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China's New Trademark Law: What's in Store?



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Background

The long anticipated new PRC Trademark Law was finally passed last Friday, 30 August, and will come into effect on 1 May 2014. The newly adopted amendments included in the latest version of the Trademark Law come after rounds of public comments as well as the Standing Committee of the National People's Congress (SCNPC)'s readings of the amendments in December 2012, June 2013, and August 2013.

For our comments on the earlier drafts, please click below alerts.

[China Releases 3rd Draft Amendments to Trademark Law](#)

[Starting 2013 in good form-A look at the latest amendments to China's Trademark Law](#)

Key points

The amended Trademark Law addresses numerous areas and we highlight some of the main points herein. We will provide further detailed updates in the coming months. In the meantime, here are the more salient points.

The new law:

- Attempts to deter trademark hijacking by imposing an obligation to uphold the principle of good faith on new filings and similar obligations on trademark agencies;
- Aims to deter infringement. For example, it raises the compensation ceiling for trademark infringement to RMB 3 million (about 500,000 U.S. dollars), six times the previous limit. Administrative fines will now be up to five times the illegal business turnover with relevant measures for repeat infringers;
- Widens allowable trademark matters by including sounds as registerable marks and offering multi-class applications;
- Clarifies well-known marks and who can recognise them whilst prohibiting the use of well-known marks as an advertising tool;

- Tries to improve the efficiency of the trademark registration process. For example, by introducing various timelines in processing oppositions, reviews etc;
- Tries to streamline trademark proceedings. For example, by introducing a locus standi requirement for oppositions based on relative grounds; removing the right for opponents to appeal unfavourable first instance oppositions (somewhat at the disappointment of the profession and IP owners) and introducing an invalidation procedure.

We outline in more detail the main changes below.

1. Principle of good faith

The new law adds an article stating that trademarks shall be registered and used by the principle of honesty and credibility. In practice, this should enable right owners to claim against others' acts of bad faith, provided it will be treated as a formal basis for oppositions/invalidations.

2. Trademark hijacking more difficult (bad faith extended regarding prior relationships, etc.)

The amended law adds a tool for brand owners in terms of dealing with trademark hi-jacking by business partners such as distributors and manufacturers. An application for trademark registration will be rejected when the trademark applied for is identical or similar in respect of the same or similar goods of another person's trademark that has been used earlier though not yet registered, if the applicant has a contractual or business relationship or any other relationship with the said person and thereby knows of (constructively or otherwise) the existence of the said person's prior mark.

3. Sound marks added to the scope of registrable marks

Until now, registrable marks were limited to visually perceptible signs, including words, devices, letters, numerals, three-dimensional signs, and combinations of

colours. The new Trademark Law also allows sound marks to be eligible for registration as a trademark.

Single colours, scents and moving images are not registerable. Furthermore, the new law explicitly provides that signs identical with or similar to the national anthem, military emblem, military song of the People's Republic of China, or identical with the names or symbols of China's central state organs cannot be used or registered as trademarks.

4. Clarification of the Protection of well-known marks

The new law clarifies the existing circumstances and venues for recognizing a well-known mark. It also tries to curb unnecessary recognition of well-known trademarks and fake cases initiated by right holders by prohibiting use of well-known trademarks as an honorary title for advertising. An administrative fine of RMB 100,000 (about 16,500 U.S. dollars) can be imposed.

5. Trademark agency obligations and responsibilities

As an added tool in the fight against bad faith registrations, several articles have been added in an effort to regulate the practice of the trademark agencies. Where a trademark agency violates the principle of honesty and credibility, and impairs the lawful rights and interests of its clients, it shall bear civil liability and be punished by the trademark agent industry organization. It further provides that trademark agencies:

- a. must follow the principle of good faith, and have the obligation to keep confidential business secrets that it comes to know in the process of handling trademark matters on behalf of their clients;
- b. are obliged to explicitly advise their clients where the trademark may not be registerable according to the law;
- c. shall not agree to handling a trademark application where it *knows or should know* that the client's application is an attempt to hijack another person's trademark, or is made with the intent to pre-emptively register, in an unfair manner, a trademark that is already used by another person and enjoys a certain reputation; and
- d. are not allowed to register trademarks that are not within the scope of their services.

Where a trademark agency violates c) or d) above, the CTMO and the TRAB may decide to stop accepting any cases handled by the agency or order the agency to make a correction with a possible fine between RMB 10,000 to 100,000. The persons who are in charge and others who are directly responsible at the trademark agency can be given a warning, imposed with a fine between RMB 5,000 to 50,000, and even be investigated for criminal responsibility. Credit rating penalties are also possible.

