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April 30, 2019

### China's National Legislature Advances Changes to Trademark Law

The Standing Committee of the National People's Congress (NPC) announced amendments to the Trademark Law of the People's Republic of China (PRC Trademark Law) on April 23, 2019. The amendments apply to six articles of the PRC Trademark Law and will go into effect on November 1, 2019. The timing for the release of these amendments was largely unexpected and did not follow the stakeholder consultation process that usually precedes amendments to major laws and regulations in China.

The PRC Trademark Law amendments were announced along with amendments to other major laws, including the Anti-Unfair Competition Law. The timing of the announcement and the rushed nature of the amendments suggest an intent by China's legislature to demonstrate a commitment to addressing certain longstanding issues that have vexed foreign and domestic companies in China in the context of the ongoing U.S.-China trade negotiations.

## The Amendments

The PRC Trademark Law amendments are focused on three primary issue areas: (1) the filing of trademark applications in bad faith without an intent to use; (2) sanctioning trademark agencies that assist with the filing of trademarks in bad faith; and (3) increased punitive and statutory damages, and the disposition of infringing goods by the People's Courts.

### 1. The Filing of Trademark Applications in Bad Faith Without Intent to Use

The first paragraph of Article 4 of the PRC Trademark Law provides that "[n]atural persons, legal persons or other organizations that have a need to obtain exclusive rights to use a trademark for goods or services for production or business activities in the PRC shall apply to the PRC Trademark Office for registration of a trademark." The NPC drafters added a sentence to the end of this paragraph that reads as follows:

*[...] Applications for the registration of trademarks in bad faith that are not intended to be used should be rejected.*

In addition, the drafters added a reference to Article 4 as a basis for opposing a third-party trademark (Article 33) and as a basis for invalidating a registered trademark (Article 44).

The idea that Article 4 should be the basis for rejecting trademarks that are filed in bad faith is not new. Since at least 2016, the China National Intellectual Property Administration (CNIPA) and the People's Courts have been warming up to the idea that Article 4 of the PRC Trademark Law is an acceptable basis for rejecting trademark applications and challenging the registration of trademarks in bad faith by apparent trademark hoarders. In a press release published on the previous State Administration for Industry and Commerce website on October 31, 2018, the Trademark Office (now part of CNIPA) announced that it had rejected over 16,000 "abnormal applications" for trademarks, many of which were rejected on the basis of Article 4.[1]

In the invalidation context, the idea was crystallized in a 2017 Supreme People's Court (SPC) decision that upheld the use of Article 4 in a case involving the invalidation of a mark filed in bad faith by an egregious trademark hoarder.[2] Since the issuance of this decision, the People's Courts and the trademark review and adjudication authorities have more consistently supported the view that filing a large amount of third-party trademarks without proper justification, and seeking to sell or otherwise benefit from the pirating of third-party

trademarks, constituted an act of registering trademarks with "other improper means" in violation of Articles 4 and 44.1 of the PRC Trademark Law.

The practice of invoking Article 4 as a basis for challenging marks filed in bad faith has been mostly confined to invalidation cases and has not been widely accepted as a basis for challenging them in the opposition context. The revisions to Articles 4, 33 and 44 are intended to provide a solid legal basis for rejecting trademarks filed in bad faith and challenging them in the opposition and invalidation contexts as well.

## **2. The Sanctioning of Trademark Agencies That Assist With the Filing of Trademarks in Bad Faith**

Article 19 of the PRC Trademark Law provides *inter alia* that a trademark agency should not accept representation of a trademark applicant client if it knows or should know that the application for registration of a trademark by its client entails the circumstances stipulated by Article 15 (unauthorized registration of trademarks by agents or representatives, or of trademarks that are the same or similar to a third party when there is a contractual or business relationship between the parties) or Article 32 (filing applications that prejudice a prior right or are a pre-emptive filing of a mark that is in use and has a certain degree of influence in the PRC market). The 2019 amendment adds to this list a reference to Article 4, thereby requiring that an agent refuse representation of a client if it knows or should know that the subject trademark is being filed in bad faith and without an intent to be used.

In addition to updating the language of Article 19, the new amendment also revises the language of Article 68 of the PRC Trademark Law. Article 68 sets out a range of administrative sanctions and fines that can be levied against trademark agencies and individual trademark agents for engaging in certain acts, and the new amendment adds reference to a violation of Article 4 to the list of acts subject to administrative sanction. The amendment also adds an additional paragraph to the end of Article 68 that reads as follows:

[...]

*Where an application for trademark registration is filed in bad faith, an administrative penalty such as a warning or fine shall be imposed according to the circumstances; and if a trademark lawsuit is filed in bad faith, the People's Court shall impose a penalty according to law.*

The fact that this paragraph was included in Article 68 of the PRC Trademark Law suggests that the referenced administrative and court-imposed penalties would apply only to a trademark agency or individual agent, and not directly to the applicant or registrant of a trademark filed in bad faith. This language is ambiguous and will require additional clarification in subsequent implementing regulations or judicial guidelines, but as discussed below, there is reason to believe that the drafters intended for the sanctions contemplated herein to apply directly to applicants or registrants as well.

