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Huang Hui and Paul Ranjard of Wan Hui Da
provide a guide to the third round of revisions
to China's Trade Mark Law

Adopted in August 1982, revised in February 1993, revised again in October 2001 when China adhered to the World Trade Organisation, the Trademark Law of China is undergoing a third round of revisions, which has reached the level of the State Council Legislative Affairs Office (SCLAO).

No fewer than five drafts have already been published in April 2006, August 2007, June 2009 and March 2010. In December 2010, the State Administration for Industry and Commerce issued a new revised but unpublished version, which was transferred to the SCLAO. In September 2011, the SCLAO published the latest draft. Some earlier drafts considered a complete change in the registration procedure, such as the deletion of the *ex officio* examination on relative grounds of refusal. The subsequent drafts, more in line with the state of the law, propose a limited number of changes, some of which are analysed in this article.



TRADE MARK LAW REVISION



Colours and sounds

China is progressing with caution on the question of non-traditional trade marks. After three-dimensional trade marks and combinations of colours were added to the law in 2001, (almost all applications were refused at the China Trade Mark Office (CTMO) level and only a few made it to registration through the various steps of review), the new draft is proposing to add single colours and sounds in Article 8. In 2010, the CTMO even proposed adding smells and motion to the law, but the SCLAO did not retain this proposal. The evolution is welcome and practical details and revised Implementing Rules are expected in the future.

Application procedures

In compliance with the Singapore Treaty on trade marks, China is accepting the principle of multiclass trade mark applications in Article 22. In Article 32, the draft provides for an examination notice, which allows the applicant to amend its application according to the proposal of the examiner. Unfortunately, the draft still does not take into account proposals to allow the division of trade mark applications. As a result, where an application is only partially refused, if the applicant insists on obtaining registration for the refused part, it is necessary to file an application for review in respect of the whole trade mark.

This means that the registration of the approved part is delayed.

Oppositions

The acceleration of the registration procedure is one of the goals of the drafters. In Article 38, they make a new proposal: if an opposition is rejected by the CTMO, the trade mark is immediately registered and the opponent, if dissatisfied with the decision, is only allowed to file a cancellation action with the Trade Mark Review and Adjudication Board (TRAB). At first, this modification of the law, which now provides for a review of the CTMO decision before the TRAB,



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Before joining Wan Hui Da, Huang served 12 years at the State Administration for Industry and Commerce, where he gained a profound understanding of the lifecycle of trade mark proceedings both in theory and in practice. He also studied international industrial property law and graduated from the Centre of International Study of Industrial Property, Robert Schuman University in France. After graduation, Huang conducted academic research on the protection of well-known trade marks within the China Academy of Social Sciences (*Legal Protection of Well-Known and Famous Marks*, Law Press, 2001), where he studied under Zheng Chengsi, the most renowned IP expert in China, and was finally awarded the degree of doctor at law.

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was considered by commentators as a good practical solution to accelerate registration. However, after further consideration and in particular in view of the recent evolution of the Supreme People's Court (SPC) opinion on trade mark protection (Opinions of April 2010 and December 2011), it appeared that the solution poses risks.

The SPC recommends that when assessing the likelihood of confusion between a registered trade mark and an opposed trade mark, the reputation of both trade marks should be considered. Since once a trade mark is registered it becomes impossible to sue its user, and since the owner may use the trade mark during the entire cancellation procedure, which may last for several years, in particular if appeals are formed before the judicial authority, there is a high probability that the opponent might lose the case on account of the reputation acquired by the opposed trade mark during the procedure. It is certainly safer for the owner of the registered trade mark to block the registration of the opposed trade mark and make sure that it does not acquire a position in the market.

Bad faith

This is one of the hottest topics with respect to the revision of the Trademark Law. Foreign trade mark owners are sometimes slow to file in China and a

frequent complaint is that when they do so, they realise that it is too late: someone else has filed the same trade mark, and is patiently waiting for the opportunity to sell back the trade mark to its owner. Every now and then, when a Chinese trade mark owner files applications in foreign jurisdictions, it finds out that another person has already filed the mark as occurred recently with Baidu in Europe.

The first-to-file system supports such conduct, in principle. The automatic, and sometimes perverse, outcome of the first-to-file system needs to be corrected to provide an equitable procedure to prevent bad faith.

The *Baidu* case presented a good opportunity to discuss this topic during the last EU China IPR Working Group, a biannual event. Both sides realised that, even though they shared the same objective to fight against bad faith, their respective procedures showed differences. In Europe the laws do not define bad faith precisely: judges may base their decision on any facts that contribute to establishing bad faith on the part of the challenged trade mark applicant. In China, the legislator sets the rules: in Article 31, the principle is that if a trade mark has been used in China and has acquired a certain influence, a pre-emptive trade mark application made by unfair means cannot be registered. This rule is often used by trade mark owners, but proving sufficient use of the trade mark in China before the date of the challenged trade mark application is difficult. If there is no prior use, the chances of winning a case on the ground of bad faith are almost non-existent.

The revised Article 34, in place of Article 31, offers two options: option one keeps the law basically unchanged, and option two is composed of two parts: the first describes circumstances that would establish a contractual or geographical or other relation between the challenged trade mark applicant and the unregistered trade mark

owner, and the second, aims to protect registered trade marks with a “strong distinctiveness and a certain reputation” against another plagiarised trade mark application for “different or dissimilar goods”, if this “would easily cause confusion”.

