

Interview No.35

Chinese "Greatly Revised" Trademark Law to Be Enforced Starting from May (2)

In Chinese business, first-to-file/first-to-register is a basis for application of protection to prior use

【2014/4/28】

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A revision of the Chinese Trademark Law was adopted by the Standing Committee of the National People's Congress on August 30, 2013, and was enforced starting from May 1, 2014. It is called "a great reform" by industry people because the present revision required a 10-year preparation period for amending 54 sections both large and small. In the present revision, protection of prior-use trademarks which often have not been available as rights of priority are also put in the statutory form, but Ms. Masako Kawahara, Patent Attorney of Miyoshi & Miyoshi, emphasizes that when business risks are taken into consideration it is always important to be conscious of earlier applications." Ms. Hui LV (呂慧) and Mr. Wenhao FU (傅文浩), Trademark Department of Dragon International Property Law Firm in Beijing, and Ms. KAWAHARA, Patent Attorney, Miyoshi & Miyoshi, will explain the major points of the present revision. (Summarized by: Eiichiro IKEDA, TechnoAssociates, Inc.)

**Protection of prior-use trademark is put in the statutory form; without right, business risks would be great.**

**Mr. FU:** The protection of prior-use trademarks was put in the statutory form under Article 59(3) of the new law. It is a concept that has not yet existed in China and has been a topic much talked about in the country. Requirements for applications of protection of prior-use trademarks are substantially the same as in Japan. What are required are prior use, a certain degree of reputation, and power of influence, respectively, within China, but foreign companies which have not even registered an application are given some protection, which is good news for Japanese companies.

**Ms. Kawahara:** It is somewhat doubtful whether "use and publicity within the country", which is one of application requirements of protection, meets the present information-oriented society of the Internet. Once upon a time "Viagra" became a famous trademark before its sale began in Japan, but if the requirement for use was to become strict, it may be a case that protection would not be applied. As can be seen from the cases of the Hermes and Apple "iPad", China is an extreme example of a country that has put emphasis on the importance of

earlier application/earlier registration. In each of the other first-to-file-principle countries, users of trademarks, which have been actually used in the market and become famous with accumulated trust, are attached considerable importance as prior users, but it was the traditional China that slighted them. It is a great step forward that, in the current reform, China specifies prior use trademarks in the text. However, when business risk is considered, it is important for companies aiming at business development in China in future, too, to be conscious of earlier applications/earlier registrations. Even if a mark without a trademark right is recognized as a prior-use trademark, it is nothing more than holding a right of defense. In Japan, there is a judicial precedent primarily in use regarding the original scope of use, but in China, even if a use can be continued, the use is limited within the original scope of use. So, regardless, it is important to obtain a right.

**Mr. FU:** It is unknown until the law is enforced how far this new concept of prior use will be understood by judges and how far it will be infiltrated. Anyway, in future Japanese companies should watch the tendency of precedents by local judges. There are many cases where the standards of judgment are not unified among the Supreme People's Courts in various districts. For example, when a company manufactures/processes a certain product in China and exports to Japan without making it available in China, many Supreme People's Courts do not approve an act of applying for a trademark at the time of processing. The act is, however, approved as being prior use in my hometown, Zhejiang province.

**Ms. Kawahara:** Regarding OEM and trademark right, it is very important for Japanese companies based mainly in China to check whether or not it is necessary to register a trademark application in advance.

**Ms. LV:** Concerning problems over OEM and trademark right, the Chinese courts vary judgments case by case. For example, China has a system for cancellation trials of a registered trademark not in use for three years, while a Japanese company, after registering a trademark in China, conducts manufacturing and processing in China and then distributes the products overseas including Japan. In this instance it is approved as a use of the trademark and the right can be maintained, even though the product was not distributed in the Chinese market. Also, there is a case where a Chinese company registered a trademark earlier in China, and a Japanese company manufactured products using the same trademark in China, and exported/sold them in Japan without distributing them in the Chinese market. Then, the Chinese company, claiming the right, caused an action for infringement. The precedent was that, since there is no actual use of the trademark in China, it does not fall under an infringement case. As laws have not yet matured enough in China, interpretation differs case

by case. In regard to a complicated case, we can do nothing but entrust ourselves to the judgment of the Supreme People's Court.

## **Using the letters of "Famous Trademark" is prohibited in advertising and the like.**

**Ms. LV:** For protection of a famous trademark, basically the principle established by the conventional business or judicial interpretation such as the principle of certification and the certifying organization are specified under the new law Article 14, and prohibited acts and penal provisions for the owner of the famous trademark are set forth.