6. Facilitating the trademark application process

Filings

The new law provides more convenience by allowing full e-filing and multi-class filings.

The new law also "reintroduces" Examiner's Advice. Where necessary, the CTMO will issue Examiner's Advice to ask applicants to provide explanations or corrections.

Timing

In addition, new time limits for examination of certain cases have been included to shorten the registration process as follows:

a. Trademark Application / Opposition procedures

Case Type	Responsible Authority	Basic Time Limit	Extension Allowed
Initial examination of application	CTMO	9 months (as of receipt of filing)	-
Opposition	CTMO	12 months (as of expiration of preliminary publication period)	6 months
Review on Refusal of application	TRAB	9 months (as of receipt of filing)	3 months
Review on Opposition	TRAB	12 months (as of receipt of filing)	6 months

b. Trademark Invalidation procedures

Case Type	Responsible Authority	Basic Time Limit	Extension Allowed
Review on Invalidation (declared by CTMO ex officio)	TRAB	9 months (as of receipt of filing)	3 months
Invalidation Request (based on absolute grounds)	TRAB	9 months (as of receipt of filing)	3 months
Invalidation Request (based on relative grounds)	TRAB	12 months (as of receipt of filing)	6 months

c. Trademark Cancellation procedures

Case Type	Responsible Authority	Basic Time Limit	Extension Allowed
Cancellation Request (based on generalization / non-use)	CTMO	9 months (as of receipt of filing)	3 months
Review on Cancellation	TRAB	9 months (as of receipt of filing)	3 months

***Notes:**

- i. Extension allowed: Under some circumstances, the basic time limit may be extended. The time limit for appealing to the TRAB against the CTMO's decision is still 15 days as of receipt of the CTMO's decision.
- ii. The time limit for appealing to a court against the TRAB's decision is still 30 days as of receipt of the TRAB's decision.

7. Time limit for renewal of trademark registration extended

Renewals can now be made within 12 months before the renewal deadline, with a 6 month grace period. This should assist IP owners who also have to renew customs records which historically could lapse before confirmation of the renewal of the trademark registration.

8. Trademark assignment

The following provisions are added regarding trademark assignment:

- a. Where a registered trademark is to be assigned, the trademark registrant shall, at the same time, assign all of its registered trademarks that are similar to the trademark to be assigned in respect of the same goods. This includes marks that are identical or similar to the trademark to be assigned in respect of similar goods.
- b. Where the assignment of registered trademarks may produce confusion or other adverse effects, the CTMO shall not approve the assignment and must notify the applicant in writing.

Although the above was stipulated in the Regulations for the Implementation of the Trademark Law of China (2002) for many years, the above is now confirmed directly by the Trademark Law.

9. Recordation of trademark license contracts

A notable addition in the new law is that a trademark license contract without recordation with the CTMO cannot be used against third parties in good faith.

10. Opposition and dispute procedures changed; invalidation procedures provided

- a. The new law clarifies that a registered trademark shall have no retroactive effect on others' use of identical or similar marks on same or similar goods during the period of opposition, i.e. from the expiration date of CTMO's preliminary publication of the trademark to the date on which the TRAB issued the decision to approve the registration. However, a user who maliciously uses the trademark will be liable to compensate for any losses suffered by the registrant.
- b. Opponents can no longer file reviews at the TRAB on unsuccessful oppositions. This will be one of the most frustrating provisions for IP

owners as they will need to instead go through invalidation and risk trademark infringement until the mark is invalidated or revoked. Opponents are also required to have locus standi either by being the owner of a prior mark or an interested party in respect of opposing the mark on the basis of relative grounds. Otherwise, they will need to rely on the invalidation procedure. For absolute grounds, there will of course be no locus standi requirement.

c. CTMO may ex officio invalidate a registered mark

Where a registered trademark violates provisions in the Trademark Law explicitly stipulating that it shall not be registered or used as a trademark, or the registration of a trademark has been acquired by fraud or other unfair means, the CTMO shall declare the registered trademark *invalid* (instead of cancelling the registered trademark as provided by the current law); other entities or individuals may also request the TRAB to declare the registered trademark invalid.

If the registrant of the trademark refuses to accept the CTMO's decision to declare the registered trademark invalid, he/she may appeal to the TRAB within 15 days as of receipt of the CTMO's decision. Unfortunately, despite lobbying efforts the deadlines have not been extended.

