China's New Trademark Law: Maximizing IP Protection

Navigating Key Changes in Trademark Hijacking, Expanded Scope of Registration Eligibility, Application and Opposition Procedure, and More

WEDNESDAY, DECEMBER 4, 2013

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

Today’s faculty features:

Georgia Chiu, Counsel, Hogan Lovells International, Shanghai, China
William (Skip) Fisher, Partner, Hogan Lovells International, Shanghai, China

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Prosecution of Trademark Applications Under China’s New Trademark Law

Georgia Chiu
Hogan Lovells, Shanghai
Strafford Live CLE Webinar, December 4, 2013
Overview of changes

A Friend in some ways:

<table>
<thead>
<tr>
<th>Changes</th>
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</thead>
<tbody>
<tr>
<td>• Includes sound as registerable marks</td>
<td>• Multiclass applications</td>
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<tr>
<td>• Reintroduces Examiner's Advice</td>
<td>• Expands scope of infringement</td>
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<tr>
<td>• Improves issue of bad faith registrations, esp. well-known trademarks</td>
<td>• Prohibits use of registered trademarks as a corporate name or font style</td>
</tr>
<tr>
<td>• Increases statutory compensation for infringement from RM500,000 to 3 million</td>
<td>• Expands scope of infringement to use of another's trademark as a company or product name</td>
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<tr>
<td>• Increases penalties for repeat infringers</td>
<td>• Relieves the burden of proof for the infringed party in proving damages</td>
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</table>
Agenda

- Bird's Eye on China's Trademark Law
- How does the new Trademark Law effect the prosecution of trademark applications in China

I. Scope of Registerable Marks
II. Applicant Friendly Approach
III. Time limits for TM Application / Opposition
IV. Opposition Proceedings
V. Assignment and License of Trademarks
VI. Well-known Marks
VII. The Use of Trademark
VIII. Tougher for Trademark Hijackers – good faith

- Case Study
Bird's Eye on China's Trademark Law

- China is a member of:
  - Paris Convention
  - Madrid Agreement (International trademark registration)
  - Madrid Protocol
  - Nice Agreement (Trademark classification)
  - TRIPs (WTO member since 2001)
I. Scope of Registerable Marks

- Added:
  - Sound marks – yes
  - Single colours – no
  - Scent marks – no
  - Moving images - no
II. Applicant Friendly Approach

• Trademark application process simplified
  – Multi-class and E-filings
  – Separation of application possible (eg, when encounter partial refusals), more cost effective.

• Opportunity to amend and change the trademark application
  – Will aid brand owners in getting approval for applications that might otherwise have been rejected

• Trademark renewals
  – Renewals can be made within 12 months before the renewal deadline vs. currently 6 months – bridge the gaps between obtaining renewal certificate and renewing the customs recordation.
## III. Time Limits for TM Application and Opposition

<table>
<thead>
<tr>
<th>Case Type</th>
<th>Responsible Authority</th>
<th>Basic Time Limit for handling</th>
<th>Extension Allowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial examination of application</td>
<td>CTMO</td>
<td>9 months (as of receipt of filing)</td>
<td>-</td>
</tr>
<tr>
<td>Opposition</td>
<td>CTMO</td>
<td>12 months (as of expiration of preliminary publication period)</td>
<td>6 months</td>
</tr>
<tr>
<td>Review on Refusal of application</td>
<td>TRAB</td>
<td>9 months (as of receipt of filing)</td>
<td>3 months</td>
</tr>
<tr>
<td>Review on Opposition</td>
<td>TRAB</td>
<td>12 months (as of receipt of filing)</td>
<td>6 months</td>
</tr>
</tbody>
</table>
IV. Opposition Proceedings

• Opponent's identity
  – Only *prior right owner* or *an interested party*, instead of *any* party has the right to oppose a preliminary approval of a trademark on the basis of relatively grounds - can potentially make it harder for brand owners to file oppositions.
  – Additional documents required: 1) Certificate of identity; and 2) evidence showing prior rights or an interested party.

