

# China Law & Practice

**Special Focus**



## *Intellectual Property*

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## CONTENTS

### **Why China's trademark enforcement still needs reform ..... 33**

Despite the rapid progress China has made in IP protection, two issues stood out at the INTA Annual Meeting this year – the weaknesses in the latest amendments to the Trademark Law and the challenges of enforcing against counterfeiters

### **Five key takeaways from INTA's China sessions ..... 34**

This year's INTA Annual Meeting in Hong Kong included a record number of sessions on China. Here is our summary of the lessons for trademark owners

### **Enforcing your rights ..... 36**

Awareness of local courts and judges' practices as well as understanding of the laws, judicial trends and case outcomes are critical for MNCs' IP protection in China

*Dragon Wang of **Beijing East IP***

### **Protecting your brand under the new rules ..... 39**

Though the revised Trademark Law has made substantial improvements, protection and enforcement tactics against trademark squatters still remain crucial in the IP environment of China

*Spring Chang and Frank Liu of **Chang Tsi & Partners***

# Why China's trademark enforcement still needs reform

**Despite the rapid progress China has made in IP protection, two issues stood out at the INTA Annual Meeting this year – the weaknesses in the latest amendments to the Trademark Law and the challenges of enforcing against counterfeiters**

**C**hina Law & Practice attended the 136th annual meeting of the International Trademark Association, which took place in Hong Kong from May 10 to 14 and was attended by over 8,500 trademark professionals. This was the first time the event took place in Asia and the event included a number of sessions looking at trademark protection in China.

These included a Regional Update on China (where the new Trademark Law was discussed in depth), a government perspective panel on Trademark and IP Issues in China, an IP Attachés Update, Social Media in China and, finally, a session on Criminal Action against Counterfeiters in China.

## **The Trademark Law anticlimax**

The PRC Trademark Law was enacted in 1982, first amended in 1993 and again in 2001 before this year's third amendment. With the influx of foreign brands and rapid emergence of domestic businesses over the past decade, the importance of brand name and recognition is greater than ever. The amendments that came into force on May 1 were important for all investors and practitioners, but they failed to please everybody.

Speaking at the Trademark Law and regional update session, Hui Huang of Wan Hui Da Intellectual Property Agency highlighted the subtle interplay between trademark registration and use, as well as the exceptions to the law's first-to-file principle that protects the rights of the registrant. These are that the owner's trademark must firstly be well known, and, secondly, the infringer must be proven as an agent or representative of bad faith – the owner can then not only oppose or invalidate the registered trademark but also stop the infringer's use.

But the difficulty of defining bad faith leaves the owner unable to stop the infringer's use of the trademark in some cases. The concept of "well-known" trademarks was said by European Union Delegation Attaché Christophe Gimenez to be "raising more questions than bringing in answers on how they will be pragmatically implemented". Gimenez was speaking at the IP Attachés' update session.



INTA CEO Etienne Sanz de Acedo speaks at INTA's first Annual Meeting in Asia

The new Trademark Law also amends the opposition and invalidation framework. BMW's Jochen Volkmer, who has dealt with many trademark infringement lawsuits in China, also spoke at the session on the new

**“There is a very low chance of success in oppositions and a relatively high chance of success in opposition reviews”**

Jochen Volkmer, BMW

Trademark Law's implications. He explained that in the newly-altered opposition review, the trademark will be approved for registration if the opposition is not successful, which creates challenges for brand owners: “There is a very low chance of success in oppositions and a

relatively high chance of success in opposition reviews,” Volkmer said. “From August 2013 to 2014, BMW won 190 of its opposition review filings and lost 23. The opposition review is very important for foreign brands so the amendment is worrying,” he added. Moreover, the absence of cross-examination and oral hearings as well as the relative inexperience of CTMO examiners compared with TRAB examiners has led to scepticism among foreign brands about the system and the validity of CTMO's rulings.

## **Criminal action against counterfeiting**

Despite the progress in judicial IP protection, counterfeiting remains a serious issue. China continues to be the largest supplier and exporter of counterfeit goods globally. To try and deal with this problem, the criminal threshold has been lowered, meaning more counterfeiters are being put in jail and for longer periods of time.

