

Chinese Trademark Law : update and practical experience with the participation of Wanhuida, a Chinese Correspondent in Intellectual Property (CIP)

Paris – Wednesday 26th of October 2016

Bignon Lebray

Xiao Lin Fu-Bourgne, *Of Counsel*

Wan Hui Da

Zhu Zhi Gang, *Partner*

Lei Yongjian, *Partner*

Paul Ranjard, *Of Counsel*

Part 1:

What changes with the new Chinese trademark law?

-
- Third Reform of the 1982 Law implemented in Mai 1st, 2014:
 - 1993
 - 2001
 - 2014 (Preparatory work began in 2003 !)
 - What's new:
 - Principle of good faith : applying during both the registration et the use of the trademark ;
 - Shorter dead lines : registration demand, review of the refusal decision, opposition to the registration ;
 - Extended power of the administration ;
 - Protection of the exclusive use of the owner.

Part 2:

Registered Trademarks in China : what remains unchanged

-
- Two administrations under the supervision of the Administration of Industrie and Commerce : the China Trademark Office (CTMO) and the Trademark Review and Adjudication Board (TRAB).

The application must be made to the TMO through a correspondent in Intellectual Property duly authorized by the administration :

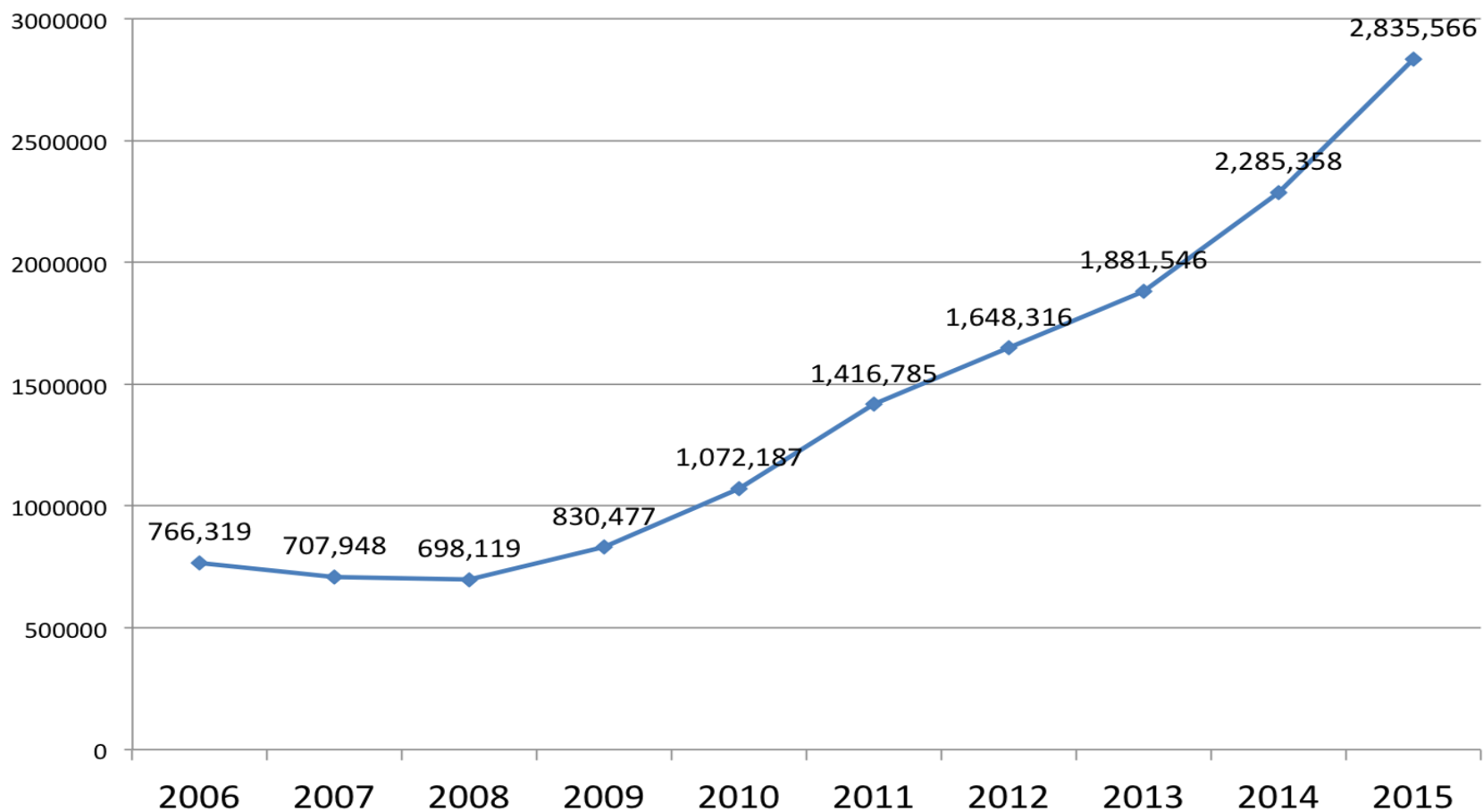
- Difference between chinese companies and foreign companies.
- It is preferable to be represented by an agent that is aware of the practice of the administration.
 - Anteriority of the brand
- Cancellation for non-use during 3 years
- The coexistence of the registered brands