## **3. Increased Statutory and Punitive Damages, and the Disposition of Infringing Goods by the People's Courts**

Article 63 of the PRC Trademark Law provides guidance to the People's Courts on the assessment of damages in cases involving trademark infringement. The recent revision introduces the following amendments:

- An increase in the amount of punitive damages from treble damages to quintupled damages in circumstances involving bad faith or other "serious circumstances";
- An increase in the amount of statutory damages of up to RMB 5,000,000 (about US\$743,000) in cases where it is difficult to conduct an actual damages calculation; and
- The addition of the following paragraph to Article 63 that reads as follows:

*When a People's Court hears a trademark dispute case, at the request of the rights holder and except for special circumstances, the court shall order the infringer to destroy the products with counterfeit registered trademarks, destroy the materials and tools used for the production of products with counterfeit registered trademarks without compensation, or in special circumstances, order the infringer to prohibit the materials and tools from entering commercial channels without compensation.*

*Goods with counterfeit registered trademarks shall not be allowed to enter commercial channels after the counterfeit registered trademarks are removed.*

While these are indeed welcome revisions, the People's Courts rarely issue punitive damages, so it is uncertain as to whether the increased punitive damages amounts will have a real impact on infringers or otherwise change the status quo.

Moreover, brand owners and stakeholders will require additional clarification to fully appreciate the "special circumstances" in which infringing goods and the materials and tools of infringement might otherwise enter commercial channels. Such clarification may indeed be forthcoming in new implementing regulations.

## **Lingering Questions**

### **What is the significance of an intent to use as the basis for opposing and invalidating trademarks under revised Article 4?**

The language of revised Article 4 opens the worrisome possibility that an application for registration of a third-party trademark in bad faith could potentially be approved if an applicant could show that the mark was filed with intent to use. Similarly, an applicant or registrant of a trademark in bad faith could potentially defend an opposition or invalidation by demonstrating actual use in commerce. In other words, the language of revised Article 4 could potentially encourage bad faith filers and trademark hoarders to license and make some use of the marks they file.

Additional clarification will be required to assess whether and how the revised language of this provision might incentivize the behavior of bad faith filers. Brand owners and stakeholders will hopefully receive such clarification in forthcoming implementing regulations, but until then, they may find a hint of solace in a recent court document issued by the Beijing Higher People's Court, also on April 24, 2019. That document is entitled *Guidelines for the Trial of Administrative Cases Granting and Affirming Trademark Rights* (Higher People's Court Guidelines) and went into effect upon release. Article 7.1 of the Higher People's Court Guidelines provides that a trademark applicant must have a *bona fide intention to use* (??????), and that such an intention should be supported by "demonstrable evidence." What might constitute "demonstrable evidence" is left to the imagination, and brand owners and practitioners should stay tuned for further clarification and developments on this issue in the coming months.

### **Does the revised PRC Trademark Law provide brand owners with a basis for seeking administrative sanction against bad faith filers?**

As discussed above, Article 68 of the PRC Trademark Law is focused on the administrative sanctions and fines that can be levied against trademark agencies and individual trademark agents for engaging in certain acts. In this context, the new administrative and court-imposed penalties for the filing of trademarks and trademark litigation in bad faith would appear to also apply to a trademark agency or individual agent, and thus not apply directly to the applicant or registrant of a trademark filed in bad faith.

However, there is some evidence to suggest that the drafters intended to introduce the possibility of administrative sanction for the applicants or registrants of trademarks filed in bad faith. For example, in a press conference on April 28, 2019, Zhao Gang, the Deputy Director of CNIPA stated that administrative sanction will indeed be available for the filers of trademarks in bad faith.[3] There will, however, continue to be some uncertainty on this issue until additional clarification is issued in the form of implementing regulations or CNIPA guidelines in due course.

## What's Next?

It is likely that additional clarification on the new PRC Trademark Law amendments will be issued in the form of implementing regulations or CNIPA guidelines in the next few months. Perkins Coie will be following developments closely and will publish updates as they arise.

Until the PRC Trademark Law amendments take effect on November 1, 2019, brand owners can invoke a broader application of Article 4 in administrative cases involving trademarks filed in bad faith by adopting the reasoning of the 2017 SPC decision referenced herein (for invalidation matters) and/or referencing Article 7.1 of the Higher People's Court Guidelines (subject to the evidential uncertainties mentioned above).

### ENDNOTES

[1] CNIPA, Trademark Office, The Trademark Office says "no" to the abnormal trademark application (Oct. 31, 2018), [http://sbj.saic.gov.cn/gzdt/201810/t20181031\\_276592.html](http://sbj.saic.gov.cn/gzdt/201810/t20181031_276592.html).

[2] Wuhan Zhongjun Campus Service Co., Ltd. v. TRAB, (2017) ?????4191?.

[3] *See, e.g.,* IPR Learn, *Zhao Gang: Combating such hoarding trademarks and malicious registration* (Apr. 27, 2019), <https://mp.weixin.qq.com/s/pXPDUt6O0F9K7Ve4UY4pVw>.

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