In terms of legal provisions, Article 213 sets out the crime of counterfeiting registered trademarks, Article 214 sets out the crime of knowingly selling merchandise bearing

counterfeit trademarks and Article 215 sets out the crime of manufacturing or selling representations of registered trademarks. But although efforts are evident in the law, the difficulty lies in enforcement and capturing infringers.

"There is an increasing width and depth in criminal action, from actions on single point to multiple points," said Edward Yang of Microsoft. He explained during the session on criminal action against counterfeiters that IP issues now have multifaceted aspects that encompass networks, supply chains and cluster actions against manufacturing bases, wholesalers, upstream suppliers, distributors and retailers. They also involve taking action simultaneously in different cities and provinces as well as engaging multiple agencies.

Moreover, counterfeiting cases increasingly involve refurbished products, which entail low costs, high profit margins and low enforcement risks for the infringer. Most prevalent in the electronics, auto parts and printing supplies industries, refurbished goods were a long-time grey area; police were reluctant to chase after

them since they were technically not fake products. However, authorities are becoming increasingly willing to act.

On the positive side, enforcement in the court is improving. "Judges are increasingly free and confident in adopting circumstantial evidence, in other words, a more liberal adoption of evidence for calculation of case value and illegal transfer," said Yang. While they previously bet on physical seizure and it was difficult to establish a chain of evidence of sold goods, now they also base evidence on bank transaction records, prior sales including online trading records, self-admission and statements of parties involved, leading to a more accurate valuation.

#### Foreign companies are not alone

The weaknesses in the law and the rampant counterfeiting are also affecting China's rapidly expanding domestic companies, who are realising how much this is affecting their business both in China and as they venture overseas. Their attempts to lobby the government for improved protection are also likely to be more effective than those of foreign brand owners.

The IP Attachés in China provided regional updates on the activity of domestic companies and their attitude towards the development of the country's IP regime. Tom Duke, the IP Advisor for China from the UK IP Office said: "Chinese companies are increasingly protective of their rights. We already hear stories of Chinese directors wanting to make money out of their broad global IP portfolio."

USPTO IP Attaché Tim Browning, based in Guangzhou, agreed that Chinese companies emerging as global leaders are also concerned about their own IP protection when going abroad. "While 10 years ago 80% of companies relocated to South China for export businesses, today most of them are marketing domestically towards the greater China region," he said, adding that "25% of trade secret cases in China occur in Shenzhen, and high tech companies like Huawei have located R&D centres abroad due to trade secret issues".

*Katherine Jo*

## Five key takeaways from INTA's China sessions

**This year's INTA Annual Meeting in Hong Kong included a record number of sessions on China. Here is our summary of the lessons for trademark owners**

**T**he China panels at the INTA Annual Meeting hosted speakers from private practice lawyers and in-house counsel at Tencent, Google and Microsoft to Supreme Court judges and representatives of the Quality Brands Protection Committee.

Many strategic tips were given to brand owners to help them survive in China's dynamic and challenging IP system. Overall, while regulatory developments and the rising number and complexity of cases show progress, practitioners advised brand owners that there is no substitute for having a thorough understanding of laws and how infringers break them.

#### 1. File early (and think about classes)

Upon entering or securing position in the market, brand owners should apply for their trademarks before infringers beat them to it. One key amendment of the new Trademark Law allows for the multi-class application of trademarks. "But if an application for one class

is opposed, the entirety of your application will be pending," said Jun He Law Offices' Qiang Ma, who moderated the China Regional Update panel. He added that since this causes delay, "Single class application may therefore be preferable."

#### 2. Monitor use closely (including on social media)

Once active in the Chinese market, "It is important to monitor and identify conflicting infringing marks as early as possible," said BMW's Jochen Volkmer, who recommended reviewing online files and the trademark gazette. He continued: "Conducting both online and on-site investigations and collecting bad faith evidence are also critical, as is lobbying work for most important cases. Civil action must be initiated before the defendant registers his trademarks."

Given much of today's business transactions occur via the internet, brand owners were advised by speakers at the Social Media in

China session to harness the potential of social media in China and be aware of the legal pitfalls associated with online activity. Stanislas Barro of Kering encouraged brand owners to keep an eye on comments on social media sites and monitor online traffic daily as "everything goes online within minutes". Online defamation and false information distribution are everyday nuisances for big brands – illustrated by Barro's experiences with Gucci infringers and slanderers – but these can spin out of control and damage a brand owner's reputation and sales.

