

**PRC – Trademark Law Amendment
NPC Draft Issued for Public Comment**

January 17, 2013

The National People’s Congress (NPC) issued a draft revision of China’s Trademark Law for public comment in December, setting a deadline of January 31, 2013, for the receipt of comments. The NPC’s Standing Committee is expected to pursue two or three readings of the draft before enacting it, perhaps as early as mid-2013. The NPC is unlikely to provide further drafts for public comment.

The NPC draft builds upon several other drafts prepared mainly by the Trademark Office (TMO) of the State Administration for Industry and Commerce (SAIC) and the State Council’s Legislative Affairs Office (SCLAO). However, NPC officials -- particularly from the Legal Affairs Commission (LAC) -- have worked closely with the SCLAO in its research and drafting.

In general, the draft offers a number of laudable innovations for dealing with the two biggest and longstanding problems faced by trademark owners: bad faith piracy at the register and enforcement against counterfeits.

Most of the changes proposed in the draft law will benefit by tweaking during the legislative review process or clarification under implementing regulations which are normally issued in parallel to revisions of the law or shortly thereafter.

Below is a summary of the key changes proposed in the NPC draft together with views thereon, many of which were previously relayed to the TMO and SCLAO by overseas industry associations and trademark owners.

1. Bad Faith Registration

Pre-emptive filing of both foreign and local brands remains a serious problem for both foreign and local brand owners, caused largely by the lack of adequate provisions in the current law. The NPC draft attempts to address the existing gaps by inserting a general prohibition against bad faith filings:

“The application for registration, and use, of a trademark shall comply with the principle of good faith.”

This general principle is not specifically defined in the draft, and there is concern (expressed over earlier similar drafts) that the definitions of good faith and bad faith will not be sufficient in the law or future implementing regulations thereto, thereby limiting the scope of protection ultimately given against obvious bad faith pirates. Concerns in this regard mainly center on overseas brands that have not been the subject of advertising and sales inside mainland China, as well as bad faith pirates that have filed for goods and services that are not directly related to those for which the legitimate owner has used the mark.

The draft law includes new clauses in Article 15 that would appear to address some of the foregoing concerns by permitting action against pirated marks covering similar (but not dissimilar) goods and services where:

- They have been used previously in China (presumably via advertising and sales, and not mere production); and
- There is evidence that the pirate “clearly knew” of the mark through some sort of prior relationship with the brand owner, be it through contracts, business dealings or otherwise.

The existing law already prohibits the unauthorized registration of marks by the trademark owner’s “agent or representative”, without limiting the goods and services to those that are similar. Thus, the new language seems intended to cast a wider net. However, it leaves obvious gaps, including the situation where the pirate can easily be presumed to have copied the mark based on factors such as the inherent distinctiveness of the mark, the copying of fonts, the fame of the victim brand, geographical proximity between the pirate and the trademark owner (or its business partners), etc. Some of these factors were in fact referenced in earlier drafts of the law, including the 2011 SCLAO draft.

It is possible that some or all of these gaps will be resolved by allowing authorities to stop pirates under the general prohibition against bad faith in Article 9. Some cases may also be addressed through reliance on other provisions, such as:

- Article 4 , which authorities have recently interpreted as imposing a sort of intent to use requirement against trademark warehousers, and
- Article 34 (Article 31 in the current law), which accords protection to “priority rights” of brands that have been used previously and achieved “a certain degree of influence” in China.

However, these provisions have proved too narrow and unreliable in recent years, particularly in cases involving dissimilar goods and those where the brand owner has not been able to demonstrate prior use of its mark in China via local advertising and sales.

Industry was heartened by new provisions in the 2011 SCLAO draft that would have permitted oppositions and cancellations against pirated marks covering both similar as well as dissimilar and goods or services based on evidence of prior business connections between the parties (see Article 15 above) or mere “geographic relations”. Under this draft, protection vis-à-vis dissimilar goods would have been further conditioned upon evidence the petitioner’s mark is registered in China, that it highly distinctive and has achieved a high degree of fame. Regrettably, the NPC draft deleted these proposed clauses, and it is hoped they will be reconsidered in due course.

Meanwhile, the NPC draft leaves uncertainty as to whether trademark owners will be allowed to prevent the registration of a pirated mark, as none of the above provisions (Articles 4, 9 or 34) are among the provisions on which oppositions may be based. Article 33 of the draft permits oppositions by owners of priority rights and “interested parties”, but only for violations of specifically enumerated provisions, Articles 13, 15, 16, 30, 31 and 32.

