



PRC TRADEMARK LAW AMENDMENT: The Practical Implications for Brand Owners

WHEN WILL THINGS CHANGE

After four years and a number of revised drafts, the eagerly anticipated amendment to the existing PRC Trademark Law was finally passed on August 30, 2013 and will come into force on May 1, 2014 (“**New Law**”).

This gives brand owners just under one year to get to grips with the practical implications of the New Law and to ensure they are ready to take advantage of the positive amendments and neutralize the risks posed by the more challenging amendments.

This update focusses on the amendments which are being made to the current PRC Trademark Law (“**Existing Law**”) which we believe will have the biggest practical impact on the way in which brand owners protect their brands in China.

SUMMARY OF KEY AMENDMENTS

The key amendments to the Trademark Law are that:

- An unsuccessful opponent in opposition proceedings will be unable to appeal decisions of the Chinese Trade Mark Office (“**CTMO**”) to the Trademark Review and Adjudication Board (“**TRAB**”)
- Only “interested” parties can oppose trademark applications
- Trademark applications must be filed in accordance with principles of “**good faith**” and “**honesty**” and trademark agencies must also act in good faith and will be obliged to refuse instructions where they “*know or should know*” that an applicant is a trademark pirate
- Courts will have the power to impose significantly increased penalties against infringers
- Multi-class trademark applications will be permitted for the first time; and
- The trademark application process will be streamlined by introducing e-filing and strict time limits in which the CTMO and TRAB must render decisions.

NO RIGHT OF APPEAL FOR OPPONENTS

Under the Existing Law, if an opponent is unsuccessful in opposition proceedings before the CTMO, it has the benefit of being able to appeal the CTMO’s decision to the TRAB. However, under perhaps the most far reaching amendment of the New Law, an unsuccessful opponent will no longer be able to appeal the CTMO’s decision, but will instead be required to file a cancellation action at the TRAB. The trademark applicant on the other hand, will continue to have a right to appeal the CTMO’s decision to the TRAB.

An opponent’s right of appeal to the TRAB has in practice been of significant importance to brand owners. This is because the TRAB will typically take a less mechanical and more nuanced approach in opposition proceedings than the CTMO. Furthermore, given the high workload of CTMO examiners, it is unfortunately not uncommon for errors to be made by examiners which result in credible oppositions against pirate marks initially being refused.

The rationale behind the removal of an opponent’s right to appeal is to speed up the timeframe from application to grant of a trademark. This will be welcomed by applicants who have filed an application in good faith but the downside for victims of trademark piracy is that, where an opposition against a pirate application is unsuccessful, even though it may be possible to cancel a pirate mark in cancellation proceedings before the TRAB, there will be an intermediary period where the mark is registered and can be enforced by the pirate against the brand owner. This could lead to genuine goods being seized by local administrative authorities and/or customs which, in turn, could result in brand owners being left with no viable commercial alternative other than giving in to the demands of the trademark pirate.

The practical implication of this amendment is that opposition proceedings will become very much the “first and last” chance a brand owner has to defeat a trademark pirate as, where an opposition is unsuccessful and commercial pressure is leveraged by a pirate, the brand owner may be forced to succumb to the demands of the pirate.

Finally, the Existing Law contains a provision which states that if a trademark is unsuccessfully opposed, a cancellation action cannot be brought on the same facts and grounds. The New Law does not contain such a provision and it is unclear whether such a “res judicata” provision will be included in the Implementing Regulations or whether the lack of such a provision is intentional, given the removal of the right to appeal to the TRAB.

INTERESTED PARTIES

Under the Existing Law, anyone can oppose the registration of a trademark. Lengthy opposition proceedings have meant that it is possible for parties to file oppositions for strategic purposes, delaying an application in order to gain leverage over an applicant. However, under the New Law, only the owner of a pre-existing right or an “interested” party can file an opposition. This is a positive amendment for applicants who have filed an application in good faith.

HONEST AND GOOD FAITH APPLICATIONS

The New Law introduces a requirement that has been long awaited by brand owners who have fallen victim to trademark piracy. The New Law provides that all applications must comply with principles of “**honesty**” and “**good faith**”. However, whilst this is clearly a step forward in terms of addressing trademark piracy, this new requirement is not listed as a possible ground for opposition and it is unclear whether the CTMO will be prepared, in practice, to reject a mark where evidence is included in an opposition which shows that a mark has not been applied for in accordance with principles of “**honesty**” and “**good faith**”.

In a further attempt to address the issue of trademark piracy, the New Law also introduces a requirement that trademark agencies, and trademark agents personally, must conduct their activities according to principles of “**honesty**” and “**good faith**” and, where an agent “*knows or should know*” that an application for registration is a pirate application, it must refuse instruction. A trademark agency that is found not to comply with this requirement may be subject to a fine of between circa US\$1,600 – US\$16,000 and a local AIC can impose a fine of between circa US\$800 – US\$8,000 against individual agents, as well as criminal sanctions in certain circumstances. Local AICs will also keep a “black book” and, where trademark agencies are repeatedly found to be acting dishonestly or not in good faith, the TRAB may cease to accept any cases handled by the agency and publish this fact.