Part 3:

Practical issues

- Difficulty to reconcile
 - Quantity (of trademark applications)
 - Speed (of examination)
 - Quality (of decisions)

Trademark domestic and foreign (2006-2015)



-
- In the past, the CTMO accumulated over the years a huge backlog for the examination of trademark applications:
 - The examination covers both "absolute grounds" and "relative grounds"
 - It took 2, even 3 years, to have a trademark application examined and published
 - This problem became the n° 1 cause of complaint against the State Administration for Industry and Commerce

-
- The CTMO took measures :
 - Hire new examiners (300)
 - Progressively reduced examination time to 2 years and then one year
 - But still not enough as number of trademarks increased each year → externalisation
 - To the Beijing Examination Cooperation Centre (2014)
 - Other Examination Centres out of Beijing in discussion

-
- The new Trademark Law increased the pressure on the examiners :
 - Time for examination strictly limited to 9 months, no extension possible
 - Adverse consequences :
 - Quality of examination
 - Any trivial mistake → rejected
 - No use of the "examination notice" even though it is provided in the new law

-
- SAIC aware of these issues : **26 July, 2016 "Opinion on Pushing Forward the Reform to Facilitate Trademark registration Procedure"**
 - **Outsourcing** of examination services to local bureaus in provinces
 - Faster Issuance of notice of acceptance (acknowledgement of receipt) of TM application
 - Develop **online** communication services with the CTMO
 - Simplification of issuance of TM certificate
 - **Sole examiner system**
 - Acceleration : GOOD
 - Risk of inconsistent decisions : RISK

Part 4:

Procedural changes

•Oppositions

- The publication of a trademark opens a period of 3 months for the oppositions
- Only the owner of a prior right may oppose (new)
 - Before, there were cases of "abuse of opposition" (one person filing 200 oppositions...)
- The decision time limited to 12 months + possible extension 6 months (new)

-
- If the opposition is granted
 - The applicant lay file a application for review before the Trademark Review and Adjudication Board (TRAB)
 - (then, TRAB decision is subject to two administrative litigation level before the courts)
 - BUT (new),
 - **If the opposition is rejected**, the opponent may not file such an application for review
 - The **trademark is immediately registered**
 - The opponent, needs to file a cancellation action before the TRAB
 - Meanwhile : it is very difficult to act against a registered trademark in order to stop its use.
 - Two conditions :
 - The plaintiff owns a well-known trademark
 - Or
 - The registered trademark is substantially modified in actual use

Part 5 :

Substantial changes

• Non conventional trademarks

- Combination of colours (not new)
 - **Ex: STIHL**
 - Recognized as "trade dress" of a "famous product" in China (Anti-Unfair Competition law)
 - Then, registered as a trademark at the CTMO
 - Now, new "non conventional" trademarks provided in the law : SOUNDS



2013, a company called GULEY (Hangzhou) is producing and selling copies of STIHL chainsaws

However, without using the work mark STIHL:

It only used the specific **color combination of orange and gray**

This color combination was **not** (yet) **registered** as a trademark

-
- March and April 2014 :
AIC inspections → production and sales continue
 - April 23, 2014, lawsuit before **Hangzhou Intermediate Court** (unfair competition).
 - **June 2, 2015, judgment** :
 - **orange and gray color combination is "*unique trade dress of a famous commodity*";**
 - GULEY's unauthorized use is an act of ***unfair competition***.
 - September 18, 2015, the **Zhejiang High Court** (appeal) rejected the appeal.