• CTMO' decision not appealable for opposing party
  – May only apply to the TRAB to request invalidation of such registered trademark – can increase and arguably encourage bad faith and hijacking actions
IV. Opposition Proceedings

• Our lobbying efforts focusing on the Draft Implementing Regulations

• Supplemental grounds/evidence – within 30 days upon filing of the opposition (in the draft Implementing Regulations) – to restore to the current time limit of 3 months.

• Default judgment - The failure of an applicant to respond to an opposition which alleges bad faith under any provisions be considered abandonment of the application.

• Filing counter-statement - To provide copies of the response/evidence filed by the applicant and allow the opponent to file a round of counter-statement.
V. Assignment and License of Trademarks

**Assignment**
- Re-cap: effective upon publication of the CTMO’s approval
- Assignment of all related marks (same goods/similar mark; similar goods/identical and similar marks)

**License**
- Re-cap: effective upon signing or otherwise agreed by the parties.
- Recordation with the CTMO, otherwise cannot be used against third parties in good faith.
- Previous practice vs. current practice (SAFE foreign exchange control relaxed)
VI. Well-known Marks

- Restricts improper well-known trademark recognition (limit fake cases to obtain well-known status)
  - From SPC Interpretation - now explicitly stated in the law

- Prohibits the use of well-known marks as an advertising tool.

- Hope that a more fair and reasonable number of foreign trademarks will be recognized as well-known by the CTMO.
VII. The Use of Trademark

• Use of the trademark on goods, packages, containers or in trading documents, advertising, exhibitions or any other business activities, which identify the source of the goods.

• Does OEM-Use constitute use of the mark in China? Whether OEM-Use sufficient to prevent registered trademarks from being cancelled on the basis of non-use?
### VIII. Tougher for Trademark Hijackers – good faith

<table>
<thead>
<tr>
<th>Good faith enhanced</th>
<th>Registration will be rejected when:</th>
</tr>
</thead>
<tbody>
<tr>
<td>For trademark applications</td>
<td>Agency relationship</td>
</tr>
<tr>
<td>For trademark agents</td>
<td>Representative relationship</td>
</tr>
<tr>
<td>For damages</td>
<td>Contractual relationship</td>
</tr>
<tr>
<td></td>
<td>Business relationship</td>
</tr>
</tbody>
</table>

Added tool for brand owners to deal with trademark hijacking by business partners, distributors and manufacturers
Case Study

I Schroeder KG
- German based producer of tinned food.
- Owner of the mark

Merry Food Co Ltd
- Was the OEM manufacturer of the German company
- Registered owner in China

- Merry Food sued the German company for trademark infringement.
- Court ruled: OEM-use constitute use of the registered mark, but no infringement as Merry Food obtained the trademark registration by bad faith, thus should not be protected by law.
Thank you!

Georgia Chiu
Counsel, Shanghai
+86 21 6122 3800
georgia.chiu@hoganlovells.com

www.hoganlovells.com
Protecting Your Trademark Rights under China’s New Trademark Law

William (Skip) Fisher
Hogan Lovells, Shanghai
Strafford Live CLE Webinar, December 4, 2013
Agenda

• Trademark filing strategies
  – First to file principle
  – Chinese character trademarks / case studies

• Cancellation actions
  – Procedures
  – Bad faith evidence
  – Defensive strategies

• Infringement actions
  – Trademark use / case study
  – Burden of proof
  – Damages
  – Administrative actions
  – Defenses
Always be an early bird!

- First-to-file principle saved under the new law
  - first filer/registrant usually prevails
- File your trademark before use in China
  - no intent-to-use requirement
Don’t forget your Chinese brand!

