

Introduction to the 4th Amendment to the Trademark Law of China (2019)

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In the beginning of the year 2018, the China Trademark Office launched a vast consultation for the fourth revision of the *Trademark Law*, offering three full months to all parties concerned, both nationals and foreign, for submitting suggestions.

Meanwhile, China and the United States were engaging in active negotiations on a wide range of topics, including the protection of intellectual property.

The partial, but fast, revision of the *Trademark Law* (which will become effective since November 1, 2019) is apparently one of the big consequences of the aforementioned events.

The revision focuses on two very important issues: (1) the proliferation of trademarks, which was one of the main comments submitted, and (2) the enforcement actions against infringers, which was considered insufficiently deterrent.

1. The proliferation of trademarks

More than 7 million trademarks applied in one year is, indeed, becoming a problem. Obviously, many of these trademarks are applied and registered, like simple commodities, with the mere intention to be hoarded and resold. Some of these trademarks are even filed in total bad faith.

The revision focused on two articles of the law: article 4 (the general principle defining who may apply for a trademark) and article 7 (principle of good faith in applying and using trademarks).

Article 4, in particular, provides for a very general condition: "... need to obtain the exclusive right to use a trademark for

(one's) goods or services during production and business operations". This could imply that someone who does not have production means, for goods or services, would not be entitled to file a trademark. However, this was not specified anywhere else in the law.

The State Council proposed, on April 20, 2019, to add to article 4 the following general wording; "Any application for the registration of a trademark that is not intended for use shall be rejected".

This far-reaching proposition created a problem. Members of the NPC objected that it is not unusual for legitimate businesses to file "defensive" trademarks in order to protect their marks in classes of goods more or less related to their core business and avoid the risk of dilution or having to file difficult oppositions based on reputation.

Furthermore, this proposed amendment was in contradiction with article 49 of the law which provides that *where a trademark has not been used for three consecutive years without proper reason, any person may file an application with the Trademark Office for the revocation of the trademark*. Since article 49 does not impose any obligation to use during the first three years following the registration, how could a trademark application be refused for lack of intention to use?

This is why, after deliberation, the NPC decided to add the word "bad faith" (which is directly related to the principle of article 7), and the final text reads: "Any bad faith application for the registration of a trademark that is not intended for use shall be rejected".

Two independent conditions are, therefore, needed: no intention to use and bad faith.

As it may be difficult for an examiner to appreciate whether an application is made in good or bad faith (apart, maybe, from massive numbers applied at the same time), in order to be fully effective, this amendment was extended to (i) the responsibility of trademark agents, and (ii) oppositions and invalidation procedures.

i. Article 19.3 provides, now, that a trademark agent should not accept being entrusted where he knows or ought to know that, not only articles 15 and 32, but also the amended article 4, are violated. Furthermore, article 68 add *in fine*, that if a trademark agent files trademarks in bad faith it may be warned or punished, and if trademarks proceedings are initiated in bad faith, it may be punished by the Court.

ii. Article 33 (oppositions), as amended, provides that oppositions may be filed by any party that believes that, not only article 10 and 11 (absolute grounds of refusal) and 12 (three dimensional trademarks), but also the amended article 4 and the amended article 19.4, are violated. For article 44 (invalidations) the same reference to article 4 and article 19.4 is added.

Two other modifications were made to article 68 concerning trademark agents, which seem at best, redundant, even a bit odd:

a. Article 68.1.3 added to article 4, which seems redundant, because the new article 19.3 has already include the new article 4.

b. New article 68.4 stipulates the liability of bad faith registration and litigation which is not clear at all: if it aims at the agent, the precedent paragraph of this Article has already the same or even serious criminal consequence; if it aims at the applicant itself, its place seems a little odd, and not supported by the legislative history, because the State Council proposal only aimed at the agent.

Another question could be asked: whether the new article 4 will apply to the registered mark or trademark in the process of registration? Theoretically not, because the new law should not have the retroactive effect. But on the one hand, the 2001 Trademark Law did such retroactive application for the well-known marks for example, and on the other hand, the court has already recourse to old article 4 to combat the bad faith and non intention to use application, which is enumerated in detail in the article 7.1 of new guideline of Beijing High Court published two days later of the new law. It is quite interesting to see how this will be implanted the new law.

2. Enforcement of trademarks

Article 63 provides that, where an act of infringement is committed in bad faith and the circumstances are serious, the amount of compensation calculated according to the law may be multiplied by three. The new article 63 raises this possible augmentation up to five times.

Article 63 also provides for statutory damages (maximum 3,000,000RMB) in case it appears difficult to calculate the exact amount of prejudice or illegal gains. The amended law raises the statutory amount to 5,000,000 RMB.

And finally, the revised article 63 deals with the stock of counterfeiting goods, and provides that, except in special circumstances, they should be destroyed, together with the materials and tools *mainly* used to manufacture them. Furthermore, the said materials and tools, if they are not destroyed, may not re-enter the business channels. Finally, the revised article 63 clarifies an issue that had been debated many years ago, and provides that counterfeit goods may not re-enter the business channels, even if the trademark has been removed.

This is quite an encouraging improvement, as in addition to tools, the Court, in adjudicating cases involving trademark disputes, at the request of the right holder, can order to destroy the materials which are mainly used for the manufacture of counterfeit goods. This amendment, which adds "the materials" to the tools, fills a gap and is welcome.

This improvement is not without regret: It is restricted to "commodities bearing a counterfeit registered trademark", which excludes all other infringing goods (similar trademarks) or unregistered well-known trademarks. Since counterfeiting concerns only double identity cases (same trademarks plus same goods), the improvement is narrower than the actual article 60 which concerns all infringing goods (similar marks on identical or similar goods). Is this restriction made on purpose? Why should the powers of the courts be narrower than that of the Administration?

Altogether, since the new law was promulgated in such a hurry, we by all means need to wait for further explanation or any implementing rules/regulations and observe what will happen in the future...