- Principle of good faith
 - **Article 7 : "Trademarks must be filed and used in *good faith*"**
 - Only general background, cannot be expressly cited in an application (opposition, invalidation). But actually very much used by the CTMO.
 - **Article 15 : Examples of bad faith**
 - 15.1 : not new. The agent of distributor files the trademark in his name
 - **15.2 : NEW. Pre-emptive filing : the applicant knows** (contractual or geographical reasons) **the existence of the trademark.** (need to justify use in China, but no reputation)
 - **Article 59.3 : protection of the first user**
 - If started using before the trademark owner, and has acquired a certain reputation, possible to continue using, within the same" use range"

Well Known Trademarks

- **Article 14 : Recognition of Well-known trademark**
 - 14.1 " *A well-know trademark shall be recognized ...where the recognition decision is a necessary fact for the case...*"
 - 14.5 "The manufacturer or operator is not allowed to use the "well-known trademark" expression on the commodities, the commodity packages, the containers, or in advertisement, exhibition or other commercial activities".

In case of violation :

- Article 53: " ... the local (AIC) shall order him to rectify the situation and may, in addition, impose a fine **of 100,000 Yuan**".

Definition of "use"

•Article 48 : Definition of use

*"The use of trademarks as mentioned in this Law refers to **affixing** trademarks to commodities, commodity packages or containers as well as commodity exchange **documents** or using trademarks to **advertisements**, exhibitions and **other commercial activities to distinguish the origin of the commodities**".*

- No such article in TRIPS or Community Trademark Regulation
 - Definition of trademark
 - Definition of rights granted by registration (prevent other from using)
 - But no definition of use

- Surprising consequence in the "**Pretul Case**"

-
- **PRETUL case : Focker vs. Yahuan**
 - **Focker**
 - Owns the trademark PRETUL in China for "locks"
 - **YAHUAN**
 - is a OEM factory → sells to TRUPER, a Mexican buyer
 - **TRUPER**
 - Owns an (almost) identical PRETUL in Mexico

The **PRETUL** case (Focker vs. Yahuan Truper - SPC November 26, 2015)

–Answers to the question not stable : some courts say **yes** (infringement), some say **no** (not sold in China, therefore, no infringement).

–Pretul case :

- Yahuan is the OEM Chinese factory (padlocks and keys)
- Using  **PRETUL**™ TM registered in Mexico by
- **Truper** Herramientas

- **Focker Security products** owns  in China

–Ningbo and Zhejiang courts : infringement

–**Re-trial by SPC : trademark "not used"**

Reasoning of the SPC :

Article 48 of the trademark Law definition of "use"

"The use of a trademark as mentioned in this law refers to affixing the trademark on goods, packages or containers as well as exchange documents or using the trademark for advertisement, exhibition, and other commercial activities, in order to distinguish the source of the goods" (added in the 2014 revised version of the law).

—If no sales in China → no distinguish source of goods → no "use" → no infringement

•**Problem** : Customs cannot control anymore

—The Decision was based on the **wrong grounds**

—**Jiangsu High Court dis not follow** :

- **The Jiangsu High Court (Dec 2015) did not agree :**

- Shanghai Diesel owns the trademark



- (diesel engines)

- Changjia, the OEM factory exports to Malaysia (diesel engines) → ADI PERKASA who registered the mark in Malaysia,

- Shanghai Diesel tried to invalidate the mark in Malaysia, but failed.

