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## China's New Trademark Law

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China's new Trademark Law has been issued and will become effective on May 1, 2014. Important changes in the areas of anti-piracy, prosecution, enforcement, well-known mark determination and usage, opposition and cancellation have been made. Foreign companies and their counsel should be aware of these changes so that rights and interests are not prejudiced and opportunities are not missed.

The significant changes include:

- Strengthened protection against piracy;
- Shortened trademark prosecution times;
- Availability of sound marks and multiple class trademark applications;
- Strengthened well-known mark protection;
- Narrowed legal standing for oppositions and invalidation;
- A mark proceeding to registration if the opposition fails at the first level of adjudication at the Trademark Office; and
- Increased fines, compensation, and statutory damage against infringement.

### Anti-Piracy

Article 7 of the new Trademark Law was added for attacking trademark piracy. Article 7 provides, “[the] application for registration and use of a trademark shall be based on the principle of good faith.” This new Article 7 was copied from Article 4 of China’s Civil Code and hence was already existing law.

Further, the existing Trademark Law already has provisions against piracy or bad-faith trademark registration. Specifically, Article 32



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provides, “The trademark application shall neither infringe upon another party’s prior existing rights, nor be an improper means to register a trademark that is already in use by another party and enjoys substantial influence.”

Article 19 of the new Trademark Law adds provisions prohibiting trademark agents from assisting clients engaging in trademark piracy: “The trademark agency knows or has already known that, where the client applies for a trademark that falls into Article 15 and Article 32 hereof, the trademark agency shall not accept the entrustment....”

As mentioned above, Article 32 prohibits trademark piracy or bad faith trademark registration. Article 19 should to some extent discourage trademark agents from advising clients to pirate third parties’ well-known marks.

In the last few years, although there have been a handful of cases where the Chinese Trademark Office and the Chinese Trademark Review and Adjudication Board examiners refused the registration of pirated marks, many rightful owners failed in opposition and cancellation proceedings usually because the rightful owners had not submitted evidence meeting the high evidentiary standards required by the examiners.

It remains to be seen whether the new articles will indeed result in examiners vigorously attacking piracy. The changes in the opposition and cancellation procedures (in particular, applications proceeding to registration upon oppositions failing at the first review by the Chinese Trademark Office) will be counterproductive to anti-piracy unless examiners have the political will to refuse registration of pirate applications.

### Prosecution

Sound marks are now registrable, but additional items related to the Chinese government (including the Chinese national anthem, the logo and theme song of the People’s Liberation Army, and the names and logos of Chinese Central Government agencies) have become unregistrable.

The new Trademark Law allows a trademark application to cover more than one class of goods and services.

Currently, the timeline for most trademark cases – notably, oppositions, cancellations, and reviews and appeals before the Chinese Trademark Office and the Chinese Trademark Review and Adjudication Board – can be a lengthy one. The new Trademark Law sets out specific time limits for the completion of cases. This should improve the length of the various trademark prosecution proceedings.

### Assignment

The assignment provision in the Implementing Regulation to the existing Trademark Law has been moved to the new Trademark Law.

Assignment of China-registered marks or pending applications requires approval by the Chinese Trademark Office. The assignor and assignee must enter into an assignment agreement and jointly file an application for approving the assignment with the Trademark Office. The filing of the application is not merely an act of recordation; it is a genuine approval process. After an assignment of a mark has been approved, the assignment will be gazetted. The assignee will then enjoy the exclusive right to use the mark from the date of gazetting.

The Trademark Office can reject an assignment on one of the following two grounds: (i) not all of the assignor’s identical or similar marks covering identical or similar goods or services are being assigned simultaneously; or (ii) “such assignment may cause mistaken recognition or confusion or have other negative effects.”

The risk associated with the first ground may be averted by conducting due diligence and appropriate searches.

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The second ground involves undefined terms that can be subjectively interpreted by the Trademark Office. In this regard, it is noteworthy that a document titled “Opinion Concerning the Question of the Use of Trademarks by Chinese-Foreign Joint Ventures and the Assignment of Trademarks to Foreign Parties,” issued on February 2, 1993, stipulates that the assignment of geographical indications to non-PRC entities is considered as something that would have a “negative effect.” In the Opinion, the Trademark Office states that the “joint use of trademarks in joint ventures with foreign businesses and the assignment of marks (to foreigners) should be studied in earnest and handled with great care.” This discretion of the Chinese Trademark Office allows it to refuse approving assignment of important marks owned by Chinese parties to foreign parties.

In the decade-long dispute between Danone and Wahaha, Wahaha signed a contract transferring its Wahaha mark, which was appraised at 100 million RMB, to the joint venture invested in by Wahaha and a Singapore company (which in turn was owned by Danone and a Hong Kong company). However, the Chinese Trademark Office refused to approve the trademark assignment on the grounds that the mark was a well-known mark of a Chinese state-owned enterprise. The assignment of the mark was consequently ineffective even though the parties signed the transfer contract.

