

Is China's Amended Trademark Law a Law with Teeth, or a Paper Tiger?

By William M. Leahy and Stephen Kho

China's courts must aspire to greater consistency and transparency, when dealing with trademark squatters. Only in this way will the Amended Trademark Law engender the intended environment of judicial consistency, efficiency, and good faith, and provide legitimate trademark holders with the protections they expect.

In May 2014, the Third Revision of China's Trademark Law (the "Amended Trademark Law" or the "Law") took effect, providing foreign companies combating trademark squatters in China with potentially valuable new protections. Trademark squatting, which is the practice of filing a trademark application for another party's mark, often in a country where that party does not already hold a trademark registration, is an especially common practice in China as it is a first-to-file jurisdiction. Among other provisions, the Amended Trademark Law attempts to deter trademark squatting through the imposition of new good faith filing requirements. Several other provisions also appear to further take aim at bad faith applications.

The true value of the Amended Trademark Law will, however, only be revealed by the manner in which it is implemented. Trademark squatters in China have grown increasingly sophisticated—in fact many are current or former trademark agents—and will register numerous marks in the hopes that at least one of them will result in a trademark violation claim. In adjudicating and implementing the Amended Trademark Law, China's courts must aspire to greater consistency and transparency, particularly when dealing with squatters' multiple registrations. Only then will the law engender the intended environment of judicial consistency, efficiency, and good faith, and provide legitimate trademark holders with the protections they expect.

Trademark squatters are a problem for multinational companies in China

The structure of China's trademark system is ripe for abuse by squatters. As noted, China is a first-to-file jurisdiction for trademark registration. Moreover, its system does not require evidence of prior use or ownership when filing, leaving registration of popular foreign marks open to third parties. Finally, China requires single-class, as opposed to multi-class, trademark

applications. In China, a company seeking to register its trademark must file a separate application for each class in which it wishes to protect its mark. China has forty-five different trademark classes, each of which has multiple subcategories, which means that in order for a company to be fully protected, it must file dozens of registrations. A failure to comprehensively do so can leave a company open to exploitation by an opportunistic squatter.

As a result of this system, some of the world's most sophisticated brands and multinational corporations—including Tesla, Pfizer, Apple, and Hermes—have been victims of Chinese trademark squatters. All of these companies have learned the same expensive lesson, as a sophisticated trademark squatter can cripple a business in China. When companies fall victim to trademark squatting, they may be prevented not only from selling their goods within China, but may also from manufacturing products in China for export elsewhere—unless the company pays the trademark squatter to buy its mark back. Moreover, a company that does not buy back its mark runs the risk of the squatter selling the mark to a counterfeiter, which would damage the value of the original mark both in China and abroad.

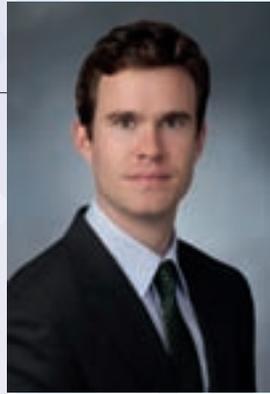
For these reasons, trademark squatting and the associated weaknesses in China's trademark system have been a longstanding point of concern in the U.S.-China bilateral economic relationship. Since 2007, in its report to Congress on China's compliance with WTO obligations, the Office of the U.S. Trade Representative has expressed concern about weaknesses in China's legal framework that fail to deter trademark squatters. Most recently, as an outcome of the 25th meeting of the U.S.-China Joint Commission on Commerce

and Trade ("JCCT") in December 2014, the U.S. and China committed to prioritize the issue of bad faith trademark filings, and strengthen communication and exchange on the issue through existing bilateral and multilateral channels. While the JCCT commitment is a positive step, the more significant and potentially more substantive development for companies dealing with trademark squatters is the implementation of the Amended Trademark Law.

The Amended Trademark Law targets bad faith applications

One of the most significant changes within the Amended Trademark Law is the addition of a good faith filing requirement. Article 7 of the Law introduces the principle of good faith in trademark use and registration, the inclusion of which has been described by some legal commentators as a catch-all provision providing parties with a mechanism for guarding against bad faith registrations that have yet to be stopped by other measures under existing law. As we discuss below, however, whether Article 7 is interpreted and implemented by courts in such a manner remains to be seen.

The Amended Trademark Law also addresses the disturbing trend of Chinese trademark agents abusing their positions and filing bad faith marks. Foreign companies applying for trademarks in China are required under Chinese law to register their marks through a state-designated trademark agent. Increasingly, some of these trademark agents have tried to profit from their knowledge of the system by filing bad faith applications. Article 19 of the Law specifically targets this trend, stating that:



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A trademark agency shall abide by principles of good faith, abide by relevant laws and administrative regulations, and handle trademark registration and other trademark matters according to the instructions of its principals; a trademark agency shall also be obliged to keep secret any confidential information and trade or business secrets obtained through the performance of its duties.

In addition to the above two articles, the Amended Trademark Law contains other provisions that would benefit legitimate trademark holders in protecting them against squatters. For instance, under the Amended Law, applicants for trademarks now only need to submit one application for multiple classes, thus simplifying the registration process and blocking the ability of squatters to register marks in classes in which the original owner had failed to file separate applications. Moreover, in calculating damages, the Amended Law lowers the burden of proof for the trademark owner so as to allow courts to order an infringer to provide its accounting books and relevant materials necessary to calculate damages. Statutory damages have also been increased from a cap of RMB 500,000 to RMB 3,000,000, and punitive damages are now permitted for up to three times the normal damages.

The law will only be as effective as relevant administrative and judicial bodies

Without clarity and consistency in enforcement, the Amended Trademark Law will be merely a paper tiger. It will stand as a high-minded aspiration with no impact on mitigating abuses by trademark squatters. Specifically, the China Trademark Office (“CTMO”), which has initial jurisdiction over trademark disputes, the

Trademark and Adjudication Board (“TRAB”), which handles appeals of CTMO decisions in trademark application and opposition matters, and relevant courts must all uniformly realize their commitment to ending bad faith trademark squatting.

Influential members of the Chinese judiciary have publicly expressed their concern with the prevalence of trademark squatting. In December 2012, judges in the Beijing Number 1 Intermediate People’s Court held a press conference highlighting the findings and recommendations of a study into the cause, characteristic and judicial response to trademark squatting. Among their recommendations, the court found that it should exercise proper judicial discretion and admit evidence and accept proof with a view to prohibiting squatting. To demonstrate this point, the court subsequently delivered judgments in six cases against trademark squatters.

However, inconsistency among the administrative and judicial bodies with jurisdiction over trademark disputes has stifled such efforts thus far. Specifically, in recent months, legitimate rights holders have found themselves victorious in their claims against squatters in court, only to find that lower bodies such as the TRAB ignore these jurisprudential decisions in their determinations on other classes of the same marks filed by the same squatters. This failure on the part of the TRAB to apply the good faith standard established in Article 7 of the Amended Law to similarly registered marks being challenged in ongoing opposition proceedings is disconcerting. Only through consistency, stability and predictability in the decision-making and enforcement of trademarks by all of the Chinese adjudicatory bodies will the Amended Law prove to have real teeth.