Where such an appeal by the registrant, or a request for declaring the registered trademark invalid by another entity or individual is filed before the TRAB, the TRAB shall make a decision within 9 months as of receipt of the filing of the party concerned; however, this time limit is extendible for 3 months. If the party concerned refuses to accept the TRAB's decision, he/she may appeal to a court within 30 days of receipt of the TRAB's decision.

d. Invalidation filed by the pre-existing right owner or interested parties before TRAB

In certain cases, the pre-existing right owner or interested parties may, within five years from the date of registration, request the TRAB to declare the registered trademark invalid. The law provides for a number of circumstances that may warrant invalidation, including where a registered trademark contains a geographical indication in respect of goods not originating in the region indicated, and it misleads the public; or if it infringes on another person's prior trademark rights including a well-known trademark. Where the registration was made in bad faith, the owner of a well-known trademark is not bound by the five-year time limit. Unfortunately, despite widespread opinions in support, the five-year

exception still only applies regarding well-known marks.

If the party concerned refuses to accept the TRAB's decision, it may appeal to a court within 30 days of receipt of the TRAB's decision.

e. Legal effect of invalidation declaration

Any registered trademark that has been declared invalid shall be deemed to be non-existent from the beginning.

The decision on declaring a registered trademark invalid shall have no retroactive effect on any judgment, decision, or agreement issued or entered into prior to the invalidation declaration of the trademark.

11. "Use of trademark" specified

The new law adds an article specifying that the use of a trademark includes the use of the trademark on goods, packages, containers or in trading documents, advertising, exhibitions or any other business activities, which identify the source of the goods. This will likely be bundled in as part of the "OEM-trademark-use" debate which is expected to be clarified shortly. Please click [here](#) for one of our recent articles regarding OEM issues.

12. Cancellation/revocation of trademark registration by CTMO

The new law expands the circumstances under which an entity or individual may request the CTMO to cancel a registered trademark. It states that if a registered trademark has become a generic name of its designated goods, or has not been used without proper reasons for an uninterrupted period of three years, any entity or individual may request the CTMO to cancel the registered trademark.

In this regard, the amended law has deleted an article in the current trademark law that states, where a registered trademark is used on goods that are roughly or poorly manufactured, or on goods of bad quality which pass off as those of good quality, so as to deceive consumers, the CTMO may cancel the registered trademark.

13. Fines for improper use of unregistered trademarks

The amended law provides the Administration of Industry and Commerce (AIC) with the legal basis to determine fines for certain improper use of trademarks. In particular, where any person uses an unregistered trademark falsely represented as registered, or uses an unregistered mark that shall not be used as trademark as stipulated by the law, or fails to register a trademark which is mandatory under other laws and regulations, the local AIC can order that the use of the trademarks is halted and order the user to rectify the situation within a specified time limit, and may in addition circulate a notice of criticism or impose a fine. Where the illegal gains exceed RMB50,000, a fine up to 20% of the illegal gains may be imposed; where there are no illegal gains or the illegal gains are less than RMB50,000, a fine up to RMB10,000 may be imposed.

14. Trademark infringement acts expanded

- a. The definition of trademark infringement has been expanded by providing that "intentionally" facilitating trademark infringements, or helping others to conduct activities which infringe the exclusive trademark rights of others, is regarded as infringement. This expands the scope to arguably include indirect infringement and widens the provisions regarding secondary infringement. Intention is now added and the belief is that it encompasses constructive and actual knowledge.
- b. the new law clarifies that likelihood of confusion is necessary when assessing the use of a similar mark in respect of same or similar goods. It confirms the understanding under the TRIPS agreement and also under the *Supreme People's Court on Several Issues Concerning the Application of Law to the Trial of Cases of Civil Disputes over Trademarks (2002)*. The Supreme People's Court circular states that the designation "easily/likely to cause confusion" should be taken into consideration in determining the similarity of different trademarks and goods in question; however it was previously arguable whether "easily/likely to cause confusion" should be an element of trademark infringement in practice. This is now adopted and confirmed by the new Trademark Law.

15. Fair use specified

The proprietor of the exclusive right to use the registered trademark shall have no right to prohibit the fair use by another person of:

- i. such signs incorporated in the registered trademark as the generic name, design or model of the goods in question, or geographical names, or which directly show the quality, main raw materials, functions, intended purposes, weight, quantity or other characteristics of the goods in question;
- ii. signs incorporated in a registered three-dimensional trademark that are the shape, which result from the nature of the goods themselves, or the shape of goods which is necessary to obtain a technical result, or the shape which gives substantial value to the goods.
- iii. Where another person has been using an identical or similar trademark that has a certain reputation on same or similar goods prior to the application for registration for a trademark, the proprietor of the exclusive right to use the registered trademark shall have no right to prohibit that person to continue using his trademark within the original use scope, but may demand the user to add proper signs to distinguish the source of the goods.

