

WHD Insights: TM

About Use, Bad faith and Well-known trademarks

in the Context of the Fifth Amendment to the Trademark Law

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On January 13, 2023, the China National Intellectual Property Administration (CNIPA) published on its official website the draft fifth amendment to the Trademark Law (with a call for public comments) and some explanatory notes.

In these notes, CNIPA highlighted the main current problems, such as "trademark registration without use" which is relatively common, the malicious registration of trademarks, which still exists, the protection of trademark rights, which is still difficult, the improper exercise and abuse of rights, which occurs from time to time, and the problem of profit making through litigation, or even malicious litigation, which is becoming more and more widespread.

The CNIPA analyzed that the reason for these problems is that the trademark law has not met the needs of the market development: the system "emphasizes registration, but not use", the scope and strength of the fight against malicious trademark registration are still weak, and the protection of well-known trademarks is not strong enough.

The CNIPA has a very good knowledge of the problems and of their causes. This article discusses three important points of the proposed law amendment, namely the obligation to use registered trademarks, the prohibition of bad faith registration and use, and the protection of well-known trademarks.

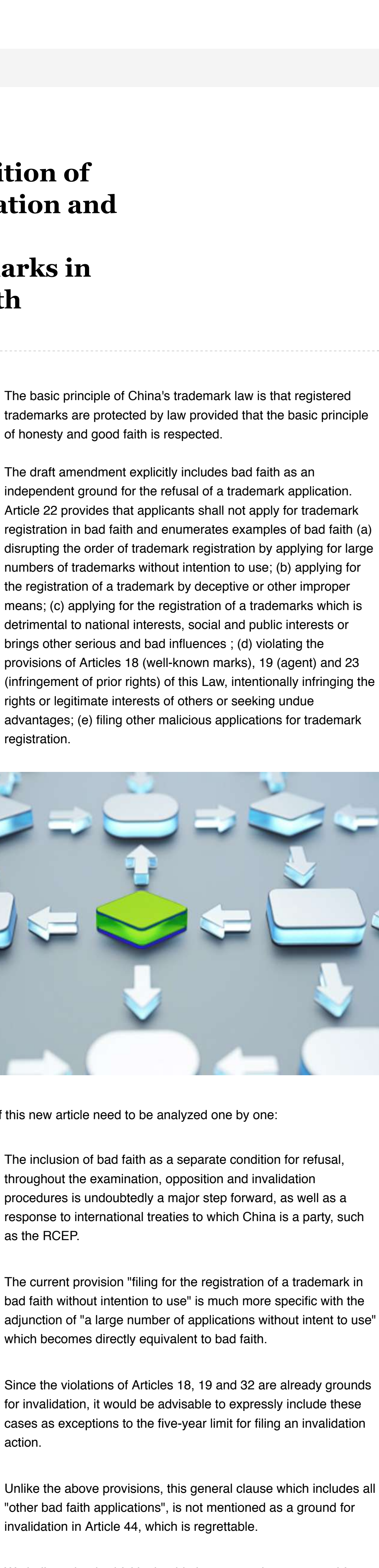
I. Obligation to use registered trademarks

In China, the exclusive right to use a trademark is based on registration, not on use. However, the obligation to use the trademarks, once registered, has been strengthened by successive amendments to the Trademark Law.

The draft amendment adds an obligation to use the mark or undertake to use it at the application stage (Article 5), and establishes a system whereby the registrant must submit, every five years after registration, explanations of its trademark use. In case of failure to explain the use without justification, the trademark is deemed to have been abandoned, and if, through random checks, it is found that the explanations are false the trademark is revoked (Article 61).

The analysis below focuses on these two proposed changes.

This new system is obviously inspired by the US trademark system. The US Trademark Act of 1988 allows for the filing of a trademark application based on intent to use, while allowing a grace period of up to 36 months to honor that commitment.



Concerning the requirement to submit a statement of use every five years (which also appears to be modeled on U.S. trademark law), as we do not know what would be the specific requirements, such as the level of detail of the statement, how it will differ from the current evidentiary requirements in revocation proceedings, and whether interested parties can read the file or request a random inspection from the competent authorities, it is not yet possible to assess the extent of the resulting burden for trademark owners, but it is conceivable that those who do not use their trademarks will inevitably be under greater pressure, and those who used them will bear an additional burden of proof.

If we turn our attention to the European trademark legislation, we find a different answer to the same question. The EU Trademark Regulation and Directive provide that when an opposition or an invalidation action is filed by the holder of an earlier trademark, that has been registered for more than five years, the defendant party may request that the holder of the cited earlier trademark produces evidence of use during the five years preceding the date of application of the later trademark, and that, in case of failure to do so, the opposition or the application for invalidation shall be rejected.