#### 3. Takedown requests are ineffective

The volume of takedown requests is increasing every year, though online social media takedown is disruption at best, according to Barro, since it only addresses the visibility issue. Infringing products will pop up again elsewhere. He added that "Civil and criminal enforcement is the real deterrent and optimising investigation techniques and mobilising key actors, such as the legislator, courts, enforcement authorities,

Chinese IP judges speak at the Trademark and IP Issues in China: a Government Perspective session



brand owners and online operators, are very important."

Betty Wang of Tencent and Emily Burns of Google also voiced their concerns about safe harbours and takedown measures for online infringement; Wang proposed a more credible discipline system and user policy as well as an efficient notification and takedown system.

#### 4. Use the judiciary

Taking criminal and civil action against infringers is necessary to stop the supply and distribution of counterfeit products and to discourage future infringers. Baker & McKenzie's Lan Li explained the steps to initiate a criminal procedure against counterfeiters: firstly, public prosecution takes place, where the rights owners report or complain to the Public Security Bureau (PSB) – which has the power to investigate and interrogate suspects and to search and inspect premises and phone/email records – and the administrative authorities transfer the case for criminal prosecution. The case then heads to trial for private prosecution where the rights owners directly initiate the criminal proceedings before the court.

Shaoping Yin, a judge from the Supreme People's Court who spoke at INTA's Trademark and IP Issues in China: Government Perspective session, provided some promising updates about China's IP judicial system, revealing that an increasing number of judges are handling IP

cases (around 2,600 now). In 2013, 114,000 cases were tried in relation to IP – a number that is likely to rise further. The Trademark Law changes were also a means to boost efficiency in granting rights and to achieve consistency in protection and implementation. "The judiciary's advancement will further lead to more people willing to choose this channel to solve disputes," according to Yin.

### **"The judiciary's advancement will further lead to more people willing to choose this channel to solve disputes"**

Judge Shaoping Yin

#### 5. Criminal enforcement remains difficult

Steven Wang, IP counsel for Philips and Acting Chair of the Quality Brands Protection Committee, provided tips to brand owners from many experiences with counterfeiters. In a case involving Philips, GE and Panasonic against Changzhou Shenlai, which exported millions in revenue of fake starters and light bulbs to Africa, Wang learned that close cooperation

with authorities to push the case forward was crucial to the destruction of the entire global network and supply chain. His recommendations to brand owners included stepping in early, giving full around support to authorities and fixing evidence prior to transferring for criminal prosecution (as judges and courts have higher evidence requirements than prosecutors).

But not all infringers and counterfeiters can be caught since there are serious obstacles in the way of criminal enforcement. Evidence adoption remains more favourable for suspects than for IP owners, selective use of collective evidence leads to arbitrary results in goods valuation, IP owners' right of information and involvement in the criminal process is often ignored and a number of original equipment manufacturer (OEM) issues remain unsolved, said Microsoft's Edward Yang.

In addition, public perception and political legitimacy (such as the OEM debate and Anti-Counterfeiting Trade Agreement failure) can hinder progress. Further solutions need to be found by attacking demand – the individual buyers who knowingly buy counterfeits. "Overall, managing compliance risk and working hand in hand is critical for the advancement of criminal IP enforcement," said Yang. "Authorities, brand owners and consumers all need to come together."

Katherine Jo

# Enforcing your rights

**Awareness of local courts and judges' practices as well as understanding of the laws, judicial trends and case outcomes are critical for MNCs' IP protection in China**

**M**ore multinational companies (MNCs) are realising that, as an indispensable part of a global IP strategy, the importance of successfully enforcing IP rights in China cannot be overstressed. In addition to administrative remedies, initiating an IP infringement lawsuit in China is widely considered a feasible yet challenging measure for enforcing IP rights.

Understanding the broader picture and getting an update on the most important developments of IP litigation in China in 2013 will benefit the decision makers at MNCs and help them to plan a comprehensive global IP strategy.

## Overview of infringement cases

In 2013, there were 6,523 completed patent cases, of which 6,311 involved only domestic parties and only 212 (3%) involved foreign parties.

Among all the foreign related cases, the US took the lead with 37 cases, while Great Britain followed closely with 36, and Japan and France came next with 19 and 11 cases respectively.