Concerning the certification of the famous trademark, the certification of every case which has recently become a general standard, certification according to needs, and passive protection are put into a statutory form: as for the certifying organization, it is specified that: the Trademark Office (CTO) is responsible for opposition cases and each local Industry and Commerce Office; Trademark Evaluation Examination Board (TRAB) for an invalidation trial; and a court designated by the Supreme People's Court for civil and administrative cases, respectively.

Meanwhile, for the purpose of restricting illegal use and advertising of a famous trademark, owners of famous trademarks were banned from using the goods and the letters of "famous trademark" in packages, containers, advertising, exhibiting of goods, and other commercial activities. An owner would become unable to appeal, for example, in a TV-CM that "○○Trademark is a famous trademark." There will be a fine imposed of 100,000 yuan (approximately ¥1,650,000) upon anyone who violates this provision.

**Mr. FU:** As the latest information, the internal notice promulgated by the State Administration for Industry and Commerce on April 23, 2014, requests each local commerce and industry bureau to handle the prohibition of using the letters of "famous trademark" and advertising, as follows: firstly, goods circulating in the market were excluded from the provision. Next, it is specified that an organization which can impose punishment shall be the industry and commerce administrative management section in the location of the right holder of the famous trademark; when an industry and commerce administrative management section in a place other than the location are found in violation, the case shall be transferred to the industry and commerce administrative management section in the location of the right holder to be handled.

## **As countermeasures against a lawsuit, management of evidence of use of the right becomes important.**

**Mr. FU:** Under Article 64(1) of the new law, a restriction on recovery of damages for an act of infringement against a trademark owner is newly provided. It is a provision by which, when an accused infringer of right in a civil case uses the reason of the right holder not using the registered trademark as a defense, a judge can request the right holder to submit evidence of use for the past 3 years. Unless the owner can prove the use or the fact of having been infringed upon, the infringer would not be liable for damages. If the right holder cannot submit any evidence of use, his/her right to claim infringement damages will be lost, though his/her trademark right and right to demand an injunction will remain. This is a provision that the Japanese Trademark Law lacks. What Japanese companies can be advised of is the importance of management of evidence of actual use. Until now evidence of actual use has had no other relevance than in an administrative cancellation trial for a trademark being inactive for 3 years, but hereafter, right holders will be requested to submit one in civil suits, too.

