



Amending China's trademark law

🌐 *A discussion of the possible changes to trademark law in China*

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The Trademark Law of the People's Republic of China ("Trademark Law") was enacted in August 1982, four years after China commenced its transition to a market economy. The Trademark Law came into force on March¹, 1983 and has been amended twice so far. The First Amendment was made in 1993 under pressure from the United States, and the Second Amendment was made in October 2001 to facilitate World Trade Organisation (WTO) accession.

There have been significant changes to each aspect of China's economy since its entry into the WTO in December 2001. China's gross domestic product (GDP) has tripled within 8 years.¹ This period of rapid economic growth has led to sharp increases in trademark filings and registrations. In 2001 the Chinese Trademark Office received 270,417 applications for registration of trademarks and issued 202,839 approvals for registration. In 2006, applications grew to 766,319, and registrations increased to 275,641,² representing an 83% increase in filings and a 35.9% increase in registrations, within a period of only five years. As a result,

the period of time between filing and substantial examination of applications has increased from one year in 2001 to two to three years nowadays.

The Chinese government recognises the need to update the Trademark Law in response to China's domestic economic growth and an increasingly important role it plays in the global economy and has made efforts to introduce necessary reforms.

From 2003 to 2006, the State Administration for Industry and Commerce (SAIC) invited individuals and organisations, including foreign industrial associations and professional organisations, to provide comments on how to amend the Trademark Law. Since then, SAIC has prepared at least three draft versions of the revised Trademark Law for internal discussions. One of the draft versions — a draft Third Amendment — was published in 2007 for public comments.

Visibility requirement

Under the current Trademark Law, trademarks are registerable only when visible.³ As a result, it is not possible to

register invisible trademarks such as sounds, scents or smells. However, the government has received comments suggesting elimination of the visibility requirement, paving the way for registrations of sounds, scents or smells.

Multi-class application

In China, an applicant has to file one application for each trademark in each of the classes the applied-for goods or services cover.⁴ However, the trend of modern trademark law is to allow multiple-class applications so that, as provided in Article 6 of Singapore Treaty on the Law of Trademarks, where goods and/or services belonging to several classes have been included in one and the same application, such an application shall result in one and the same registration.

It is likely that China will amend its Trademark Law to allow multiple-class applications in order to keep its commitments to the treaty and reflect the modern trend of trademark legal system.

Geographic names

In many countries, there are restrictions on the registrability of geographic names. In China, the Trademark Law sets forth different standards for the registrability of geographic names in China and that of geographic names in foreign countries. A geographic name of any administrative division at or above the county level in China is not registerable unless it has a secondary meaning. However, a foreign geographic name is not registerable only when the name is well-known among the public.⁵

There is no sound policy justification for these heightened standards for geographic names in China because the level of administrative hierarchy does not necessarily reflect likelihood of causing confusion among the consumers.

It is likely that the new Trademark Law will establish a uniform standard for both domestic and foreign geographic names, and that such standard will not be based on the level of administrative hierarchy.

Eligibility of natural persons

Before the Second Amendment became effective in 2001, a domestic natural person was not eligible to apply for registration of a trademark in China while a foreign natural person was eligible. As a result of the Second Amendment, Chinese natural persons are eligible to file trademark applications.

Many experts believe that the elimination of these eligibility restrictions was one of the main reasons why in 2006 China had the highest number of trademark applications in the world. The Chinese Trademark Office liked being number one but they shortly realised that they had a problem: a large percentage of registered trademarks had never been used and many registrants had never had any intent to use their registered trademarks.

The Chinese Trademark Office decided to fix the problem. In February 2007, the Chinese Trademark Office issued new regulations on the eligibility of natural persons for trademark registration, which provided that applications filed by natural persons would be returned unless the applicant submitted evidence of business engagement, such as a business license or partnership registration. Although the Trademark Office stated that the new regulations reflected the correct understanding of the Trademark Law, the agency was sued in October 2007 by a lawyer who filed a trademark application as a natural person. The lawsuit is still pending and evidence of business engagement is still required for a natural person to apply for a trademark registration.

It appears that the Third Amendment will introduce certain restrictions to eligibility of natural persons for trademark registration but the new restrictions may not necessarily be the same as those the regulations have imposed.

Removal of relative grounds

Under the current Trademark Law, the Trademark Office needs to examine each application determining whether a refusal should be made for any absolute ground or any relative ground. "Absolute grounds" ensures that the trademark does not fall within those circumstances under which the trademark by itself is not registerable, such as being devoid of any distinctive character. "Relative grounds" ensures that the trademark does not conflict with any earlier trademark applications or registrations.