The win rate of the patentee tells a more interesting story. According to the statistical data of 3,362 Chinese courts' decisions (updated on April 2 2014) collected by Darts-IP Case Law, in which patent infringement was actually confirmed by the judges, the win rates for invention and utility model-related cases are worth noting.

**Table 1. Court decisions on patent infringement cases**

Lawsuit	Invention patents (1,319 total decisions, 61% win rate)		Utility model patents (2,043 total decisions, 72% win rate)	
	Domestic	Foreign	Domestic	Foreign
Number of decisions	752	567	1,562	481
Win rate	57%	66%	72%	72%

According to the statistics presented in Table 1, it worth noting following points:

- The average patentee win rate is about 66%, which means that patent right is indeed enforceable in China as long as a thorough strategy has been carefully prepared;
- For invention patents, the win rate of a foreign patentee is higher than that of a domestic patentee by 9%, which means, compared with the domestic patentee, the foreign patentee receives even better protection from the judicial system of China; and
- The total win rate related to utility models is higher than that related to invention by 11%, which means it is advisable to consider utility models, not only invention patents, when considering enforcement of a patent portfolio in China.

## Forum shopping

Similar to patent enforcement in the US and Europe, the foreign patentee should always attach great importance to forum shopping while litigating patent-related lawsuits in China.

It is widely understood that the domicile of the defendant or the locations where the infringing activities have been taking place can be selected to initiate an infringement lawsuit. In addition to that, however, sometimes the venue can be selected based on other factors. For example, in the *Huawei v Interdigital* cases that drew the most attention of Chinese patent circle in 2013, Huawei argued

**The patentee should fully understand the local judicial regulations of various locations, selecting particular venues to fully take advantage of particular regulations**

in the patent royalty dispute that the Intermediate People's Court of Shenzhen (where Huawei is headquartered) should hear the case because Shenzhen is the place of contract performance according to negotiations between Huawei and Interdigital, which was supported by the court.

In practice, a court located other than in the domicile of the defendant will usually be preferred by the patentee to avoid the potentially negative influence of court bias. Usually, the patentee will bring a lawsuit in a location where selling of the infringing product occurs, which nowadays may be anywhere in China, especially for consumer electronic products that are launched and circulated in the open market.

However, instead of recommending Beijing, Shanghai and other experienced IP courts in China for forum shopping, there are more factors beyond fairness that should be considered.

To ensure a predictable outcome of a forum shopping case, local judicial regulations, local courts' practice and the practice and experience of particular judges need to be considered seriously.

First, local judicial regulations should be taken into consideration when selecting a venue. For example, the Jiangsu Higher People's Court has a local rule stating that expert witnesses should be properly used while finding facts, while the Guangdong Higher People's Court has local regulations to ensure that the evidence on monetary damages is adequately produced and ascertained. While selecting the venue for a lawsuit, the patentee should fully understand the local judicial regulations of various locations, selecting particular venues to fully take advantage of particular regulations.

Second, the patentee should learn about the local courts' practice. For example, when the asserted claim scope is indefinite, the Shanghai and Beijing courts may come to different conclusions after claim construction. The Shanghai Court would dismiss the

case directly by referring to a precedent recently issued by Shanghai Higher People's Court. In contrast, the Beijing Court will interpret the claim in a manner according to the *Guidelines on Determination of Patent Infringement* (北京市高级人民法院专利侵权判定指南) recently issued by the Beijing Higher People's Court, and make decisions on infringement anyway. The courts' unique practices therefore really matter.

Last but not least, by attending conferences and seminars and analysing case studies and articles, the patentee can keep a close eye on prominent IP judges' practices and opinions. For example, one senior IP judge recently issued an article, wherein the national go-green policy was echoed, the principle of exhaustion of patent right was explained in an unfavourable way to the patentee and it was stressed that domestic industry needs to be protected from the abuse of patent rights. The patentee should pay special attention to the practice and attitude of particular judges, so as to be prepared in advance while selecting a venue.

### 2013 top IP cases

On April 21 2014, the Supreme People's Court (SPC) of China published three lists: China 2013 Top 10 IP Cases, China 2013 Top 10 Innovative IP Cases and China 2013 Top 50 Typical IP Cases.

All the cases listed in these three lists were selected from more than 100,000 IP related decisions nationwide in 2013. The China 2013 Top 10 IP Cases list contains ten cases that were thought to be most influential in IP in China. The China Top 10 Innovative IP Cases list contains 10 cases that make an innovative contribution to laws and regulations. Lastly, the China 2013 Top 50 Typical IP Cases list contains 50 cases that are considered as having the most typical significance to society.