In practice, the TMO, Trademark Review and Adjudication Board (TRAB) and the courts have relied on a range of articles to address a range of violations, and it is hoped that the NPC’s intention is not to restrict brand owners from arguing on the basis of Articles 4, 9 or 34. As suggested above and in prior industry comments, it would also be preferable

to define bad faith with specificity, and so as to facilitate action against any egregious cases of trademark piracy—regardless of whether the legitimate owner of the mark has used the mark in China and/or whether the goods and services are dissimilar.

Finally, as noted above, authorities in China have recently begun addressing bad faith registrations in a handful of cases based upon Article 4 of the current law, and on the basis that it implies a condition of bona fide intent to use for all trademark applicants.

Article 4 states:

“(Where) a party needs to obtain exclusive rights to trademarks to produce, manufacture, process or sell products, it may file applications for registration with the TMO.”

In the few cases where Article 4 has been applied, it was concluded that there was sufficient evidence that the pirate did not have the practical capacity to actually use the mark applied for. At least one case in which Article 4 was cited as the basis for a decision is under appeal before the Beijing Higher People’s Court, and such appeals may eventually lead to a determination that Article 4 is not a proper basis for addressing bad faith piracy. Regardless of how the courts decide, however, the NPC has the opportunity to guarantee its utility by amending Article 4 to clarify that applicants must have the intention, purpose and/or capability to use the marks they apply for.

2. Enforcement

The draft contains a number of encouraging enforcement provisions intended to boost the deterrent impact of administrative penalties and compensation awards. These include the following.

a. Intermediary Liability – Article 56(5)

This new provision imposes secondary liability for any party that “intentionally... provides facilitating conditions, thereby assisting another to infringe”. Similar language already appears in the current Implementing Regulations, and its elevation to the *Trademark Law* suggests the NPC drafters wish to prioritize such violations.

Industry has previously expressed concern that the term “intentionally” may not capture constructive knowledge, and it has therefore been suggested that the language be amended to the more standard phrasing of “knew or should have known”. NPC drafters have informally indicated that the term “intentionally” covers constructive knowledge; but there is still concern that the NPC’s intentions may not be easily understood in practice by would-be infringers, local courts and administrative authorities.

Article 56 does not list out the types of behavior that would be deemed “assisting” in the commission of an infringement, and industry has previously expressed the strong desire that online service providers and landlords (among others) be specifically listed out in the law or implementing regulations so as to eliminate any doubt about their potential liability and encourage more proactive cooperation in take-down and other joint enforcement efforts. The SCLAO draft, for example, failed to mention online infringement in any way—as does the NPC draft—and thus these concerns within industry persist.

When revising the draft law further, the NPC will hopefully take close consideration of rules issued in December 2012 by the Supreme People's Court (SPC), which set out a range of factors for determining liability for online service providers. While these new rules were intended mainly to address infringements of copyright over the internet, SPC judges have indicated that the principles therein may also be applied to infringements online of other IP rights, including counterfeiting.

The NPC will also hopefully take note of the recent string of decisions against the landlord of the Silk Street Market, which, despite intensive government action and civil actions by brand owners extending back a decade remains rife with counterfeits. The latest decisions of the Beijing Intermediate People's Court, now on appeal, suggest that a landlord acting in obvious bad faith may be held liable for infringement notwithstanding the lack of specific knowledge of a particular vendor's dealings in fakes.

b. Damages – Article 62

Article 62 introduces punitive damages of up to three times the claimed harm in situations where the situation is deemed “serious”, but without specifying the conditions that would qualify as “serious”. Hopefully, the future law or its implementing regulations will define “serious” to include virtually any case involving intentional counterfeiting.

Article 62 also boosts the maximum allowable statutory damages to RMB1 million (US\$160,000), double the maximum in the current law.

Interestingly, in cases where the trademark owner presses for compensation based on actual damage, Article 62 encourages the courts to adopt its assertion of losses where the defendant fails to file evidence of its prior transactions or files false data. The language in this regard reads as follows:

“When determining the amount of compensation, if the owner of the trademark has presented all evidence it can, but the account books and documents related to the infringement are still under the control of the infringing party, the People's Court shall order the infringing party to provide such account books and documents; if the infringer does not provide them or those it provides are false, the People's Court may determine the amount of compensation by reference to the rights holder's position and the evidence it has filed.”