• Chinese consumers tend to adopt a Chinese name for foreign brands & products
  – Hermès = 爱马仕 (horse-loving officials)
  – Sony Ericsson = 索爱 ("suo ai")
  – Ferrari = 法拉利 ("fa la li")
  – Viagra = 伟哥 / 万艾可 (great brother / "wan ai ke")

• Unregistered Chinese marks are sitting ducks for trademark hijackers
Case study: Hermès v. Dafeng

Beijing No. 1 Intermediate Court Judgment
Hermès International vs. Dafeng Garment Factory

Hermès Trademark
Class 25

1977 - Plaintiff's mark "Hermès" registered in many classes but no Chinese mark "爱马仕"

1995 - Defendant's mark "爱玛仕" registered

1996 - The first Hermès store opened in China

2001 - TRAB maintained Dafeng's registration

2009 - Hermès appealed to Court

2012 - Court upheld TRAB's decision
Case study: Sony Ericsson v. TRAB (Liu Jianjia)

- Sony lost in fight to claim non-registered Chinese trademark.

2002: Sony Ericsson China was established in 2002, but did not register the "Suo Ai" trademark at that time.

2003: Liu Jianjia applied to register the "Suo Ai" trademark on consumer electronics.

2004: "Suo Ai" was registered to Liu Jianjia.

2005: SE filed a cancellation action with the TRAB, which rejected the request.

2007: SE appealed to the Beijing No 1 Intermediate People's Court and won!

2009: Liu appealed to the Beijing Higher Court and won (trademark valid).

2010/11: SE requested retrial, but SPC dismissed.
Hermès and Sony Ericsson Cases: Lessons Learned

<table>
<thead>
<tr>
<th>Lessons</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Not being first to file, or omitting to register a Chinese character</td>
<td>mark, can have long-term negative effects</td>
</tr>
<tr>
<td>Consumers in China play a special role in branding foreign products</td>
<td></td>
</tr>
<tr>
<td>Companies must control the branding process, especially for Chinese</td>
<td>character marks</td>
</tr>
<tr>
<td>Unregistered trademarks can be protected only if they are well-known</td>
<td>in <em>China</em>. Fame elsewhere does not necessarily grant well-known</td>
</tr>
<tr>
<td>status in China.</td>
<td>status in China.</td>
</tr>
<tr>
<td>Well-known trademark status is determined as of the time of the</td>
<td>disputed mark's application, not when the dispute is decided.</td>
</tr>
<tr>
<td>dispute is decided.</td>
<td></td>
</tr>
</tbody>
</table>
Selecting a Chinese character trademark

Factors to consider

- Connotations / Culture
- Pronunciation (with dialects)
- Visual Appeal
- Competitors
- Consistency with brand identity / marketing strategy
- Easy to remember (avoid odd transliterations)

Pre-Application Searches
Common Law Searches

Translation

- Apple = 苹果
- Microsoft = 微软

Transliteration

- Nike = 耐克
- Ferrari = 法拉利

Fanciful

- Ecco = 爱步
- Abbott = 雅培

Combination

- Coca-Cola = 可口可乐
- Landrover = 路虎
# Trademark cancellation procedures

<table>
<thead>
<tr>
<th>Case Type</th>
<th>Responsible Authority</th>
<th>Time Limit</th>
<th>Extension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cancellation based on <strong>absolute grounds</strong> (Art. 44)</td>
<td>TRAB</td>
<td>9 months</td>
<td>3 months</td>
</tr>
<tr>
<td>Cancellation based on <strong>relative grounds</strong> (Art. 45)</td>
<td>TRAB</td>
<td>12 months</td>
<td>6 months</td>
</tr>
<tr>
<td>Cancellation based on non-use or generic mark</td>
<td>CTMO</td>
<td>9 months</td>
<td>3 months</td>
</tr>
<tr>
<td>(Art. 49)</td>
<td></td>
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</tbody>
</table>
Trademark cancellation procedures

