SIPS

PRC – Trademark Law Implementing Regulations Issued

May 6, 2014 - Draft

On April 29, 2014, the State Council issued amended Implementing Regulations to the Trademark Law (the "New IRs") as a companion to the recently-amended PRC Trademark Law. Both the New IRs and the revised law entered into effect on May 1, 2014.

Set out below is a brief summary and analysis of the New IRs.

Overall, the New IRs do not contain many significant changes as compared to the prior regulations and the revised law. A number of more dramatic changes proposed in drafts circulated earlier this year for public comment were dropped in the final version of the New IRs.

Summary

The most significant changes from prior practice include the following:

- Insertion of a new right for parties to request suspension of proceedings by the Trademark Office (TMO) and the Trademark Review and Adjudication Board (TRAB) on the basis that the outcome will be impacted by parallel proceedings;

- Shortening of certain deadlines for filing submissions (although not the deadline for filing supplemental submissions in appeals, oppositions and cancellations);

- Express inclusion of ISPs and landlords in the list of targets that may be subject to contributory liability for trademark infringement;

- Insertion of a discretionary power for local administrative enforcement authorities – the Administrations for Industry and Commerce (AICs) – to request verification from brand owners as to whether seized goods were produced with the trademark owner's authorization;

- Allowing of the division of applications where a portion of the goods or services are deemed to be in conflict with prior marks;

- Requiring assignors and assignees of trademarks to jointly file applications for approval of assignments; and

- Apparent elimination of the previous three-month deadline for filing applications to record licenses of registered trademarks.

A number of other notable provisions introduced by the New IRs codify existing TMO guidelines and policies.

Further clarification on issues deemed too controversial for coverage in the New IRs is likely to be forthcoming in the coming months in the form of TMO and TRAB guidelines as well as new judicial interpretations from the Supreme People's Court (SPC).

Details

1. Bad Faith Applications

Article 7 of the revised Trademark Law requires applicants to abide by the principle of "good faith". However, the law does not explicitly allow trademark owners to file oppositions or cancellations based solely on Article 7. Instead, it requires petitioners to assert violations of other provisions in the law that implicitly incorporate bad faith as a condition for prevailing. Among these other provisions are those which require the opposing party provide evidence of prior use and reputation for the mark inside China (Article 32) as well as those requiring evidence of an "association" or "relationship" between the pirate and the petitioner (Article 15).

Brand owners and industry associations had been hoping that Article 7 of the revised Trademark Law would be explained or interpreted in the New IRs in a manner that would bolster their ability to address bad faith trademark applications, e.g., by introducing greater flexibility where the evidence of bad faith is clear, but the conditions for prevailing set out in other provisions of the law are not obviously satisfied. Regrettably, this did not occur, and all eyes will now be on the TMO, TRAB, the SPC and the appeal courts in Beijing to see how they interpret Article 7 and other provisions of the revised Trademark Law.

For more on these issues, see SIPS article on bad faith registrations in the April 2014 edition of Managing Intellectual Property (click here for access).

The New IRs also fail to clarify whether parties that file oppositions to pirated (as well as other) applications will have the opportunity review the applicant's response. This right had been sought in industry position papers to the State Council based on the elimination in the revised Trademark Law of the right of opposing parties to appeal failed oppositions to the TRAB. It is hoped that a right to review and respond to submissions by pirates will be permitted under future guidelines and procedures of the TMO.

2. Deadlines

In order to hasten the registration process, the new Trademark Law requires the TMO and TRAB to issue decisions in applications, appeals, oppositions and cancellations within nine to 12 months. Earlier drafts of the Implementing Regulations would have reduced the time allowed for filing supplemental submissions from three months to 30 days. Responding to vigorous complaints from brand owners, the State Council relented and has retained the three-month deadline in the New IRs. Further, a new provision has been added that codifies existing practice by allowing the filing of new evidence after the three-month deadline where the evidence did not exist previously or where there is a "good reason" for the inability to file earlier (Article 27). It remains unclear at present how the term "good reason" will be interpreted.

Meanwhile, Article 23 of the New IRs requires applicants to respond within 15 days to requests by the TMO for clarification or modification of applications (including the list of specified goods or services). Under prior guidelines, such responses had to be filed within 30 days.

Also, Article 65 of the New IRs grants trademark owners two months to respond to petitions to cancel their registrations based on allegations that they have become generic.

3. Suspension of Cases

Article 11(5) of the New IRs permits suspension of the above-mentioned nine and 12-month deadlines for adjudication upon request of a party where there is a parallel case pending the outcome of which is critical to determining the existence of prior rights that would impact on the result of the other case..

Under prior practice, parties were free to request such suspensions, but the TMO, TRAB and courts were not required to grant them. Regrettably, the New IRs do not make suspensions mandatory. However, going forward, it is hoped that these requests will be taken more seriously than in the past.

4. Administrative Fines

Article 78 of the New IRs sets out a number of factors to be considered by local AICs in calculating fines, specifically by defining the gross value of infringing goods, i.e., the "illegal business amount." The total is then multiplied by percentages determined by the AIC in accordance with the Trademark Law. Under the prior law, the maximum percentage was 300% of the illegal business amount, while the revised law has increased this to 500%.