## **Conditions for opposition are restricted; delay until the right acquisition is relaxed.**

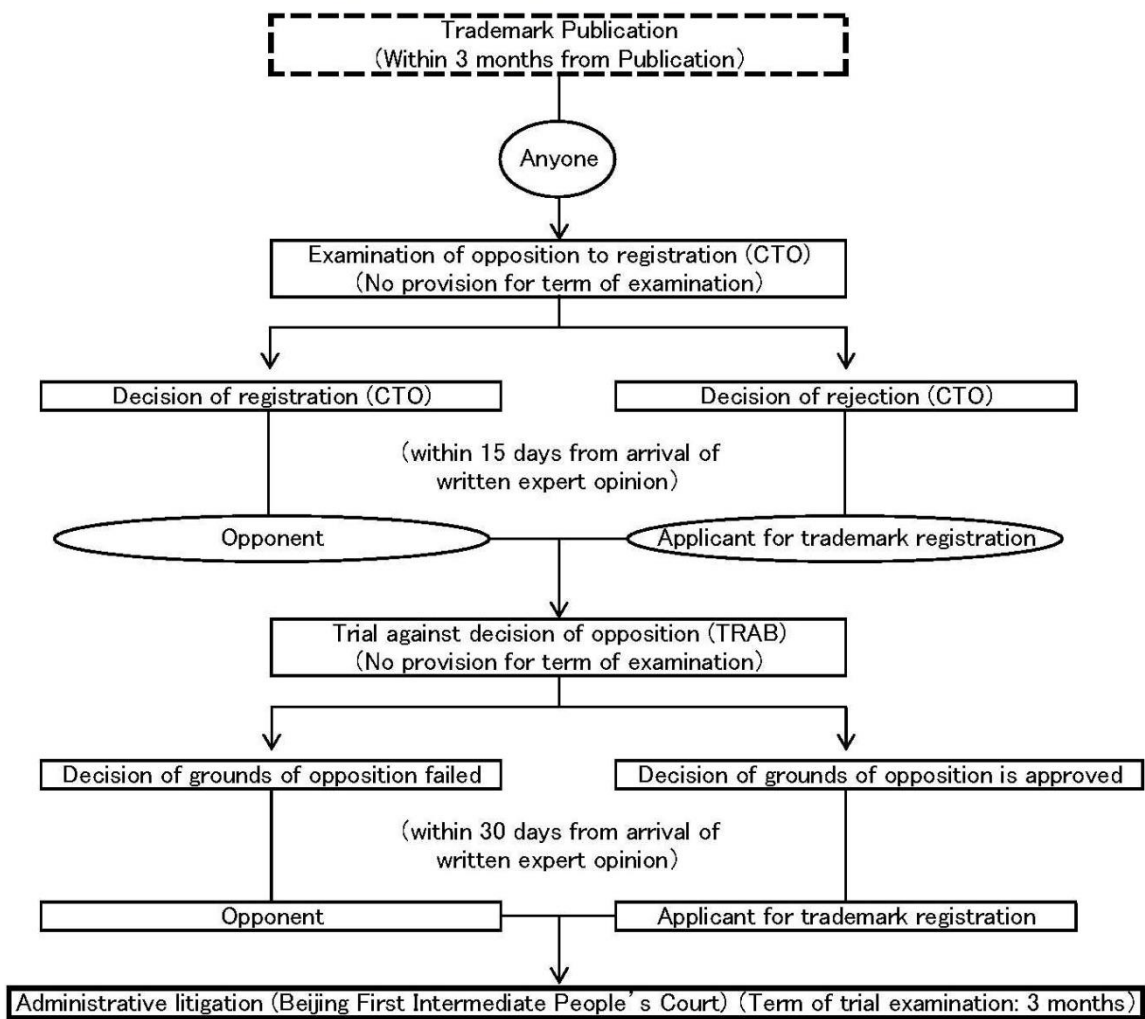
**Ms. LV:** While delay in obtaining a right became problematic due to a malignant opposition, the opposition system was also straightened (Fig. 1).

Firstly, opponents are going to be restricted according to the reasons for opposition. Oppositions based on absolute reasons for prohibition can be filed by anyone; however, those filed for relative reasons are to be restricted to interested parties and prior right holders. Those falling under the relative reasons for prohibition to be restricted here are: famous trademarks (New Law Article 13(2) and (3)); misappropriated applications by agents/representatives (New Law Article 15); geographical indications in a trademark (New Law Article 16); applications filed on the same day (New Law Article 31); and prior rights, prohibition of misappropriated applications (New Law Article 32). The interested party implies successors, trademark users, and other persons who can prove their interests and the like.

An important point concerning an opposition procedure is that, to protect the applicant's right, the right to demand a trial was eliminated from the right of the opponent. Oppositions had a very low success rate from the beginning and have been a cause of delay in obtaining a right. Some people advocate unfairness regarding this elimination of right, but opponents can

utilize an invalidation trial system, so it cannot be said that their rights are not protected. The purpose of the revision of this article lies in protection of applicants' rights. On the other hand, misappropriated applications and interception applications occur frequently, and there are also many experts who point out that protecting the applicants' rights too much would lead to protection of those illegal infringers of rights.

