

The consequences of a trademark invalidation (2022)

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According to article 45 of the Chinese Trademark Law, a trademark owner who discovers the existence of a trademark registered subsequently to his own and considers that it is identical or similar and covers identical or similar goods, may request the TRAD (Trademark Revision and Adjudication Department) to invalidate the trademark. However, it is not possible to request the prohibition of its use.

Indeed, the Supreme Court, in 2008, established the principle that the owner of a registered trademark must, before taking legal action against another registered trademark, request the said trademark to be invalidated by an administrative decision. Since the decision of the TRAD can be appealed to the Beijing IP Court, which is subject to review by the Beijing High Court and, thereafter, to a possible review by the Supreme Court, it is clear that it may take some time for the invalidation of the disputed trademark to become effective and for its use to be prohibited.

In 2013, the Trademark Law underwent significant changes, one of which concerns the trademark registration procedure. From then on, when a trademark application is opposed and the opposition is rejected, it is no longer possible to appeal: the opposed trademark becomes immediately registered. The impact of this change is clear: before the revision, it was possible to continue the opposition procedure (administrative appeal and then appeal to the courts) and, at the same time, to initiate a legal action for infringement if the contested trademark was used. Now, it is necessary to request the invalidation of the trademark and wait for the decision to be final, before being allowed to start a civil infringement action.

This new system raised concerns. One of the questions raised was whether the owner of the earlier trademark can obtain compensation for the damage caused by the use of the trademark before the invalidation.

Administrative invalidation proceedings can, indeed, last a long time, during which time, the damage caused by the use of the (eventually) invalidated trademark may reach considerable amounts.

Article 47 of the Trademark Law, introduced in the 2013 revision, describes some consequences of the invalidation of a trademark, but does not answer the above question.

Yet the first paragraph of Article 47 is clear: *"When a trademark is invalidated under Articles 44 and 45 of this Act, the Trademark Office shall make a public announcement and the exclusive right to use the trademark shall be deemed never to have existed from the beginning."*

One could therefore deduce that the use of the trademark, from the beginning, constitutes an infringement and must be treated as such.

The second paragraph of Article 47 introduces a limit to the retroactivity: *"The invalidation of a registered trademark shall not have retroactive effect on judgments [...] rendered by civil or administrative courts in infringement cases, which are final and executed, nor on assignment or licensing agreements, which were concluded and executed prior to the invalidation."* The end of the paragraph, however, sets another limit to this lack of retroactivity: *"However, where the owner of the trademark causes damage to others in bad faith, he shall make compensation."*

The last paragraph of Article 47 adds a clarification: *"If the non-return of damages related to an infringement, or of the royalties mentioned in the preceding paragraph, is contrary to equity, the sums must be reimbursed in whole or in part"*.

It thus appears that the legislator wanted to establish, in the first place, the principle of retroactivity of the invalidation of the trademark (contrary to the revocation which operates only for the future) but also wanted to preserve the stability of the legal acts (judgments, contracts) carried out in the name of this trademark before the decision of invalidation, i.e., while the trademark was valid.

It is therefore clear that Article 47 does not answer our initial question. It is not a question of restitution of damages obtained against an infringer or of royalties received from a licensee. It is about repairing the damage caused by the use of the invalidated mark. However, Article 47 is silent in this respect, which is logical: it refers to the possible restitution of sums already paid, and not to the payment of sums that may be due in the future.

In the absence of a statutory provision, how did the courts answer this question?

Some did not hesitate to resort to Article 47 and to interpret the sentence *"...however, when the owner of the trademark causes, in bad faith, damage to another person, he must make reparation"*, as also referring to the owner of the invalidated trademark, taken himself in the situation of infringer. The solution of the dispute depended, then, on the good or bad faith of the trademark owner during the period preceding the invalidation decision. Thus, in the absence of proof of bad faith, the judges considered that the infringement was not constituted^[1].

Such an interpretation is difficult to reconcile with the sections of the Trademark Law that establish a link between damages and bad faith.

In general, it can be said that the requirement of bad faith for the award of damages only applies to very specific

circumstances.

Article 36.2, for example, refers to the period between the starting point of the protection of a registered trademark (i.e., the end of the third month after its preliminary approval by the Trademark Office) and, in the case of opposition, the date on which the opposition is finally rejected and provides that *"The decision rejecting the opposition shall not have retroactive effect on a third party who has used an identical or similar trademark (to the newly registered trademark), on identical or similar goods. However, in case of bad faith on the part of the third party causing damage to the owner of the newly registered trademark, the latter is entitled to compensation"*.