NB: Awards of compensation are limited by the plaintiff's obligation (if asked by the court) to provide evidence it has used its mark within the last three years. It is expected that this provision will mainly be of utility to trademark owners who have had their marks pirated in China and are facing threats of infringement proceedings for production or sales of their own products. However, this provision in Article 62 does not deny plaintiffs – even those acting in bad faith - the right to obtain a permanent injunction against defendants. Thus, trademark owners are best advised to file cancellations or purchase pirated marks as early as possible.

Article 62 also introduces a new method of calculating damages by way of a deemed royalty. This may help to simplify the work of plaintiffs that would otherwise have difficulty proving lost profits due to likely disputes over pricing and costs. Of course, courts will need to determine the appropriate royalty rate to use, as well as the base price of the goods (the infringer's price or the price of genuine items?). Hopefully, the NPC's Standing Committee will clarify these and other issues in future implementing regulations.

c. Administrative Penalties – Article 59

Changes made in Article 59 of the NPC draft appear intended to encourage the imposition of higher fines against infringers, particularly in egregious circumstances, such as those involving repeat offenders. Unfortunately, the new provision lacks definitions or other criteria that would increase predictability in the calculation of fines, e.g., by mandating minimum fines in particular cases. Hopefully this will be achieved in future implementing regulations.

Under the current law, local Administrations for Industry and Commerce (AICs) have the discretion to impose fines up to five times the “illegal business amount” or total revenues of the infringer; and in cases where this amount is hard to determine, statutory fines up to RMB 100,000 (USD 16,000) may be imposed.

In practice, fines rarely reach the higher ranges, and the statutory fines are rarely applied at all. Without further definitions and more explicit language, the proposed changes are not likely to result in significant changes from current practice.

Article 59 modifies the current law as follows:

- It effectively increases statutory fines up to RMB 250,000 (USD 40,000) by allowing fines of up to this amount even in cases where there is no evidence of prior sales by the infringer or the total illegal revenues reaches as high as RMB 50,000.
- To facilitate cooperation by infringers in the investigation process, it allows local AICs to withhold fines where the vendor acted in apparent ignorance of the infringing nature of the goods and provides evidence of the source of the goods. A similar provision appears in the current law, but the lack of a credible threat of fines has generally rendered it useless.
- In cases where the infringer committed its second or subsequent offence within a five-year period or the circumstances are otherwise “serious”, the AIC “must impose heavy penalties”. Very likely, the maximum fines would be five times the illegal business amount, and for small-scale cases, a ceiling of RMB 250,000 would apply.

As suggested above, without more detailed guidelines and definitions, for example as to what constitute “serious circumstances”, local AICs are likely to continue their current, generally lax, policies with respect to the calculation of fines. Industry has consequently recommended that any case of trademark counterfeiting or a case involving an infringer that lacks the required business license or other required permits be deemed “serious”.

The draft also encourages trademark owners to seek AIC mediation support to settle compensation claims against infringers. The involvement of AICs in mediation over civil disputes was rejected in earlier drafts of the law for a number of reasons, and industry is divided as to whether it is appropriate. The main fears are that the AICs will let the prospect of settlements with trademark owners influence their decisions on administrative penalties, thereby reducing their deterrent impact.

d. Preliminary Injunctions

Article 63 of the NPC draft provides more detailed criteria for the issuance of preliminary injunctions, borrowing largely from existing SPC rules. The new provisions include the following:

- The requirement that plaintiffs provide guarantees;
- Courts must make decisions to issue preliminary injunctions within 48 hours, extendible in special cases by another 48 hours;
- Rights holders must file a normal civil action within 15 days after a preliminary injunction is issued, failing which the injunction will be released

e. Destruction of Production Equipment

Article 59 provides for the destruction of equipment “exclusively used” to produce infringing goods. This language appears in the current implementing regulations to the Trademark Law and it has also appeared in prior drafts of the law prepared by the TMO and SCLAO. Industry has objected to this provision on the basis that it severely and unnecessarily limits the scope of cases where the forfeiture and destruction of production equipment may be appropriate.

f. Trade Name Protection

The NPC draft provides in Article 57 for the protection of both well-known marks and registered trademarks where used in company names, provided (a) consumers could be confused; and (b) such use would constitute a violation under China’s Anti-Unfair Competition Law (AUCL).