This amendment is, on paper, an undoubted step in the right direction and will hopefully decrease the number of pirate applications being filed. However, whether this particular amendment lives up to the expectations of western brand owners will depend on how “**honesty**” and “**good faith**” are in practice interpreted.

INCREASED PENALTIES AGAINST INFRINGERS

As is the case under the Existing Law, under the New Law, damages will be determined by reference to the actual losses suffered by the trademark owner and where it is not possible to calculate damages in this manner, they will be calculated on the basis of a reasonable royalty.

Where there is evidence of bad faith on the infringers behalf or other “serious circumstances” exist, damages can be trebled.

In addition, in an attempt to further decrease infringement, statutory damages of up to circa US\$500,000 can be imposed, representing a six-fold increase over the level of statutory damages that currently can be awarded under the Existing Law.

MULTI-CLASS APPLICATIONS AND E-FILING

The New Law introduces the ability for applicants to file multi-class applications and for applications to be made electronically. E-filing is undoubtedly a welcome change which will hopefully increase the speed and efficiency of the prosecution process. Multi-class filings may, however, be a double edged sword and their success may be dependent on how strictly the “**honesty**” and “**good faith**” provisions in the New Law are adhered to and enforced. On the one hand, it will increase efficiency and reduce costs in managing a PRC trademark portfolio, making it easier and more cost effective for genuine brand owners to protect their brands in the PRC. On the other hand, it opens up the possibility for trademark pirates to register more brands in more classes and at a reduced cost.

On balance, provided adequate and appropriate measures are adopted by brand owners in preparation for the implementation of the New Law, we believe the ability to file multi-class applications should be positive. However, if inadequate preparations are made by brand owners, the effect of multi-class applications being introduced could be serious. Our team of specialist trademark lawyers are on hand to counsel brand owners, helping to ensure appropriate measures are adopted before the implementation of the New Law so that the addition of multi-class filing has a positive effect on the protection and management of a brand portfolio in the PRC.

CTMO AND TRAB DECISIONS

Currently, prosecuting a “smooth” trademark application in the PRC takes a minimum of 18 months. The New Law provides that the CTMO must complete its examination within 9 months, meaning that, provided no oppositions are filed within the 3 month opposition period, a mark should proceed to registration in 12 months. Any appeal decision by the TRAB against a refusal by the CTMO to register a mark on either absolute or relative grounds must be given within 9 months, whereas this has historically taken anywhere from 12 – 24 months.

Historically, the CTMO has taken anywhere between 12 – 24 months to issue an opposition decision whereas under the New Law, the CTMO will be required to issue a decision within 12 months and any appeals to the TRAB by the applicant must be adjudicated upon by the TRAB within 12 months, as opposed to the 12 – 24 months the TRAB has historically taken to render such a decision.

Except for invalidity actions based on an earlier registered trademark, in which the TRAB must render a decision in 12 months, in all other invalidity and cancellation actions the TRAB must render a decision within 9 months, thus speeding up invalidity and cancellation actions by some 12 – 15 months.

Whilst these strict time limits all look good on paper, it remains to be seen whether the focus on speed has an adverse impact on quality of the decisions made.

OTHER IMPORTANT AMENDMENTS UNDER THE NEW LAW

The New Law has also introduced the following noteworthy amendments:

- **Explanation stage in application prosecutions** – the New Law enables the CTMO to issue requests for explanations or corrections when it believes that the content of a trademark application requires explanation or correction. This will hopefully reduce the number of rejections and in turn the number of appeals to the TRAB regarding registrability
- **Use and OEM use** – the New Law defines “trademark use” as including use on goods, the packaging of goods, containers, transactional documents, as well as use in advertising, exhibitions and other business activities, that distinguish the source of origin. However, at present, it is unclear whether this will finally clarify the muddled waters concerning whether use for OEM manufacturing purposes constitutes use of a trademark in the PRC, for which there have been a number of recent contradictory judicial decisions

- **“Well-known” trade mark** – brand owners will be prohibited from advertising the “well-known” trademark status of their marks as a marketing ploy; and
- **Sounds** – sounds will be capable of being registered as trademarks.

SUMMARY

In summary, the New Law introduces a number of welcome amendments to the Existing Law, with the most notable being the introduction of a requirement to file applications in good faith and in accordance with honesty. Whilst this is, on paper, a significant step in the right direction, the practical benefit of this provision for brand owners will depend upon how “good faith” and “honesty” is interpreted.

Furthermore, the New Law introduces a number of provisions which present challenges for western brand owners, such as the loss of the right to appeal an unsuccessful opposition decision to the TRAB and the introduction of multi-class filings.

Our team of specialist lawyers is ready to counsel you on the preparations which you need to be making ahead of the implementation of the New Law, to ensure that you capitalize on the positive amendments in the New Law and neutralize the risks posed by the other amendments in the New Law.

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