Article 63.1 describes the modalities for calculating damages and adds that *"in case of bad faith, where the circumstances are serious, the compensation may be multiplied by a coefficient of 1 to 5..."*

Finally, Article 64.2 stipulates that a good faith seller who did not know that the goods were counterfeit, proves that he acquired them legitimately and gives the name of his supplier, is not obliged to pay damages.

Thus, apart from these three exceptions, the law does not create any link between the compensation of the prejudice caused by infringement and evidence of bad faith on the part of the infringer.

And yet, as we have seen, some Chinese courts are reluctant to penalise the owner of an invalidated trademark on the ground of use of the trademark while the trademark was valid. Notwithstanding the fact that the mark is supposed to have never existed, these judges require that the bad faith of the trademark owner be established.

It is worth trying to understand why the courts did cite Article 47 - which clearly has nothing to do with the compensation for damage caused by infringement - to deny compensation in the absence of bad faith.

It seems that the explanation can be found in the words of Article 4 and 56 of the Trademark Law: *"exclusive right to use a trademark"*. This "right to use" is seen as a positive right, granted by the Trademark Office after the preliminary examination procedure, which covers not only the "absolute grounds" but also the "relative grounds" for refusal of registration. If, at the end of the preliminary examination, the examiner's conclusion is positive, and if no one challenges this conclusion or challenges it unsuccessfully, the owner is granted the positive right to use the mark. This right is also "exclusive" in that it allows the owner to prohibit others from using the mark without his authorization.

This is a fundamental difference with the other systems (TRIPS, European Regulation), which do not include the words "right to use" and merely, on the one hand, define what is a trademark, and on the other hand, describe the rights conferred by the registration. In these systems, the trademark right is only a "negative right" (prohibiting use by third parties, etc.).

The positive "right to use" seems to be the reason why, in April 2008, the Supreme Court decided to create a distinction between the various holders of "prior rights" that can bring a legal action against a registered trademark. The Court stipulated that where the prior right is a copyright, a design, a trade name, the holder of such right may sue an infringing registered

trademark without restriction, whereas if the prior right is a trademark, the holder of such trademark must first obtain the invalidation of the challenged trademark.

Why should trademarks be subject to such a restriction? The reason can probably be found in the *ex officio* examination performed by the Trademark Office concerning the presence of a prior trademark that might be an obstacle to the registration of a newly applied trademark. If the control has not revealed any prior trademark, the "right to use" is granted and the Supreme Court considers that it is not possible to override this right by acting directly before the courts.

This reasoning has, however, a flaw. Indeed, the *ex officio* examination performed by the Office is by no means exhaustive and, furthermore, the decision made by the Office based on the result of the examination is not final. First of all, the Office examiner cannot know whether certain marks, which he did not believe should be cited, would not have deserved to be cited because of their reputation. Secondly, with the acceleration of the examination time (around 4 months), it becomes impossible to take into account the future registrations of foreign trademarks which benefit from the 6 months priority. Finally, even where an opposition is rejected and is therefore followed by registration without possibility to appeal, this decision is not final, since as we have seen, it is always possible to request invalidation.

As a result, the owner of an earlier trademark who has not been "seen" by the examiner, or whose opposition has been rejected, is obliged to wait for the outcome of a long invalidation procedure before being able to stop the infringement. And even when he succeeds in doing so, he can only obtain compensation if he can prove the bad faith of the infringer. Yet, the proof of the bad faith of the infringer is a condition which is not stipulated in the Trademark Law.

Therefore, when a trademark is invalidated, it is necessary to allow the owner of the prior trademark to obtain full compensation for the prejudice suffered during the entire period of use, which is, retroactively, qualified as infringement.

Some recent decisions seem to adopt this position^[2]. It would therefore be desirable for the Supreme Court to officially confirm this position.

[1] - Jiangsu SUMEC Group v. Fuan City Senwei Electromechanical (2016) Min Min Zhong No. 809 – Fujian High Court [30 December 2016].

- Weifang Taihong Tractor v. Luoyang Taihong Agricultural Machinery (2019) Xin Min Zhong No. 23 – Xinjiang High Court [29 March 2019].

[2] Shanghai Bell Factory v. Shanghai Haoda Watch Co., Ltd. (2016) Su 04 Min Zhong No. 2352 Changzhou Intermediate Court [13 October 2016]

- New Balance v. New Balance (2021) Hu 73 Min Zhong No. 301 Shanghai IP Court [12 March 2022]