides that "anyone applying for trademark registration may not damage the existing rights of others' priority rights, neither may it register, in advance, a trademark that has been used by others and has become influential". The recent draft now offers two proposals to Article 31. The first proposal builds on the current law and simply clarifies that trademark applications shall not violate "other" prior rights obtained by others, i.e. civil rights other than registered trademark rights.

The second proposal somewhat strengthens the protection against trademark hijacking in providing, in addition, that trademark applications will be refused under the following circumstances:

- (a) Where a trademark applied for registration is identical or similar to another's trademark of prior use for identical or similar commodities in China, and the applicant knows the existence of the other's trademark due to a contractual, business, or geographical relationship with the other party.
- (b) Where the trademark applied for is a copy of a mark which possesses a certain level of distinctiveness and has acquired a certain level of fame with respect to dissimilar goods or services, which is likely to cause confusion.

Unfortunately as we see it, neither of the above alternatives solves the issue of hijacking. The second proposal provides slightly better support but still requires a prior relationship, prior use of a mark in China or a certain level of fame, which would not be helpful to brand owners that are victims of trademark hijacking.

[www.hoganlovells.com](http://www.hoganlovells.com)

- **Elimination of Potential for Bad Faith Opposition**

The 3<sup>rd</sup> Draft Amendments contain features that seek to address the issue of potential bad faith opposition and the associated burden of having to defend unnecessary opposition proceedings. For a lot of foreign brand owners, this is likely to be a double edged sword. Article 36 of the 3<sup>rd</sup> Draft Amendments imposes a limitation on the standing required for initiating opposition proceedings, limiting the right to oppose only to those who own certain prior rights or who is an interested party. Under the current law, anyone is eligible to initiate opposition proceedings. However, the exact scope of what constitutes "prior rights" and "an interested party" will be an issue that needs to be clarified or tested in practice. Otherwise, it is conceivable that this article may make it even harder for brand owners to file oppositions. E.g. if they are not able to show prior registered rights or how they are an interested party.

Article 38 of the 3<sup>rd</sup> Draft Amendments further streamlines the opposition process by eliminating the right of appeal currently available to the opponent to the TRAB. Once unsuccessful, the opponent will have to resort to invalidation proceedings and will no longer be able to delay the prosecution process by filing appeals.

Conversely, however, the right of the applicant to appeal against an unfavourable opposition decision has remained intact.

This would mean that marks that should not be registered will remain on the register and would need to be invalidated, during which time the mark owner can try to enforce their rights. This would increase and arguably encourage bad faith and hijacking actions.

- **Clarification on Unrecorded Trademark Licenses**

Article 47 of the 3<sup>rd</sup> Draft Amendments clarifies the effect of a failure to record trademark licenses, in that unrecorded licenses will not be enforceable against bona fide third parties, for example between licensees whose rights may conflict.

This is an issue that has been addressed by the Supreme People's Court in a judicial interpretation issued in 2002, though reiterating the position as part of a national law will provide higher certainty.

- **Enforcement**

On the one hand, Article 67 of the 3<sup>rd</sup> Draft Amendments proposes to increase the maximum statutory damages from the current RMB 500,000 to RMB 1,000,000. These are damages that may be awarded when the actual losses

of the right owner or the illegal gains of the infringer are difficult to ascertain.

On the other hand, this article also introduces a requirement for trademark owners to provide evidence of three years' prior use when seeking damages; thereby imposing an additional burden on trademark owners. On the positive side, this article also requires that the compensation first be considered according to the actual damages and removes to some extent the court's discretion in choosing the damages calculation method.

Further, article 68 of the current draft now explicitly gives permission to courts to grant preliminary injunctions within 48 hours. Although preliminary injunctions have been available for some years, it is helpful that the time limit is explicitly provided for in the 3<sup>rd</sup> Draft Amendments.

Although there are a few additional codified measures, overall, the enforcement provisions in this most recent draft do not really add to the current anti-counterfeiting level of protection.

The Legislative Affairs Office of the State Council is collecting comments to the Standing Committee of the State Council for further review. We will provide further updates as they become available.

If you any questions or would like further information regarding this Client Alert, please contact one of the listed people below or your usual Hogan Lovells contact.

**KEY CONTACTS****Beijing****Deanna Wong**

Partner

[deanna.wong@hoganlovells.com](mailto:deanna.wong@hoganlovells.com)

T +86 10 6582 9419

**Rae Yan**

Senior Trademark Attorney

[rae.yan@hoganlovells.com](mailto:rae.yan@hoganlovells.com)

T +86 10 6582 9528

**Shanghai****Henry Wheare**

Partner

[henry.wheare@hoganlovells.com](mailto:henry.wheare@hoganlovells.com)

T +86 21 6122 3880

**Zhen Feng**

Of Counsel

[zhen.feng@hoganlovells.com](mailto:zhen.feng@hoganlovells.com)

T +86 21 6122 3826

October 2011 by Deanna Wong and Feng Zhen