There has been a debate in China about whether relative ground examination should be removed. Relative ground examination is a time consuming task and some believe that its removal would expedite the process of examination and shorten the waiting time. Others argue that, if relative ground examination were removed, the owners of earlier applications/registration would bear the burden to more closely monitor filings for conflicting trademarks and this would

lead to an increase in opposition actions and cancellation actions. Such an increase would not only extend the waiting time of such actions but also lead to additional costs for all parties involved.

It is unclear whether or not there will be any change in this area.

Observation in case of intended refusal

The Chinese Trademark Law does not require the Trademark Office to send a notification of intended refusal to the applicant when they determine that an application should be rejected. The applicant has no notice of the intended refusal and no means of discovering the grounds for intended refusal before a final refusal is issued. The applicant's only recourse is to file an application for a review with the Trademark Review and Adjudication Board (TRAB) if he thinks the grounds for refusal are unacceptable. The waiting time for a review is typically between two to five years.

This aspect of the Chinese Trademark Law arguably violates the Singapore Treaty on the Law of Trademarks, which requires that applicants be given an opportunity to make observations on the intended total or partial refusal within a reasonable time period.⁶ Moreover, this has become a common practice in many other countries.

It appears that the Chinese government has decided to address this arbitrary practice of the Trademark Office by introducing a provision to the Trademark Law that expressly gives applicants an opportunity to make observation in case of intended refusal of trademark application within a reasonable time period because this change was included in the published draft for public comments. If adopted, this change in the law will be a significant improvement.

Opposition procedure

Under the current Trademark Law, oppositions should be filed with the Trademark Office within three months from the publication date. Decisions of the Trademark Office are subject to review of the TRAB, and decisions of TRAB are subject to judicial review. Both the Trademark Office and TRAB are divisions of the State Administration for Industry and Commerce (SAIC), and their decisions are administrative rulings in nature.

In order to simplify procedures in opposition cases, the draft Third Amendment proposes that proceedings be initiated before the TRAB, rather than the

office, thereby removing one step in the administrative process. It is proposed that if the TRAB reviews a case and finds the opposition unjustifiable, it should be given discretion to issue a decision without notifying the applicant that its trademark has been opposed.

The draft suggests oppositions should be filed with TRAB directly.

Claim for attorney fees and costs

Unlike in many other countries, TRAB has no power to award any attorney fees or costs in trademark disputes.

In order to encourage parties to be more cautious when initiating a dispute and discourage bad faith filings, the draft Third Amendment would authorise the TRAB to award reasonable attorney fees and costs to the prevailing party in certain circumstances, such as when the losing party files an opposition without merits for the purpose to cause a delay of a trademark registration.

If this happens, the change will be a fundamental reform to the Chinese dispute resolution culture because no remedy for attorneys' fees has been available even in lawsuits in China.

Parallel import

The Chinese Trademark Law does not literally prohibit parallel imports. There has been controversy over whether parallel import falls within the definition of trademark infringement under Article 52 of the Trademark Law. Pursuant to Article 52, one of the circumstances in trademark infringement occurs is when the defendant "causes, in other respects, prejudice to the exclusive right of another person to use a registered trademark."

Some argue that parallel importation is covered by the above definition of trademark infringement because there is no authorisation to use the trademark, and parallel imports cause prejudice to the interests and rights of the trademark owner. Others contend that Article 52 should not be interpreted literally because the fundamental purpose for prohibiting trademark infringement is to stop consumer confusion as to the source of goods or services. If there is no confusion in terms of the source of the goods, no infringement should be found.

There has been at least one case in which the court found that parallel importation constituted trademark infringement. In that

case, the defendant imported "LUX" soap from Thailand to China without authorisation from the plaintiff, the exclusive licensee of the trademark "LUX" for soap in China. The Guangzhou Intermediate People's Court concluded in 1999 that there was trademark infringement because there was no authorisation. The defendant did not appeal and the judgment became effective. Unlike in common law jurisdictions, case law in China is not binding on other courts; thus, the impact of this decision is unclear.

When the Second Amendment was made in 2001, the People's Congress did not clarify whether parallel imports should be prohibited, although there were discussions on this matter.

As a result, there is no consensus on the status of parallel imports in China. Moreover, it is uncertain whether the Chinese government will amend the Trademark Law to clarify this grey area.