Given this discretion of the Chinese Trademark Office, it is important that acquisitions be strategically planned to avoid risks posed by the discretion. This change should be noted by foreign companies and their counsel, particularly those engaging in mergers and acquisitions in China.

### **Well-Known Mark**

In the past 10 years, there have been misuses of the well-known mark system in China. For example, some companies have commenced fake litigation or cases to acquire well-known mark determination. The Chinese courts and trademark authorities were usually reluctant to make a determination on whether a mark should be accorded well-known mark status. As a result, the Chinese courts and trademark authorities tended not to make a determination if possible, deciding the cases on other grounds, for example.

Now, however, Article 14 of the new Trademark Law provides that well-known mark determination should be made as needed. In an attempt to counter misuses of well-known marks, the new Trademark Law prohibits any use of well-known mark designations on products, packaging, or containers, or in advertisements or other commercial activities.

It remains to be seen whether the new Trademark Law will actually result in the Chinese trademark authorities and courts making determinations of well-known mark status in cases where such determination is needed.

### **Standing In Opposition And Invalidation Proceedings**

Aside from registrability issues, the new Trademark Law no longer allows parties that are not prior right holders or interested parties to file oppositions or invalidations.

Oftentimes there is a need for third parties to file oppositions or invalidations. For example, to prevent retaliation, a party may wish to have oppositions or invalidations filed in the name of an unrelated third party in order to keep its identity confidential. Once the new Trademark Law comes into effect, that option will no longer be available.

### **Opposition**

An important change to the Trademark Law is that if an opposition fails at the Trademark Office level, which is the first level of review for an opposition, the mark would immediately proceed to registration. This is a drastic change from the current Trademark Law, where the opponent in such a situation may appeal to the Trademark Review and Adjudication Board and apply for judicial review at two levels of court.

Unless the Chinese Trademark Office examiners are willing to take up the fight against pirates, this change will fuel piracy as the registration of a pirated mark would embolden the pirates to hold legitimate right holders for ransom.

A key strategic point for foreign companies and their counsel to note is that this change elevates the importance of the evidence for supporting oppositions. It is very important that sufficient use, fame and other evidence for supporting oppositions is produced for oppositions.

From the perspective of the World Trade Organization document “Agreement on Trade-Related Aspects of Intellectual Property Rights,” to which China is a party, it is unclear whether the removal of the appeal and judicial review rights under the new Trademark Law is a violation of Article 41 of that Agreement:

... 4. Parties to a proceeding shall have an opportunity for review by a judicial authority of final administrative decisions and, subject to jurisdictional provisions in a Member's law concerning the importance of a case, of at least the legal aspects of initial judicial decisions on the merits of a case....

### **Infringement**

The new Trademark Law has in general increased the fines against infringers:

Article 60 ... Where the infringement is confirmed, the administrative department for industry and commerce shall order the infringer to cease such infringement, confiscate and destroy the infringing goods and tools used in producing such goods or forging logos of the registered trademark.

In the event of illegal business revenue of over RMB 50,000, a fine up to five times of the revenue may be imposed; in the event of no illegal business revenue or illegal business revenue of less than RMB 50,000, a fine up to RMB 250,000 may be imposed; in the event of trademark infringement of more than two times within five years or other serious circumstances, a heavier punishment shall be given. Where a seller with no knowledge of its infringing goods can prove the legality of acquiring such goods and point out the provider, the administrative department for industry and commerce shall order the seller to cease selling its goods....

Normally, compensation to right holders is calculated based on the loss suffered by the right holders or (if the loss suffered is hard to determine) the gain reaped by the infringers. If such loss and gain are hard to determine, compensation may be calculated based on a multiple of the license fees. For seriously malicious infringers, compensation may be one to three times the compensation calculated under the above methods. The statutory damage against infringers increased to RMB 3 million.

The increased fines, compensation and statutory damage should still lack deterrence value against infringement in light of the cost of enforcement and the huge profit from infringement. It is said that it is less risky and more profitable to engage in intellectual property infringement than to traffic narcotics.

### **Conclusion**

It is expected that the implementing regulation to the new Trademark Law will be issued soon to provide details on the implementation of the provisions of the new Trademark Law.

In the meantime, infringement and piracy continue to be rampant in China. Whether the new Trademark Law – with its increased fines and statutory damages and the incorporation of the good faith principle from the Civil Code – will be useful for fighting piracy will depend on whether the trademark authorities in China have the political will to seize the opportunity to fight piracy and infringement.

Nevertheless, the important message to foreign companies and their counsel is that bolstering their trademark portfolios is critical. If foreign companies' trademark portfolios are strong, then foreign companies would not need to be at the mercy of pirates and the narrowed standing for oppositions and invalidations, and they can effectively fight infringement.

The new Trademark Law ostensibly provides opportunities to obtain well-known mark status determination. Obtaining well-known mark status is another very useful tool to fight piracy and infringement, and foreign companies should consider seizing opportunities in this regard.