Chinese courts have been according this sort of protection already for many years, and Article 57 does not substantially change the current state of the law. Its insertion could in any case help in educating authorities and litigants, thereby helping to promote quicker resolution of trade name disputes.

g. John Doe Actions?

Under current law, to pursue civil remedies of any kind the plaintiff must indicate the identity of the defendant. Given the growing use by infringers of the internet and the anonymity it provides, the adoption of a John Doe rule is strongly recommended. Such a rule would, among other things, permit trademark owners to seek judicial orders for “evidence preservation” (a sort of discovery order), asset seizures as well as preliminary injunctions.

3. Other Proposals

a. Prosecution - Opinion Letters

Article 29 of the NPC draft would reintroduce an earlier prosecution practice under which the TMO issued “opinion letters” to applicants if it believes that a mark might be registrable following amendment or the provision of an explanation by the trademark owner. This practice is widely supported by industry, as it would help to reduce the number of rejections and appeals, and thereby ensures earlier registration for successful applications.

b. Sound and Single Color Marks / Proving Secondary Meaning

Consistent with international trends, Article 8 of the NPC draft would permit the registration of single color marks (such as Tiffany's light blue), subject to presentation of evidence of secondary meaning. It would also permit the registration of sound marks.

It remains unclear whether evidence of secondary meaning can be filed incidental to prosecution with the TMO or only following rejection of the application by the TMO and the filing of an appeal with the TRAB. Industry clearly prefers the chance to present evidence during prosecution, as TRAB appeals currently take two to four years to be decided. To these ends, it is suggested that the opportunity to file such evidence be explicitly inserted in relevant provisions, including Articles 11 and 19.

c. E-Filing and Multi-Class Filings

The NPC draft restates provisions in earlier drafts that would permit e-filing of trademark applications as well as multi-class filings.

While the introduction of multi-class filings is expected to reduce costs for trademark owners, the exact level of filing fees has not yet been announced, and thus the actual benefits of this proposed amendment remain to be seen.

d. Elimination of Opposition Appeals

Article 35 of the draft would permit marks that have survived an opposition in the first instance (i.e., with the TMO) to achieve registration, thereby requiring the opposing party to file an invalidation action with the TRAB, rather than an appeal (as is currently the case).

The draft elsewhere permits administrative authorities to suspend action on complaints by trademark owners where its mark is under attack, and thus in principle, the elimination of opposition appeals should not necessarily lead to pre-mature decisions by enforcement authorities.

However, the risk of such decisions—including injunctions and compensation orders—is very real, given that enforcement authorities are not *required* to suspend action, merely given the *discretion* to do so. Industry has recommended retaining the current law to avoid inequities, such as where blatant pirates of trademark registrations seek to disrupt legitimate production or exports through complaints to local AICs and customs. The main goal of pirates in these situations has typically been to leverage higher prices for the purchase of the relevant mark, and settlements in the hundreds of thousands and even millions of dollars are not uncommon.

To achieve some of the benefits of early registration, the NPC may instead want to consider adopting the international practice of awarding protection to applications retroactively to the filing date. This is already the norm in China with respect to registrations obtained through the Madrid Agreement and Madrid Protocol, and to date, there have been no reports in China of inequities resulting from this practice.

e. Deadlines for Appeal

In general, most deadlines for appeal that are currently fixed at 15 days are extended to 30 days. This extension of deadlines has been heartily welcomed by industry.

Consideration could be given by the NPC to permitting further extensions in oppositions and cancellations based upon the mutual agreement of the parties. Doing so may help to facilitate negotiations and settlement of disputes, thereby reducing administrative burdens on the TMO, TRAB and courts.

f. Definition of Trademark Use and OEM Exemption to Liability

Article 47 of the NPC draft would modify the definition of trademark use (including use of brands on products, packaging, trade documents, advertising, etc.), by requiring it be intended to “distinguish the origin of goods”.

The exact reasons for this new provision are not clear. However, it is suspected the language would help provide a more solid basis for court decisions ruling that the use of marks by OEM suppliers of goods intended solely for export from China is not infringing. Industry views on these decisions have been divided, with one side fearing the creation of a new loophole that counterfeiters will exploit and the other asserting that an OEM exception is necessary to protect against trademark pirates and others that wish to unfairly exploit their trademark rights in China.

While the legal basis for recent court decisions involving OEM exports have lacked a convincing basis under current law, the holdings themselves have been sensible and avoided sending an encouraging signal to would-be counterfeiters. Thus, it is expected that the NPC will want to support the current policy of the courts.