### Shanghai Duck King case

Only two trademark cases were selected as Top 10 Innovative IP cases. In one of those, Shanghai Huaihai Duck King Roast Duck prevailed in both of the two administrative retrial cases before the Beijing Higher People's Court as well as the SPC. This case is one of the few IP administrative cases that had two retrials. The first retrial was one of a few IP administrative retrial cases initiated by the Supreme People's Procuratorate, which was finally affirmed by the SPC.

#### Dragon Wang Beijing East IP

Dragon Wang has been working in the IP field for over 14 years, including four years as an in-house patent counsel in a multinational company, and 10 years as a patent attorney at Beijing East IP.

Experiences in both industry and private practice enable him to understand clients better, thus serve them better. In addition to providing consulting services on Chinese patent practice to multinational companies, as a leading patent attorney in the mechanical field, Dragon has been representing Epson, Toyota, Ericsson and other international giants before the Patent Reexamination Board under SIPO and the People's Court in China to protect and enforce their patent rights.

In 2009, Dragon obtained his LL.M. degree with honours from the John Marshall Law School in Chicago. He is now the Vice General Manager responsible for the Business Development Department.



This case lasted for more than a decade and exhausted all possible legal procedures prescribed in the law. It began with all four administrative proceedings – rejection, rejection appeal, opposition, and opposition appeal – then both the two judicial proceedings (first and second instances), and then the first retrial proceeding requested by the Supreme People's Procuratorate and the second retrial before SPC against the decision of the previous retrial.

In this specific case, the SPC established and affirmed two new standards: the knowledge standard (knew or should have known) and the standard relating to goodwill (with intention to free ride or invade other's goodwill), which shall be cited as criteria for determining the bad faith of the trademark applicant. This is a useful supplement and improvement to the judicial interpretations of the SPC regarding bad faith filing prescribed under Article 31 of the Chinese Trademark Law.

### JinZiTianHe patent case

This case was selected as typical mainly because it shows that the described objective of the subject patent sometimes does limit the scope of claim interpreted under the Doctrine of Equivalents (DOE).

The defendant won the first and second instances before the Beijing No 1 Intermediate Court and the Beijing Higher People's Court, and finally successfully defeated the petitioner before the SPC during the retrial.

The judges of the SPC agreed that the objective stated in the

**The patentee should pay special attention to the practice and attitude of particular judges, so as to be prepared in advance while selecting a venue**

patent specification should substantially influence the scope of protection of the claim interpreted under the DOE.

The purpose of the subject patent is to provide an elastic damping buffer with a faster compression stroke and a slower decompression stroke. Claims defined a unidirectional current limiting device that is opened during the compression stroke and closed during the decompression stroke.

The defendant's product used a check valve in the buffer. In contrast, the check valve is provided to be closed during the compression stroke and opened during decompression stroke for a slower compression stroke and faster decompression stroke.

The main question to be answered by the SPC is that, whether, under the DOE, the check valve provided in the alleged product is equivalent to the unidirectional current limiting device defined in the claims. In addition to other arguments, the judges were persuaded that the objective described in the specification of the patent shall be considered carefully during claim construction under the DOE. The judges agreed in this case that the objective of the subject patent limits the scope of claim interpreted under the DOE. The function, way and result achieved by the unidirectional current limiting device were decided to be different from those of the check valve in the alleged product.

The decision of non-infringement was finally reaffirmed by the SPC.

### Epson patent case

The Epson case and a previous correlating retrial case are considered as landmark cases because it was the very first time that the SPC interpreted the meaning and application of the hotly-discussed Article 33 of the *PRC Patent Law*. Article 33 requires that the amendment to a claim should not go beyond the original disclosure of the filing document, which was applied too rigidly by the State Intellectual Property Office (SIPO) for years. SIPO's practice in this area was questioned and criticised for years but with no change, until this decision came out.

The SPC properly interpreted the meaning and explained the correct way to apply Article 33. This case positively influenced the practice of SIPO. It has now been reported that more than 80% of all office actions were issued based on rejections on novelty and inventiveness, instead of the much-criticised Article 33 rejection.