### Opposition System under Old Law



## Opposition System under New Law

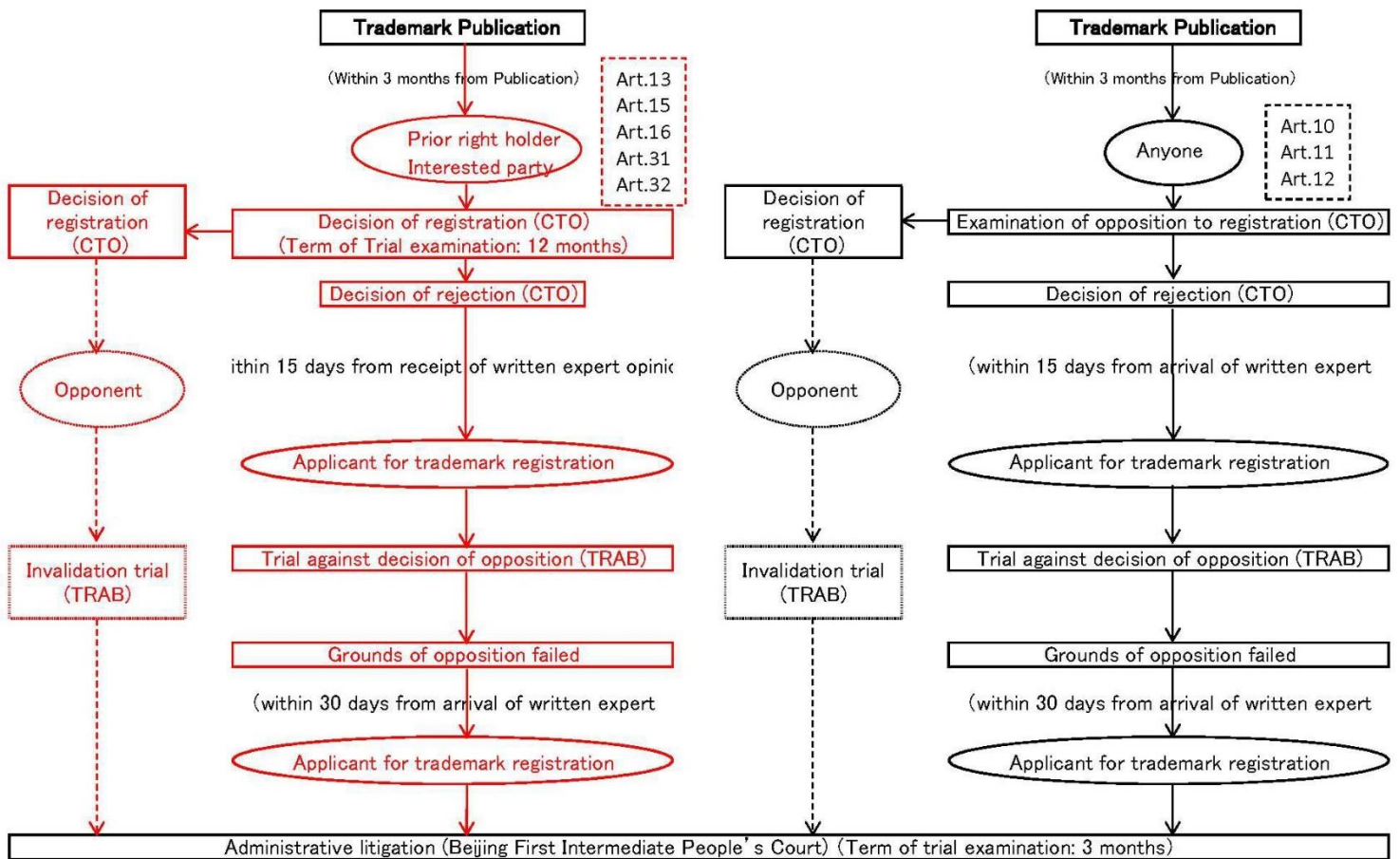


Fig. 1 ● Opposition System under New Law (provided by: Beijing Dragon Intellectual Property Law Firm, Beijing Office)

**Mr. FU:** The punishments for infringement of right were strengthened. It was defined that an act to aid acts of infringement of right intentionally and abet infringement acts of trademark rights by others fall under an infringement act. Besides, the ceiling of the amount of court compensation is largely raised from 500,000 yuan (about ¥8,250,000) to 3,000,000 yuan (about ¥49,500,000). On the other hand, the burden of proof of damages is diminished.

### Introduction of "sound trademark" other than letters and shapes

**Mr. Fu:** Trademarks of the sound medium which have been previously introduced in the U.

S. and Europe have also become registrable. As for specific procedures, "the Trademark Law Enforcement Regulations (draft)" was published, but there still remain many unclear points. Article 13(5) of the Regulations (draft) stipulates: "When filing an application for trademark registration as a sound mark, it is necessary to declare in an application, report a sample of the sound which meets requirements, and explain how to use the trademark. An application for registration of a sound trademark should be explained by a staff notation or a simple musical score. If it cannot be explained by a staff notation or a simple music score, it should be accompanied by an explanation using letters. The explanation of a trademark should accord with a sound and a sample."

**Ms. Kawahara:** According to the above-mentioned Chinese lawyer, I hear, filing of an application will be by means of a musical score and others by a music file (for example, in case of the bark of a dog). In Japan, too, introduction of new trademarks such as sounds and colors have been included in a revised trademark bill by the Diet this year, but no concrete form of application has been made clear so far.

As for the present revision, we as practitioners would like to contemplate the contents of the law, and advise our clients with special attention to the enforcement regulations as set forth by the authorities and specific procedures.