- **COURT** : Changjia should know about the conflict between Shanghai Diesel and ADI → should have applied a "**duty of care**" → **infringement**

-
- We believe that the correct solution could be to look into the good/bad faith of the PLAINTIFF, rather than of the DEFENDANT.
 - The intention of the infringer is irrelevant : infringement is an objective act (*"use without consent"*)
 - But, if the plaintiff filed its trademark in BAD FAITH, the case could be dismissed :
 - This can solve the OEM cases
 - This can also impact the number of bad faith trademark applications

Part 6:

Enforcement

- **Customs**
- **Administrative seizures**
- **Civil litigation**
- **Criminal actions**

● Customs:

- Control export (not a WTO obligation)
- Preliminary recordal at GAC: free; 30 working days;
- Take actions and seize shipment
 - Upon information provided by IP owner
 - Or, ex officio (3 days to confirm infringement)
- Fine and destruction (or auction)
- The most cost efficient action, BUT, huge decrease of seizures in 2015 (-78%)

● AIC raid:

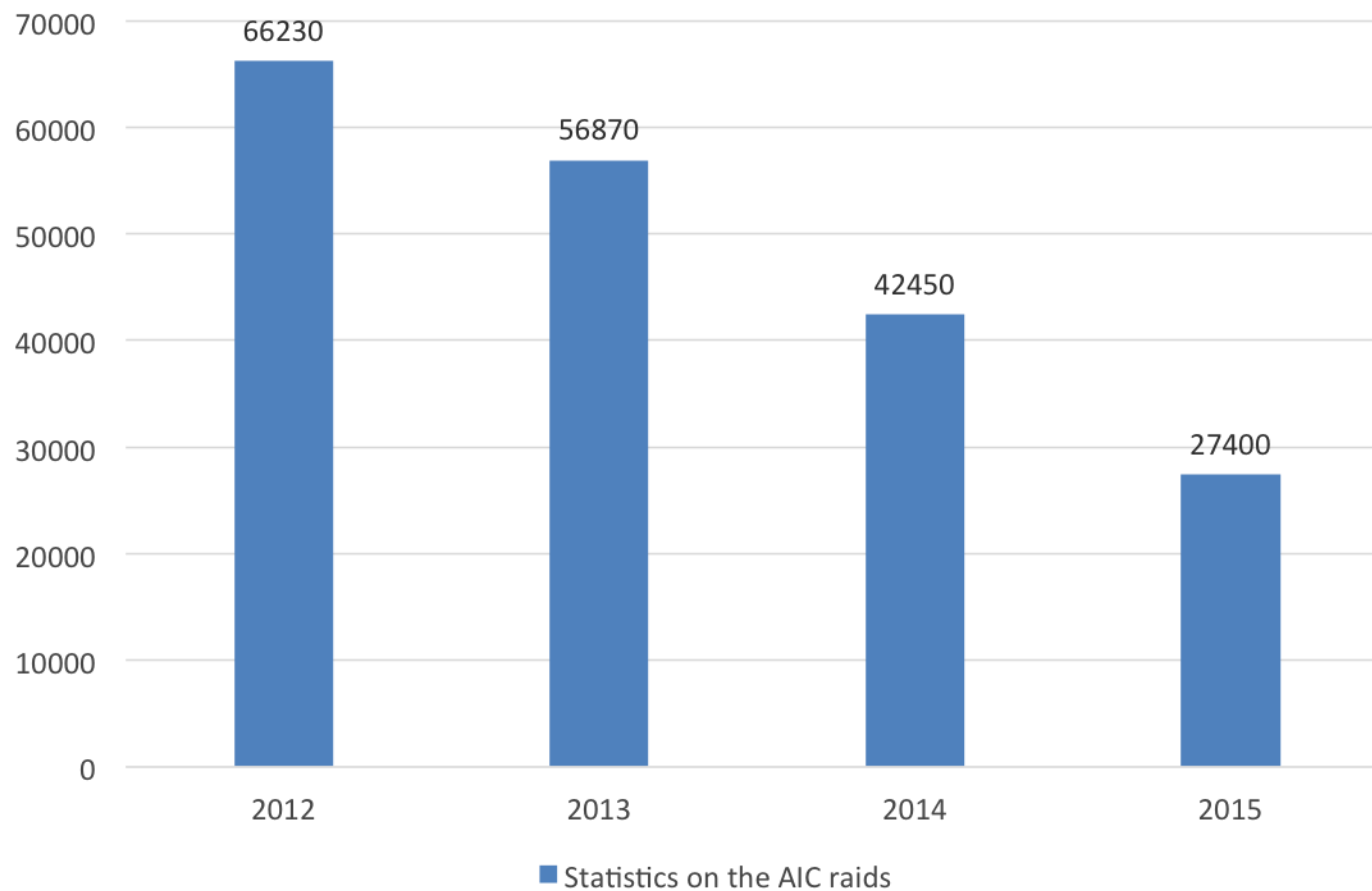
- The AIC has power:
 - To check and copy materials (contract, invoice, accounting book, etc) relating to infringement
 - To order infringer to:
 - Cease acts of infringement;
 - Pay a fine (five time of illegal turnover)
 - To confiscate and destroy the seized goods and the tools mainly used to manufacture counterfeits
 - **BUT, no power to award damages**