- Request for cancellation to TRAB (w/in 5 years for relative grounds) (Arts. 44 & 45)
- Registrant must reply w/in 30 days
- Possible supplementation of evidence
  - upon notice in request or reply
  - w/in 30 days
- Possible oral hearing
  - upon request and at TRAB's discretion
  - with 15 days' notice
- TRAB decision w/in 9-18 months
- Appeal TRAB decision w/in 30 days (Arts. 44 & 45)
Trademark cancellation procedures (cont'd)

• If no appeal of TRAB decision, decision final (Art. 46)

• If registration is cancelled, right of exclusive use is deemed non-existent from start, but decision has no retroactive effect on prior judgment, ruling or agreement to the extent already enforced or performed (Art. 47)
  – Bad-faith registrant remains liable for losses caused
  – Infringement damages, fees, royalties may be refunded under principle of fairness
Bad faith evidence is key to success!

- Amended law includes enhanced good-faith requirement
  - General principle of good faith in all trademark applications and uses (Art. 7)
  - Protection against hijacked trademarks (Art. 15)
- New statutory tool for brand owners to deal with trademark hijacking by supplier, distributors & business partners
Bad faith evidence (cont'd)

- **Useful evidence to prove bad faith:**
  - documents showing prior business relationship
  - documents showing defending party’s prior knowledge of requestor’s business
  - ransom demand by defending party
  - defending party’s trademark hijacking history
  - requestor's prior rights and reputation & goodwill thereof

- **Approaches to collecting evidence:**
  - internal audit of potential connections with defending party
  - investigations of defending party:
    - background check
    - admission of knowledge of requestor
    - anonymous third party offer to buy
Cancellation defense strategies

• Challenge standing of requestor – only prior right owner or interested party (Art. 45)
• Seek business solution – co-existence or license
• Submit evidence of good faith – silence may mean adverse inference
• Go on offensive – block later filed applications, initiate infringement action(s)
## Overview of trademark enforcement options

<table>
<thead>
<tr>
<th>Responsible Authority</th>
<th>Type of Cases</th>
<th>Remedies &amp; Penalties</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AIC</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Local Administration of Industry and Commerce | Trademark infringement, Unfair competition | Order to stop infringement, Confiscation of infringing products and/or tools, Administrative fine
- Illegal gains > RMB 50,000 = up to 5 times illegal gains
- Illegal gains < RMB 50,000 = up to RMB 250,000 (Higher for repeat offenders) | Most effective with trademark infringement, Can be difficult to persuade AIC to act on unfair competition cases |
| **QTSB**              |               |                      |       |
| Local Quality and Technical Supervision Bureau | Product quality issues, Product labelling | Order to stop breach of law, Confiscation of illegal products and/or tools, Administrative fine, Revocation of business license in serious cases | More willing to act if infringing product fails to meet compulsory standards or is obviously unhealthy or unsafe |
| **Customs**           | IP infringing products that are being exported from or imported to China | Seizure, confiscation and destruction of infringing products, Administrative fine | Recordation of IP rights highly recommended |
| **Civil**             | IP infringement, Unfair competition | Order to stop infringement, Preliminary injunctions, Damages
- Lost profits, illegal proceeds, license fee
- Punitive damages = 1-3 times damages
- Statutory damages = up to RMB 3 million
- Public notices to eliminate the negative effect of infringing activities | Deterrent effect, High damages unlikely, Challenges in enforcement |
| **PSB**               | Serious IP infringement cases, Serious unfair competition cases | Criminal conviction: imprisonment of up to 7 years and/or criminal fine, Confiscation of illegal proceeds. | Strong deterrent effect, Not applicable to patent infringement |
Trademark use

• Trademark use defined (Art. 48):
  "The use of trademarks … refers to affixing trademarks to goods, the packaging or containers of goods, and transaction documents for goods, as well as use of trademarks in advertisements, exhibitions, and other conduct in commercial activities, the purpose of which is to identify the source of goods."