As a recent positive development, the SPC ruled that the standards for applying Article 33 shall be different for a feature that is related to the core of invention compared with one that is not. That is, generally, the court shall not invalidate a patent simply because

one trivial feature was amended and later deemed as going beyond the original disclosure. The court shall always look at amendments to the essential features of the claim that are related to the core of the patent, to prevent the patentee from obtaining an overly-broad protection of new matters introduced through amendments.

**It has now been reported that more than 80% of all office actions were issued based on rejections on novelty and inventiveness, instead of the much-criticised Article 33 rejection**

As China's continuously growing economy shifts the primary focus of the Chinese government and industries from mass production to protection of intellectual property, protecting innovation in China's strong yet enormous market has become one of the top items to be checked off by MNCs. Taking an insightful look at developments of Chinese IP litigation by studying judicial trends and cases will surely help with this purpose.

*Dragon Wang, Beijing East IP*



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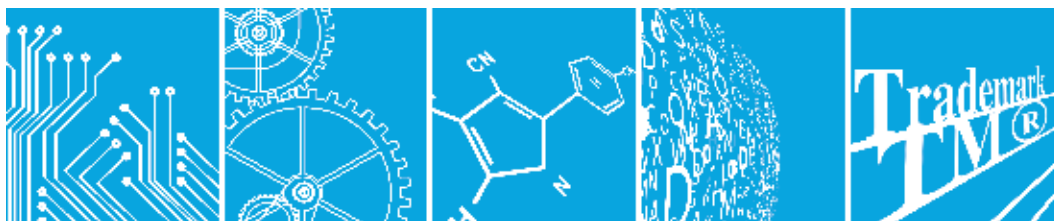
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# Protecting your brand under the new rules

**Though the revised Trademark Law has made substantial improvements, protection and enforcement tactics against trademark squatters still remain crucial in the IP environment of China**

**T**he revised *PRC Trademark Law* came into effect on May 1 2014, and has attracted the attention of both Chinese and foreign rights owners.

The revisions cover both procedural and substantial aspects, including registration and opposition proceedings (“sound” and electronic trademarks can be now be applied for registration and multi-class application has been adopted), time limit for trademark examination and review and a simplified opposition procedure.

These changes are very important for the establishment of trademark rights in China. However, there remain concerns over the practical influence of the revised trademark law on the protection and enforcement of rights, leading rights owners in China to adopt different strategies and tactics.

## Trademark administration and market order

**Restriction on the use of the “well-known” status for promotion purposes**

Before the Trademark Law revision, lots of companies in China used the “well-known” status of the trademark for promotion and advertisement purposes. The application and recognition of the “well-known trademark” was even subsidised by some local governments. Therefore, the original purpose of the “well-known” status of the trademark had been alienated to some extent.

Aimed at resolving this situation, the revised law not only clarified the original meaning of the “well-known trademark” and the principles of “case by case recognition” and “passive protection” (Article 13), but also restricted the usage. Those who commercially use the words “well-known trademark” in advertising or promotion

**Those who commercially use the words “well-known trademark” in advertising or promotion will be imposed a fine of Rmb100,000**

will be imposed a fine of Rmb100,000 (US\$16,700) by the local Administration for Industry and Commerce (AIC) (Article 53).

## Increased protection of unregistered trademarks

■ Bad faith applications based on the other party’s prior trademark use shall be rejected.

According to the Article 15.2 of the revised law, identical or similar trademark applications of the same or similar goods shall not be approved if the prior unregistered trademark has already been used by another party, and the applicant clearly knows the existence of the other party’s trademark due to contractual, business or other relationships with the party. This aims to deter bad faith applicants as many are professional trademark squatters who try to apply prior

unregistered trademarks to sell them in the future or for other purposes.

## ■ Trademark coexistence.

The revised law also provides certain protection to the prior trademark used by a party with a reputation. In such circumstances, the trademark holder shall have no right to prohibit the party from continuing to use the trademark within the original scope of use, but the party may be required to add suitable logos for distinguishing purposes (Article 59.3).

Article 59 provides protection to the prior use right of the trademark, however, the principle of no confusion still applies.

## ■ Trademark rights against bad faith trade name applications.

It is common for infringers to use the difference between the two registration systems (trademark and trade name) to apply the other party’s prior trademark as its trade name, and then use the same to mislead the consumers. This article aims to prevent applicants of bad faith trade names.