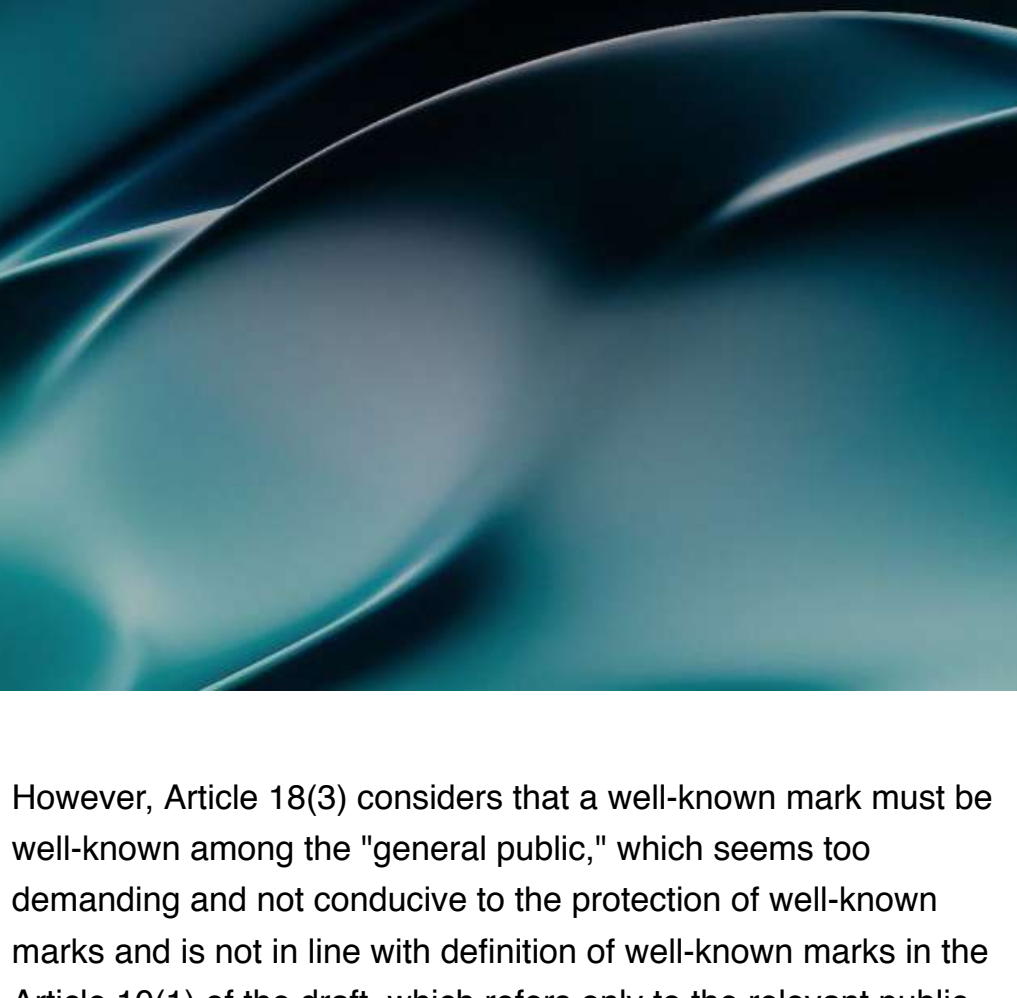
Therefore, we could borrow the above practices from Europe and the United States by requiring, on the one hand, that the trademark applicant undertakes to use the trademark, in order to remind him of his obligation and, on the other hand, that where the holder of a trademark that has been registered for more than three years files an opposition or an invalidation action against a subsequent trademark, the applicant or owner of such subsequent trademark may request that evidence of use of the cited trademark be produced. It could even be added in such a system that, when a new trademark application is refused ex officio by the Examiner, on account of a cited prior trademark, the applicant shall have the right to request in the appeal procedure that evidence of use of the cited trademark be produced. This should considerably simplify and facilitate the registration of next trademarks. Needless to say that all owners should be relieved of the obligation to file a declaration of use every five years.

The issue of defensive marks will be addressed later in the context of well-known marks.

II. Prohibition of registration and use of trademarks in bad faith

The basic principle of China's trademark law is that registered trademarks are protected by law provided that the basic principle of honesty and good faith is respected.

The draft amendment explicitly includes bad faith as an independent ground for the refusal of a trademark application. Article 22 provides that applicants shall not apply for trademark registration in bad faith and enumerates examples of bad faith (a) disrupting the order of trademark registration by applying for large numbers of trademarks without intention to use; (b) applying for the registration of a trademark by deceptive or other improper means; (c) applying for the registration of a trademarks which is detrimental to national interests, social and public interests or brings other serious and bad influences; (d) violating the provisions of Articles 18 (well-known marks), 19 (agent) and 23 (infringement of prior rights) of this Law, intentionally infringing the rights or legitimate interests of others or seeking undue advantages; (e) filing other malicious applications for trademark registration.



The provisions of this new article need to be analyzed one by one:

1st The inclusion of bad faith as a separate condition for refusal, through the amendment to bad faith as an independent ground for the refusal of a trademark application, is undoubtedly a major step forward, as well as a response to international treaties to which China is a party, such as the RCEP.

2nd The current provision "filing for the registration of a trademark in bad faith without intention to use" is much more specific with the adjunction of "a large number of applications without intent to use" which becomes directly equivalent to bad faith.