Defensive trademarks

In many countries, defensive trademark registrations are used to prevent a third party from registering well-known trademarks of others in respect of non-



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Damages for trademark infringement

Under the current Trademark Law, in a successful infringement case, the trial court must consider which of the following two methods should be used to assess damages: (i) the losses sustained by the plaintiff; (ii) the profits derived by the defendant from infringing activities.⁸


In a judicial interpretation issued in 2002, the Supreme

Conclusion

The legislative process in China lacks transparency relative to western standards; however, since 2003, both the National People's Congress, which has the power to enact legislation, and the State Administration for Industry and Commerce (SAIC), which has taken the lead in drafting the Third Amendment to the Trademark Law, have taken significant steps to increase transparency in preparing a bill, including by seeking public comments. One of the steps was making available for public comment a draft Third Amendment.

This article describes possible changes to the Trademark Law by the Third Amendment. The published draft suggests that the Chinese government is prepared to make more significant changes to the Chinese Trademark Law than it did with the First and the Second Amendment.

Because many provisions of the current Trademark Law are inconsistent with the Singapore Treaty on the Law of Trademarks ("Singapore Treaty"), which China signed in January 2007 and which came into force on March 16, 2009, China needs to move more quickly to enact the Third Amendment to the Trademark Law.

The SAIC is still working on drafting the Proposal for Third Amendment, and it is likely that the Third Amendment to the Trademark Law will be submitted to the People's Congress for review and approval later this year or early next year. 

Notes

- 1 Compiled with data at www.worldbank.org
- 2 Source: the State Administration for Industry and Commerce, the Trademark Office, available at http://www.tdtm.com.cn/dongtai/news/17_0004.htm (last visited on February 12, 2009)
- 3 Article 8 of the Trademark Law
- 4 Article 20 of the Trademark Law
- 5 Article 10 of Trademark Law
- 6 Article 21 of Singapore Treaty on the Law of Trademarks
- 7 Article 13 of the Trademark Law
- 8 Article 56 of the Trademark Law
- 9 Article 20, Several Provisions by the Supreme People's Court on Several Issues for Application of Trademark Law in Trial of Trademark Cases, Judicial Interpretation No. 32 of 2002.
- 10 Article 56, the Trademark Law.
- 11 Article 65, the New Patent Law.
- 12 Article 65, the New Patent Law.

similar goods or services. These registrations aim to prevent any perceived connection in the course of trade between those non-similar goods or services and the registered proprietor of the well-known trademarks.

China has not introduced the defensive trademark concept to its Trademark Law. Without having any registration for non-similar goods or services, a registered proprietor of a well-known trademark can be protected to prevent others from registering identical or similar trademarks for non-similar goods or services on the following conditions: (i) the proprietor has registered the well-known trademark in China; (ii) the trademark in the application of others is a reproduction, imitation or translation of the well-known trademark; (iii) there is likelihood of confusion among the consumers.⁷ Such protection does not cover similar trademarks that are not reproduction, imitation or translation of the well-known trademark.

If the proprietor registers the trademark for other goods or services only for the purpose of preventing others from registering such other goods or services, his registration is subject to cancellation based on non-use for a consecutive three-year period.

Therefore, there is not sufficient protection for well-known trademarks to prevent others from registering a similar trademark for non-similar goods or services.

Some suggest introducing the concept of "defensive trademark" into the Chinese Trademark Law. It is unclear whether this change will happen and, if it happens, how the mechanism will be designed.

People's Court interpreted this provision as meaning that the plaintiff has a right to choose one of these two assessing methods for use in the trademark infringement case.⁹

If it is difficult to calculate both the losses the plaintiff has suffered and the profits the infringer has gained, the trial judge may determine the amount of damages up to 500,000 Chinese yuan (about US\$72,000) based on the circumstances of the case.¹⁰

The provisions in Patent Law and relevant judicial interpretation about damages available for patentees are similar to the above provisions. A new amendment to the Patent Law which will come into force in October 2009 does not grant the right to choose the assessing method in infringement lawsuits. Instead, it stipulates that the trial court must first consider the first method and, only when it is difficult to determine the losses sustained by the plaintiff, the court may assess damages based on the second method.¹¹ Therefore, the plaintiff will have no right to choose the second method if the losses suffered by the plaintiff can be determined in the circumstances of the case. The new Patent Law increases the ceiling of RMB 500,000 Chinese yuan (about US\$72,000) to 1,000,000 Chinese yuan (about US\$144,000)¹² for the trial court to grant in cases where it is difficult to calculate both the losses the plaintiff has suffered and the profits the infringer has gained.

China has tried to keep the provisions on damages for trademark infringement similar to those for patent infringement. It is widely believed that the new Trademark Law shall be amended in the same way.