Although protection has been stipulated in the judicial interpretation even before the revision of the Trademark Law, clarification within the Trademark Law itself is still a positive sign which makes the performance of the law smoother (Article 58).

## ■ Recording of trademark licenses.

Before the revision, the trademark license agreements were recorded by the China Trademark Office (CTMO) within three months of signature. Foreign trademark owners were generally confronted with two problems: they did not want to disclose the agreement since it generally includes trade secrets or other important confidential business information and by the time they became aware of this regulation, the three-month deadline had already expired.

The revision fully addressed these concerns.

The three-month time limit has been cancelled; recording can be proceed within the term of validity of the licensing contract. The license contract is also not required; as a replacement, the record-filing materials shall state the licensor and the licensee of the registered trademark, the licensing period, the scope of products or services covered under the license and other matters.

## Enforcement of trademark rights

**Strengthened trademark rights protection and penalties against infringement**

■ Improved compensation regulation against trademark infringement.

The revised law has added compensation methods with reference to

the multiples of the trademark royalties if both the loss of the rights holder and the gains of the infringer are difficult to determine. Also introduced was the punitive compensation against bad faith infringers (one to three times that of trademark royalties). It alleviated the rights owners' burden of proof, where if the infringer fails to provide its account books and materials or provides false documentation, the court may render a judgment on the amount of damages by reference to the claims of the rights owner and the evidence furnished. The statutory compensation has been increased by six times from Rmb500,000 to Rmb3 million.

#### ■ Increased administrative penalty.

The specific amount of penalty has been clarified. If a party has gained Rmb50,000 or more of illegal business revenue, a fine of up to five times the illegal business revenue may be imposed. If a party has no illegal business revenue or has gained less than Rmb50,000 of illegal business revenue, a fine of up to Rmb250,000 may be imposed.

Penalties for repeated infringement have also been increased. Parties are subject to heavier punishments if they have committed trademark infringement on two or more occasions within five years or fall under other grave circumstances.

The law also clarifies the liability exemption condition for *bona fide* third parties. If a party has no knowledge of the infringing nature of the products, is able to prove that the products are obtained by legitimate means and can provide information on the suppliers of the products, it shall be ordered to stop selling the infringing products, and will not be imposed any compensation.

The tools and instruments mainly (not specially) used for manufacturing the infringing goods and forging the registered trademark shall be confiscated and destroyed.

#### ■ Protection of the prior legitimate rights and interests.

In addition to the protection of unregistered well-known trademarks (Article 13) and the respect to other prior rights and unregistered trademarks with certain reputation through prior use (Article 32), the revised law also added the following protection:

- Prior use defence: as stated in the trademark coexistence system, for a prior trademark used by a party with certain reputation, the trademark holder shall have no right to prohibit the party from continuing to use the trademark within the original scope of use, but the party may be required to add suitable logos for distinguishing purposes (Article 59.3).
- Proper use defence: the trademark holder shall have no right to prohibit others from properly using the generic name, graphics or models of a commodity, information directly indicating the quality, main raw materials, functions, purposes, weight, quantity or other features of the commodity or the names of geographical locations as contained in the registered trademark (Article 59.1 and .2).
- The trademark holder of a three-dimensional symbol shall have no right to prohibit others from properly using the forms shaped by the inherent nature of a commodity, commodity forms necessary to achieve technological effects or forms that bring substantive value to the commodity as contained in the registered trademark.
- No compensation for bad faith claims: although China still

adopts the application-first principle, the revised law stresses the original function of the trademark, namely the use of the mark in the market for the purpose of distinguishing the source of the products and/or services. If the trademark holder cannot prove the use of the mark in the past three years before the litigation and its damages, no compensation will be imposed to the claimed infringers. The purpose of this revision is to deter bad faith trademark registration and highlight the proper function of trademarks in the market.

### Clarification of various IP practices

#### Does OEM constitute trademark infringement?

Prior to the new law, courts in different districts held different opinions and decisions, and even courts in the same district held different opinions in different cases. It was therefore necessary and important to have the same standard enforcing the Trademark Law.

The revision added Article 48, which defines the "use of trademark". This refers to the use of trademarks on goods, the packaging or containers of goods and the transaction documents of goods, or the use of trademarks for advertising, exhibition and other commercial activities for the purpose of identifying the sources of goods.