Administrative actions

- Simple and fast
- No fee
- Less burden of proof for IP owner
- Immediate pressure on the infringers
- AIC record and material obtained can be used as evidence in support of a subsequent civil litigation
- **BUT, huge decrease of AIC raids in recent years**

Administrative actions

Statistics on the AIC raids



-
- Why such a decrease in the number of raids?
 - 1. The administration is restructured
 - Establishment of **Market Supervision Administration**:
 - Different models:
 - Tianjin: AIC (trademarks) + AQSI (Quality) + Food & Drug Administration
 - Shenzhen: AIC + AQISQ+ FDA + IP (patents)
 - Shanghai Pudong: IPO responsible for the protection of ALL IPRs (trademark, patent, copyright)

- More attention is paid on **food and drug** security
- AIC is understaffed
- Quota of fines is not anymore a factor of performance evaluation

-
- 2. More and more difficult to convince the AIC to take an action against:
 - A trademark in the course of *examination*
 - Time limit: Examination : 9 month – Opposition: 12 month
 - A trademark in the course of *opposition*
 - In case of failure in the opposition, the trademark is immediately registered (art. 35.2)
 - A distributor claiming “*good faith*” (article 60 TM Law)
 - The “good faith” distributor is protected by law: the seized product shall be returned back with simple prohibition to sell (art. 60.2)

-
- AIC action is still recommended :
 - Simple case: trademark counterfeit (identical reproduction)
 - Complicated case:
 - impose immediate pressure to stop the infringer's business development
 - prove the bad faith of the infringer to cancel its trademark (Clio Coddle case)
 - Preserve infringement evidence and disclosure of intelligence
 - Preparation for the "Private Criminal Prosecution" (Nike case)

- **Civil litigation**

- The Court may order the infringer to:
 - Stop infringement
 - Publish an apology
 - Pay damages
- Prerequisite before initiating civil action:
 - Obtain evidence under notarized purchase and notarized infringing website;
 - Notarization and legalization of foreign evidences

-
- Damages method of calculation (in order):
 - Trademark owner's losses
 - Infringing's illegal gain
 - Reasonable royalty fee
 - Statutory damages (max3 million RMB)
 - Damage statistics (2008-2011):
 - Source: Guangdong High Court
 - 8% cases apply statutory damages;
 - 2/3 decisions award less than 50% of the trademark owner's claim

-
- How to get more damages:
 - Evidences preservation:
 - Chinese counterfeiters rarely keep accurate accounting book and sales records
 - Chinese judges usually under very heavy workload
 - Therefore, importance of accurate intelligence to the Court
 - Wuhan **Microsoft** case:
 - Preserve three months invoices;
 - Damage = average daily sales amount x duration days of the infringement = **more than 6 million RMB**

Civil actions

- Adverse consequence of obstruction of evidences
 - **Article 63.2** of the new Trademark Law: *If the defendant refuses to provide some core evidences they should have, the court may determine the amount of compensation on the basis of the claim and the evidence submitted by the plaintiff.*
 - **3M vs 3N** case:
 - Considering the following factors: large scale, long duration and vast geographical coverage of the infringement; the high profit margin of the industry; bad faith; failure to supply the accounting books.
 - Zhejiang High Court awarded **3,5 million RMB** as damages (statutory damages was max 500k under the previous 2001 Trademark Law)

-
- Settlement with penalty clause :
 - First civil case settled with “penalty clause” applicable in case if repeat infringement
 - **Grohe case: 3 million RMB in 2008** (the highest damages granted by Ningbo Court)
 - Supreme People's Court confirmed the principle the mediation agreement has been legitimately reached and shall be legally binding (2013)