16. Calculation of fines for trademark infringement (administrative penalties (AIC raid))

- a. Illegal turnover

Where illegal turnover exceeds RMB 50,000, a fine not exceeding 5 times the illegal turnover may be imposed; where no illegal turnover exists or the illegal turnover is less than RMB 50,000, a fine of no more than RMB 250,000 may be imposed.
- b. Punitive punishment for repeated infringement

Where an operator has engaged in infringing activities more than two times within five years, or if other serious circumstances exist, he shall be given a heavier punishment.

17. Calculation of civil damages for trademark infringement

- a. The amount of compensation for trademark right infringement shall be determined according to the following in order:

- i. Actual losses caused by the infringement;
- ii. The benefits acquired by the infringer through the infringement, if it is hard to determine the trademark right holder's actual losses;
- iii. The reasonably multiplied amount of the royalties of that trademark, if it is hard to determine the losses of the trademark right holder or the benefits acquired by the infringer.

Where the trademark infringement is committed in bad faith, and the circumstances are serious, the amount of compensation can be no less than one time and no more than three times the amount determined according to the above assessments. The amount of compensation shall include the reasonable expenses paid by the trademark right holder for stopping the infringement.

- b. Statutory damages increased to RMB 3,000,000
One of the most notable changes is the increase of statutory damages to six times more than the current RMB 500,000. If the losses of the trademark right holder, benefits of the infringer, or royalties of the trademark are all hard to determine, the court may, on the basis of the circumstances of the infringement, determine the amount of compensation to be up to **RMB 3,000,000**.
- c. Exemption from compensation

The new law provides for the following circumstances under which an infringer is not liable for damages:

- i. Where a party unknowingly offers for sale goods that infringe a trademark, but is able to prove that he has obtained the goods lawfully and can identify the supplier.
- ii. Non-use of the registered trademark by the trademark right holder

In case the defendant argues that the registered trademark was not actually used, the court may require the trademark right holder to provide evidence to prove actual use of the infringed trademark within the last three years or show loss. The addition of loss as a possible basis should be welcomed by IP owners as the previous draft only allowed for use of evidence. If the right holder does not provide evidence of actual use, and fails in proving its losses, the

defendant will not bear liability to compensate.

This was put forward by the Supreme People's Court in its Opinions issued in 2009. Since it is now provided directly by the Trademark Law, the courts will strictly observe this provision when determining damages in trademark infringement cases after the new law goes into effect. This is likely to affect the filing and enforcement strategies of most brand owners.

18. Trademark right holder's burden of proof partly reduced

More power is given to the courts to request materials from the infringer when determining the compensation amount. Once infringement is established, and if the right holder has tried to provide evidence, but the books and materials relevant to the infringement are controlled by the infringer, the court can order the infringer to provide the books and materials, in order to determine the amount of compensation. If the infringer refuses to provide or provides false books or materials, the court may determine the amount of compensation by referencing the evidence provided by the right holder.

This could reduce litigation costs for trademark holders and improve their position in litigation.

19. Handling conflict between the courts and AIC

During AIC enforcement, if there is any dispute over the trademark rights or the right owner concurrently files for civil trademark infringement litigation, the AIC can stay the case. This provides the legal basis to avoid potential conflicts between AIC decisions and court judgments. However, in practice, it may also result in delaying administrative enforcement.

20. Pre-litigation evidence preservation

Similarly to the Trademark Law promulgated in 2001, the amended law offers pre-litigation evidence preservation procedures where evidence may be destroyed, lost or become difficult to obtain. The difference is that the time limit of 48 hours from receipt of the application for the court to make a decision, has been deleted as well as the time limit of 15 days for the trademark right holder to initiate legal proceedings from the day on which the people's court takes the preservative measures.

Outlook

We believe the amended Trademark Law will result in a positive change for most brand owners, and look forward to seeing how the new provisions will be applied in practice.

As we understand, further clarification of the newly-amended provisions is under way: the Supreme People's Court is aiming to clarify bad faith and other definitions in an upcoming circular; there are also judicial discussions taking place to clarify the OEM manufacturing and trademark use dichotomy.

Further information

If you would like further information please contact a person mentioned below or the person with whom you usually deal.

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