According to the *Several Issues Regarding the Application of the Revised Trademark Law* issued at the end of June 2014, the head of the IP tribunal of the Supreme People's Court, Justice Kong, is of the opinion that if the OEM products are all exported without causing damage to the trademark rights in China, they shall be deemed as non-infringing based on Article 48, which states that the use of the trademark in OEM is not for the purpose of identifying the sources of goods in Chinese market.

#### Spring Chang

##### Chang Tsi & Partners

Spring Chang is a founder and partner of Chang Tsi & Partners. She has earned an international reputation for creativity and efficiency over more than two decades of experience as an attorney assisting clients from around the world in China, as well as Chinese clients abroad. Ms Chang focuses on all aspects of IP rights, including applications for and the protection of trademarks, patents, copyrights and domain names. She advises and represents leading multinational corporations from various sectors in both contentious and non-contentious matters. Her successful representation of Air China was recognized as one of the 10 Most Influential Trademark Events of 2009-2010 at the 2011 China Annual Trademark Meeting, and she is regularly ranked as a leading trademark attorney in China. Ms Chang completed an LLM at China University of Political Science and Law and an LLB at Liaoning University.



#### Frank Liu

##### Chang Tsi & Partners

Frank Liu worked as a judge for five years from 1996 and began to practice law as an attorney in 2002. Through many years of practice, he has accumulated valuable experience in many fields. Mr Liu has provided legal services for many Fortune 500 companies and domestic clients regarding IP protection strategy and various other legal issues. Mr Liu has acted for clients in more than a hundred litigation and arbitration cases in China; some cases have been interviewed and reported by *Global Arbitration Review*.

Mr Liu has been nominated by *Asialaw Leading Lawyers* as a leading lawyer in the areas of Dispute Resolution in China in 2013 and 2014; his professional competence has also been recognised by *Asia Pacific Legal 500*, *Chambers Asia Pacific*, *World Trademark Review* and *Global Law Experts*.



### Is consumer confusion the precondition for trademark infringement?

Before the revision, there were many arguments regarding whether the confusion of consumers shall determine trademark infringement, and such arguments could also be heard from the internal court system.

The revised Trademark Law added a clause which states that “using a trademark that is identical with a registered trademark on the same goods without the licensing of the registrant of the registered trademark” shall be deemed trademark infringement. It clearly provides no requirement for consumer confusion.

Justice Kong has also voiced that there is no consumer confusion requirement for using an identical mark on the same goods. However, as a general condition, the use of the mark still needs to meet the requirements of usage defined by the Trademark Law.

### How is the principle of good faith applied?

The Trademark Law revision introduced the principle of good faith as a guideline for authorities in deciding cases. Although good faith has already been stipulated in the *PRC General Principles of the Civil Law* (中华人民共和国民法通则) as early as in 1986, its introduction in the revised Trademark Law is still warranted as it is aimed at the situation of bad faith applications and abuse of trademark rights in China at the present stage.

The Several Issues Regarding the Application of the Revised Trademark Law, the principle of good faith can not be directly used by the administrative authorities (generally referring to the AIC) to enforce the law. However, the court may apply the principle to decide civil cases on certain occasions, especially when there are no applicable clauses in the law.

**Although many aspects have been improved upon, there will be other issues which will arise in the future, since infringers will find new ways to avoid the laws**

### A never-ending struggle

The goal of the revised Trademark Law is to strengthen the protection of the trademark rights in China. It upholds efficiency, fairness and order as its core spirit. Although many aspects have been improved upon, there will be other issues which will arise in the future, since infringers will find new ways to avoid the laws. The battle against trademark infringement will remain long and require diverse efforts.

*Spring Chang and Frank Liu, Chang Tsi & Partners, Beijing*

## SECURING YOUR RIGHTS IN A CHANGING CHINA



Intellectual Property  
Dispute Resolution & Litigation  
Corporate Law  
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**Chang Tsi & Partners**  
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A leader in IP protection, Chang Tsi & Partners offers a complete set of legal services to clients from a broad spectrum of industries including Fortune 100 and 500 companies. Our expertise and effectiveness in developing legal strategies and solutions are recognized many times by well-known legal organizations and magazines, including Managing IP, Chambers & Partners, Legal 500, World Trademark Reviews etc, as a leading law firm in China for legal matter relating to intellectual property, dispute resolution and mergers & acquisitions.

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