• Contributory infringement expressly recognized (Art. 57)

• Use of another's registered trademark or well-known trademark as trade name is not trademark use (Art. 58)

• Non-use is an affirmative defense in trademark infringement actions (Art. 64)
Case study:

- Facts:
  - Muji had trademark registrations of “無印良品” in Cls.16, 20, 21, 35, 41 in China
  - Muji had been using Chinese OEM factories for making products in Cl. 24, but did not sell the products in China
  - A third party hijacked the “無印良品” mark in Cl. 24
  - Muji filed an opposition action
Case study:

• Muji’s ground for opposition:
  – Article 31 (new Article 32): an application shall not be made with intent to register a trademark used by another and enjoying certain reputation

<table>
<thead>
<tr>
<th>The SPC</th>
<th>Lower Courts</th>
</tr>
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<tbody>
<tr>
<td>Evidence of OEM use not sufficient for showing that a mark has been &quot;used and achieved a certain amount of influence in China&quot; as stipulated in Article 31 of the PRC Trademark Law</td>
<td>OEM manufacturing for export not trademark use</td>
</tr>
</tbody>
</table>
Case study:

- Would the prohibition on applications by those with prior business relationship with owner of unregistered trademark (new Article 15) have saved the case?
  - OEM use may be accepted as use in China for the purpose of establishing bad faith of applicant
  - But lack of evidence proving business relationship may be fatal to Article 15 claim

- Would the codified principle of good faith (new Article 7) have saved the case?
  - Hopefully (???)
Shifting burden of proof

• Plaintiff has burden to prove prima facie case of infringement & damages
  – owner or exclusive licensee of registered trademark
  – defendant's sale or manufacture of infringing products
  – damages (time period, volume of infringing sales, revenues)

• Court may shift burden of producing damages evidence to defendant if (Art. 63):
  – plaintiff has made every effort to obtain evidence
  – evidence is in possession of defendant
  – if defendant refuses to provide evidence, court may decide compensation based on plaintiff's claim/evidence
Enhanced damages

• Maximize statutory damages
  – Statutory damages apply if plaintiff cannot prove actual loss or improper gains (Art. 63)
  – Statutory damages are assessed in more than 95% of trademark cases, with average amount of RMB 62,000 (USD 10,000)
  – Statutory damages increased from RMB 500,000 to RMB 3 million (Art. 63)

• Punitive damages of 1-3 times actual loss (Art. 63)
Administrative actions

• AIC raid action may be a shortcut to achieve objective
  – quicker and more efficient approach
    • Exhaustive investigation and evidence collection may not be necessary
    • AIC usually acts in a few days
  – more deterrent effect under the new Article 60
    • maximum fines increased up to RMB 250,000 (USD 40K) or five times the illegal turnover
    • Higher fines for repeat infringers & serious circumstances
    • Destruction of inventory & equipment
  – compatible with other actions
    • follow up with civil action (Art. 60)
    • follow up with criminal action (Art. 61)
Infringement defensive strategies (Art. 59)

- Accused use is **generic** name of goods
- Accused use is merely **descriptive** of goods
- Accused use is **functional shape or form** of goods (for 3D marks)
- Prior use:
  - used trademark and attained certain degree of influence on same or similar goods prior to application date
  - current use is within original scope
  - registrant may require affixation of distinguishing marks
Non-use defense (Art. 64)

- Right holder asserts infringement & claims damages
- Infringer argues right holder has not used trademark
- Right holder may be ordered to prove actual use during last three years
- Right holder fails to provide evidence of use and amount of loss
- Defendant will not be liable for damages

Article 64 was a much debated provision of new law:
- May affect one's filing and enforcement strategy
- Highlights debated issue regarding what constitutes trademark use in China
Thank you!

Should you have any questions on our China IP practice, please do not hesitate to contact:

William (Skip) Fisher
Partner, Shanghai
+86 21 6122 3850
william.fisher@hoganlovells.com

www.hoganlovells.com