-
- **Criminal actions**
 - AIC raid /Customs seizure) → PSB → local procuratorate →local criminal court
 - In case of rejection by either PSB or prosecutor, issible to fo to local court directly
 - Criminal threshold: 50k RMB (for trademarks, *only identical reproduction*, not infringement)
 - Possible result:
 - “Serious”: up to 3 years and/or fine;
 - “Very serious”: 3 to 7 years and fine;

-
- Recommended use of criminal prosecution:
 - Sustainable deterrence effect
 - Full disclosure of Intelligence
 - Public awareness
 - AND, damages (claim in private criminal prosecution, or negotiation with the suspect in exchange of term of imprisonment)

Part 7:

Judicial reform

-
- **Creation of IP Courts** (Beijing, Shanghai Guangzhou)
 - **Growing influence of case law**
 - IP Key study (China, Germany, France)
 - France : bottom → up
 - Germany : mechanism to avoid contradictions
 - China : top → down
 - China : Selections of most influential cases
 - High courts, SPC
 - **Guiding cases** (selected by SPC, and **binding**)
 - **Beijing IP Court research centre on case law**
 - **Still... ambiguous role of SPC (ex : Pretul case)**
 - **Judicial Cooperation** (Europe China)
 - Hope to change civil procedure from **Oral** to **Written**



Xiao Lin Fu-Bourgne

傅晓麟 律师

Avocat Of Counsel

Tél : +33 (0)1 44 17 17 44

Fax: + 33 (0)1 44 17 98 99

xfubourgne@bignonlebray.com

Paris 巴黎

14, rue Pergolèse - 75116 Paris

TEL +33 (0)1 44 17 17 44 FAX + 33 (0)1 44 17 98 99

paris@bignonlebray.com

Lille 里尔

4, rue des Canonniers - 59041 Lille Cedex

TEL +33 (0)3 20 06 93 93 FAX + 33 (0)3 20 55 82 27

lille@bignonlebray.com

Lyon 里昂

30, rue de la République - 69289 Lyon Cedex 02

TEL +33 (0)4 72 11 33 00 FAX + 33 (0)4 72 33 11 01

lyon@bignonlebray.com

Aix-Marseille 埃克斯-马赛

Hémilythe - 150, avenue Georges Pompidou

CS 80728 - 13617 Aix-en-Provence Cedex 1

TEL +33 (0)4 42 660 500 FAX + 33 (0)4 42 660 501

aix@bignonlebray.com

Shanghai 上海

Room 1501, Ben Ben Mansion,

300 Xi Kang Road —Jing An District

Shanghai 200040, P.R.China

TEL + 86 21 6288 4848 FAX + 86 21 6288 2605

shanghai@bignonlebray.com



Paul RANJARD
Of Counsel

Telephone: 86-10-68921000
Fax: 86-10-68948030-388
ranjard@wanhuida.com



ZHU Zhigang
Senior Partner

Telephone: 8610-68921000
Fax: 8610-68948030-270
zhuzhigang@wanhuida.com



LEI Yongjian
Partner

Telephone: 8610-68921000
Fax: 8610-68948030-318
leiyongjian@wanhuida.com

Beijing 北京

Add: Yiyuan Office Building, Friendship Hotel, No. 1
Zhongguancun Street South, Haidian District, Beijing,
100873 P.R.C.

Tel: 86-10-6892 1000

Fax: 86-10-6894 8030

Shanghai 上海

Add: Room 2904-2906, Tower 2, Grand Gateway, No.3,
Hongqiao Road, Shanghai 200030 P.R.C.

Tel: 86-21-6448 6066

Fax: 86-21-6448 6226

Guangzhou 广州

Add: Unit A3901-05, China Shine Plaza, No. 3-15, Lin
He West Road, Tianhe District, Guangzhou 510610
P.R.C.

Tel: 86-20-8136 2728

Fax: 86-20-8136 4186

Ningbo 宁波

Add: Suite 802, Raffles City Office Tower, 99 Daqing
Nanlu, Jiangbei District, Ningbo, Zhejiang Province
315020 P.R.C.

Tel: 86-574-8703 9425/35

Fax: 86-574-8703 9465

Hong Kong 香港

Add: Suite 1903, Central Plaza, 18 Harbour Road,
Wanchai, Hong Kong P.R.C.

Tel: 852-6062 6755

Fax: 852-2487 0933