The reaction to the first part of the second option was ambivalent. On the one hand, it is appreciated that the legislator observes the serious situation created by bad faith trade mark filing. On the other hand, the general impression remains that bad faith can be revealed through so many creative behaviours that it is beyond the capacity of the legislator to provide for a fixed definition of such circumstances. This being said, the second option could be accepted pro-



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Since then, Ranjard has devoted most of his time to IP related cases, acting on behalf of French companies to help protect their IP rights, as well as representing the French association Unifab, and chairing the IPR Working Group of the European Chamber of Commerce. He is now of counsel to Wan Hui Da.

Ranjard is an active speaker at academic seminars and international conferences. He is the co-author of the article *Actions Speak Louder than Words (Managing Intellectual Property/China IP Focus 2007)*, *Relative Grounds of Refusal in China & EU (MIP/China IP Focus 2008)*, and *Customs and Protection of Intellectual Property (MIP/China IP Focus 2009)*.

vided that the precision “used in China” is deleted. This requirement imposes an unfair and unrealistic condition on foreign trade mark owners, whose trade marks, even if not yet used in China, have been targeted by bad faith applicants.

The second part of the second option concerns a situation similar to that of Article 13.2 – the cross category protection of well-known trade marks – except that it seems to only concern cases of almost identical reproduction, whereas Article 13.2 relates both to identical and similar trade marks. In other words, the proposal offers the possibility to obtain protection of a registered trade mark where the same, or almost the same, trade mark has been filed by another person in other class of goods, even if the registered trade mark is not well-known. However, this option shares the same conceptual error with Article 13.2: when a trade mark is used on different goods, the issue is not confusion but mental association between the two marks, which may result in diluting the registered trade mark or providing undue profit for the applicant.

Definition of use

Whether a sign is used as a trade mark is often disputed. The issue is addressed in Article 3 of the Implementing Rules: affixing to commodities, packages

or containers, commodity exchange documents, advertisements, exhibitions and other commercial activities. In the previous draft, Article 51, the definition was upgraded to the status of legal

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provision, with an added reference to electronic media. The new Article 53 seems to introduce a certain restriction, by indicating that the operations – affixing the mark on commodities for example – should be made “for the purpose of production and business”, which seems equivalent to the classical expression “in the course of trade”. Furthermore, the Article provides that the above operations should be made “in a way that would sufficiently enable the relevant public to recognise such activities as being the use of a trade mark”. If “use as a trade mark” is what the relevant public may easily identify as what is being used as a trade mark, this final precision leaves unanswered the basic question that the Article was supposed to clarify: what is use as a trade mark?

Enforcement

Article 64 of the revised draft provides for a more severe administrative punishment of those who have committed trade mark infringement twice or more within five years. The law does not say to what extent the punishment should be heavier, but we hope that the future revised Implementing Regulations will.

On civil litigation, Article 67 raises the amount of the statutory damages, when no evidence of illegal gain or losses can be provided, from Rmb500,000 (\$80,000) to Rmb1,000,000. The Article adds another condition for the plaintiff, who should provide evidence that the trade mark has been used during the preceding three years. In any civil case, the trade mark owner will need to provide evidence of use, without which no compensation will be awarded, even if an order to stop using the infringing trade mark is granted.

This establishes a direct relation between the damage caused by an act of infringement and whether the infringed trade mark is used or not, which is inaccurate. Even if the registered trade mark is not used, the fact that another person is using it without authorisation causes damage: it causes disturbance in the market, and when the

registrant decides to start using the trade mark, extra efforts will have to be made to redress the situation. This needs to be compensated.

Challenges remain

The third revision is an opportunity to modernise the Law and put aside certain aspects of the Law that are no longer adapted to the state of development that China enjoys today. It will also be an opportunity to introduce some fundamental principles related to trade marks that foreign countries have, through accumulated experience, progressively established and that have proven so far to be efficient for the development of world-wide brands.

One of these fundamental principles is that in a market economy, the exclusive right to use a registered trade mark is essentially a private right to be handled by the owners. Trade mark owners should be left free to organise their coexistence, if they wish. The market would automatically regulate the results, and the workload of the CTMO and TRAB examiners would be greatly improved. Trade mark assignment should only be recorded at the TMO and not subject to approval by the TMO.

The draft, in its latest stage, still maintains some confusion on well-known trade marks. The concept of trade mark dilution and free riding should clearly be mentioned, following the 2009 Interpretation of the Supreme Court. The law should avoid referring to misleading the public, where no confusion exists, but only the association or the link between the two trade marks in the mind of the consumers. In this regard, the words non similar goods should be deleted from Article 13.2, as in the previous draft published in 2008. It would also be very useful to provide for the possibility to cancel a registered trade mark that, after it is transformed in actual use, becomes infringing.

The Law should state clearly that the trade mark owner is a party concerned in the administrative enforcement procedure and has the legal right to be present or represented at all stages of the procedure, from the raid to the disposal of the goods.

On the issue of transfer of cases from the AIC to the police when the criminal threshold is met, it should be a legal requirement that the AIC immediately transfers the case and refrains from issuing an administrative fine. This is precisely how the SAIC responded to a question asked by the Guangdong AIC in July 1999 (Gongshang Fu Zi [1999] N°192 28/7/99): if the administrative fine has not yet been issued when the case has met the criminal threshold, the AIC should not issue the penalty and should immediately transfer the case to the police.



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