3rd Since the violations of Articles 18, 19 and 32 are already grounds for invalidation, it would be advisable to expressly include these cases as exceptions to the five-year limit for filing an invalidation action.

4th Unlike the above provisions, this general clause which includes all "other bad faith applications", is not mentioned as a ground for invalidation in Article 44, which is regrettable.

We believe that bad faith should always constitute a ground for invalidation. An inspiration could be found in the judgment rendered by the European Court of Justice in the Sky case [C-371/18], such bad faith may be established if there is objective, relevant and consistent indicia tending to show that, when the application for a trade mark was filed, the trade mark applicant had the intention either of undermining, in a manner inconsistent with honest practices, the interests of third parties, or of obtaining, without even targeting a specific third party, an exclusive right for purposes other than those falling within the functions of a trade mark.

In addition,

the draft amendment specifies the amount of fines applicable to bad faith trademark registration (Article 67), and where bad faith trademark applications harm the interests of the State or the public interest or cause significant adverse effects, prosecution will be initiated by prosecution authorities; it is also provided that if bad faith trademark applications cause harm, it is possible to claim compensation via a civil litigation (Article 83) [in that regards, it has been suggested that such compensation, or at least

a proper reimbursement of legal fees, should be awarded at the end of a successful administrative litigation, without having to resort to a new civil litigation]. The draft introduces a system of counterclaim in case of bad faith civil litigation (Article 84). These provisions, which introduce into the law existing judicial interpretations and practices, aim to make bad faith applications economically unprofitable, which will certainly have a considerable deterrent effect on potential malicious applicants.

Finally, it is worth mentioning that the draft amendment also specifies that when a trademark is invalidated, the owner of that trademark is liable to pay to compensate the damage caused by the infringement acts committed after registration and before invalidation (Article 48), but unfortunately, such liability is not automatic: it only applies if the infringer acted in bad faith. Such a condition of bad faith is controversial. Indeed, at present, under Article 47(2), the invalidation has a retroactive effect and the trademark is deemed having been non-existent from the beginning. However, if the trademark had been enforced against an infringer, or had been the object of a contract and if the judgment or the contract have been executed, the money involved should not be reimbursed ... except in case of bad faith. Adding the condition of bad faith as a condition, for an infringer, to be liable, raises serious questions, and makes it more difficult to have damages.

III. Protection of well-known trademarks

The draft amendment (Article 18) adds a new third paragraph about the concept of dilution and free riding on the reputation of the well-known trademark, which reproduces the definition already provided by the Supreme People's Court in its Interpretation of 2009. However, the draft maintains unchanged the precedent paragraph which refers to "misleading the public and harming the interests of the right holders". Since that expression "mislead etc." had already been explained by the Supreme Court, it seems preferable to simply delete it and no need to explain anymore.

A question remains regarding unregistered well-known trademark. In the current law and in the draft, the remedy is only an injunction prohibiting to register and use a confusing trademark. Nothing about the possibility to obtain damages, which would imply that the acts are considered as infringing acts. In a famous case, concerning the Xinhua dictionary (新华字典), Beijing IP Court ruled in favor of the plaintiff on the ground of the Tort Liability Law. Such a solution could also be clarified in the Trademark Law.

It is also worth noting that the special protection of well-known trademark applies not only when the conflicting trademark is used on non-similar goods but also when it is used on identical or similar goods.

However, Article 18(3) considers that a well-known mark must be well-known among the "general public," which seems too demanding and not conducive to the protection of well-known marks and is not in line with definition of well-known marks in the Article 10(1) of the draft, which refers only to the relevant public. The concept of "relevant public" is more flexible, and it may be noted that the European Court of Justice in the Intel case [C-252/07] pointed out that the issue can be resolved depending on the circumstances: in diluting and tarnishing cases, the mark only needs to be well-known in the relevant public of the plaintiff, whereas "free riding" requires proof of reputation in the relevant public of defendant.

Finally, what about "defensive marks"? They serve a purpose of providing the protection attached to registration, even though, they are registered in relation to goods or services for which the owner had no activity. A number of countries used to have a system of defensive marks, but fewer and fewer countries still do. It is generally only applicable to a small number of types of marks or is generally limited to well-known marks. In fact, what the owner wants is to obtain a larger scope of protection than what the registration of his trademark, in his field of activity, provides. Such a wider protection should, normally, be provided by the system of well-known trademark, as Article 10(2) of the draft stipulates, the scope and strength of protection shall be in proportional to the distinctiveness and reputation of well-known marks. So, the question about defensive trademark only arises when it is particularly difficult to obtain the recognition of the well-known status: trademark defense and a well-known trademark can be viewed as two sides of the same coin.

Therefore, if we insist that only used marks can be protected, the problem that defensive marks are supposed to solve should and can be solved by lowering the threshold of protection for well-known marks. In other words, the more well-known marks can play a role in combating dilution and free riding, the less need there is for the defensive mark system, and the better the balance between registration and use of marks can be maintained, thereby smoothing out the relationship between the two and achieving the ideal state of

"those who are registered are used, and those who are used are registered."