The factors set out in Article 78 include the following:

(1) sales price of the infringing goods;
(2) the displayed price of unsold infringing goods (i.e., that indicated on packaging or elsewhere);
(3) the average price of the goods confirmed to have been sold;
(4) the median market price for the infringed goods;
(5) the operating income the infringer generated from the infringement; and
(6) a catch-all provision, expressed as "other factors from which one may reasonably calculate the value of the infringing goods".

It should be kept in mind that the illegal business amount calculated by the AICs will not necessarily be the same as the case value calculated by police and prosecutors for the purposes of determining whether the thresholds for criminal liability have been met. The current thresholds application to trademark counterfeiting cases range from RMB50,000 to RMB150,000 (approximately US$8,000 to $24,000), depending on whether the goods concerned were confirmed to be sold or merely seized in the possession of the infringer.

5. Contributory Liability

Article 75 of the New IRs codifies existing case law by confirming that landlords and ISPs may be held contributorily liable under Article 57(6) of the Trademark Law. Prior drafts of the law failed to address landlords and ISPs, and their mention in the New IRs will no doubt be welcome news to brand owners as they negotiate MOUs and other forms of cooperation in enforcement landlords and online trade platforms. Such cooperation can include proactive monitoring and filtering of markets for suspected fakes, as well as termination of leases and user agreements with vendors.

6. Obligation to Verify Fakes

Article 82 of the New IRs recognizes the right of local AICs to request trademark owners to verify that goods seized in administrative enforcement actions were produced without authorization of the trademark owner or a licensee thereof. This new provision does not explicitly require brand owners to comply with such requests, impose a penalty or suggest other negative consequences for failure to respond. However, no doubt the TMO lobbied for inclusion of this new provision in order to impose greater pressure on brand owners to respond to verification requests in ex-official enforcement actions. Such requests can sometimes generate significant costs for brand owners that suffer from extreme levels of counterfeiting and have limited enforcement budgets and inhouse staff.

7. Division of Applications

Article 22 of the New IRs permits parties whose applications have been partially rejected to divide their applications into two, thereby permitting early registration of the trademark for non-conflicting goods and services while the original application covering the conflicting items undergoes appeal. This provision effectively grants direct filings the same status as Madrid filings, which are deemed partially approved, notwithstanding the fact that an appeal is pending following a partial rejection.

8. Assignments

Article 31 of the New IRs requires that an application for assignment of a trademark application or registration be filed jointly by the assignor and assignee, or that they jointly entrust the same trademark agent to handle relevant procedures. This contrasts with past practice, under which only the assignor was tasked with filing assignment applications with the TMO.

Very likely, this new provision on joint filing is in response to concerns over fraudulent assignments.

It is typical for large companies to use front companies operated by their investigators to negotiate trademark purchases. If the assignor is given the joint right to manage the work of a trademark agent, there is a strong risk that the agent will discover a conflict of interest if the vendor later changes its mind and claims the buyer committed fraud by not revealing the true buyer behind the curtain. (In this regard, it is important to note that Article 88(3) of the New IRs explicitly prohibits trademark agents from acting for two parties that have a conflict of interest.)

Given the foregoing, companies seeking to buy marks (including from pirates) will be well-advised to draft their assignment contracts in a manner that restricts the seller from asserting any control over the jointly-appointed agent or otherwise interfering with the assignment process.

9. Trademark License Recordal

Under the earlier Trademark Law and relevant TMO guidelines, all trademark licenses were subject to recordal within three months of their execution. This requirement was widely ignored, in part due to the lack of any direct penalty for non-compliance. However, companies often found difficulties in arranging remittance of royalties in foreign exchange as a result.

Fortunately, Article 69 of the New IRs seems to eliminate the three-month deadline by stating that that trademark licenses be recorded "within the effective term of the trademark license," and without a short deadline. It remains unclear if the TMO will seek to encourage more prompt recordal of license in future guidelines.

10. Non-Use Cancellations

Article 72 of the New IRs describes some of the "legitimate reasons" under which a trademark registrant can protect its registration from cancellation for non-use as per Article 49 of the Trademark Law. These include force majeure, policy restrictions imposed by government, liquidation caused by bankruptcy or "other legitimate reasons not attributable to the trademark registrant." None of these conditions appear intended to change preexisting TMO or TRAB policy in the handling of such cancellations.

11. Well-Known Trademarks

The New IRs require that applications to enforce well-known marks be filed with AICs as the municipal level or above, thereby eliminating the power of lower-level AICs at the district or county level to deal with such enforcement complaints. This is consistent with existing policy.

The SAIC recently circulated draft guidelines on the handling of applications for well-known status for public comment, and a final version of these guidelines is expected to be issued in the next few months. The current draft does not, however, propose major changes in current practices.

12. Madrid Filings

The New IRs include several articles under a new Chapter 5 that deal exclusively with the handling of applications filed in China under the Madrid Agreement and the Madrid Protocol. These provisions do not appear to propose any dramatic changes in the handling of Madrid filings as compared with the current law and practice.

However, one noteworthy change relates to the handling of oppositions. Under Article 45 of the New IRs, the TMO would be required to issue notice of an opposition in the form of a rejection of the application, after which the applicant would have 30 days to respond with arguments and evidence.

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