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IP UPDATE



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PRC IP Laws Updates: Overview of the Latest Amendment to the Anti-Unfair Competition Law and Trademark Law and the New Provisions on Regulating the Applications for Registration of Trademarks

I. SECOND AMENDMENT TO ANTI-UNFAIR COMPETITION LAW

The second amendment of the Anti-Unfair Competition Law of the PRC was passed on 23rd April 2019 and took effect on the same day. The amendments seek to enhance the protection on trade secrets by amending the existing Articles 9, 17 and 21 and adding a new Article 32 regarding the burden of proof in trials of trade secret infringement. The following are the key changes to the Law.

A. Broadening the Definition of Trade Secret

The definition of "trade secrets" in Article 9 is now widened to cover commercial information in addition to technical information and business information.

B. New Types of Trade Secret Infringement Added

The amendment has now added new types of trade secret infringements to the law. Acquisition of trade secret by cyber invasions, for instance hacking, is now recognized as a type of trade secret infringements, which brings the law

into line with current technology. The law has also been amended to cover any use of trade secrets in violation of the confidentiality obligations instead of merely agreements as well as any indirect infringement. Particularly, the new law provides that instigating, inducing or aiding a person to acquire, disclose or use the trade secrets in breach of confidential obligation may constitute trade secret infringement.

Such amendments confer a greater scope of protection to trade secret owners. The presence of a confidentiality agreement is no longer a pre-requisite. Owners can take action against infringers if they can show that a confidential obligation exists. For example, Article 43 of the Contract Law provides that any trade secret acquired during the course of negotiating a contract should not be disclosed or used improperly, regardless of whether a contract has finally been formed. The inclusion of indirect infringement can cover situations where infringers enabling other companies to use the trade secret instead of directly using it.

C. Higher Damages

The amendment increases penalties for trade secret infringement. After the amendment to Article 17, the new law now provides punitive damages for malicious trade secret infringement, which could be one to five times the actual loss or illegal gains. Moreover, the maximum amount of statutory damages has been increased from RMB 3 million (around USD 430,000) to RMB 5 million (around USD 720,000). The inclusion of punitive damages is in line with the amendment under the Trademark Law, which will be explained further below.

D. All Entities and Individuals

The new Article 21 provides that, in addition to business operators, natural persons, legal entities and unincorporated organizations are subject to the trade secret infringement provisions. It is not uncommon that ex-employees misuse or disclose any trade secrets acquired from the employment, but they may not fall into the definition of "business operators". The new amendment now addresses this issue.

E. Shifting the Burden of Proof to Infringers

The newly added Article 32 now lessens the burden of proof on the trade secret owner in infringement lawsuits. Once a prima facie case of infringement is shown, the burden will be shifted to the infringers, who will have to prove either that the information at issue is qualified as trade secret or non-infringement. Prior to the amendment, trade secret owners would need to establish (1) that the information at issue was qualified as a trade secret; (2) that the information held by the infringer is similar or substantially similar to the trade secret; and (3) that the infringer had adopted improper means.

Upon amendment, trade secret owners will now only need to provide prima facie evidence on the protection measures adopted to protect the trade secret and prove to a reasonable extent that there is infringement. The burden will then be shifted to the infringer, who will have to prove that the alleged trade secret is not qualified as a trade secret. Moreover, if the trade secret owners can prove to a reasonable extent that there is infringement and provide evidence of either (1) the infringer has access to the trade secret and the information of the infringer is

substantially similar to the trade secret; (2) the trade secret has been disclosed / used or there is a reasonable risk of disclosure or use; or (3) there is other evidence of infringement, the infringer will then have the burden to disprove infringement.

The amendment to the PRC Anti-Unfair Competition Law not only confers a greater scope of protection to trade secret owners, but also lowers the burden of proof in infringement lawsuits, which was once high. This demonstrates the commitment of the Chinese government to improve protection on trade secrets, which should be welcomed by foreign companies doing business in China.

II. THE AMENDED TRADEMARK LAW AND THE NEWLY ENACTED SEVERAL PROVISIONS FOR REGULATING THE APPLICATIONS FOR REGISTRATION OF TRADEMARKS

As reported in our [Newsletter Issue No. 8](#) dated 4th June 2019, the fourth amendment of the PRC Trademark Law has come into effect on 1st November 2019. As a quick recap, the amended Trademark Law now provides that: -

1. Applications for trademark registrations in bad faith which are not intended for use shall be refused (Article 4). This also forms a new ground for opposition actions and invalidation actions, which can be brought by any person (Articles 33 and 44);
2. Trademark agencies are prohibited from representing a client who files trademark applications in bad faith and administrative penalties and criminal liabilities can be imposed for any violation (Articles 19 and 68);
3. Statutory damages in trademark infringement lawsuits has been increased to RMB 5 million (around USD 720,000), and where the infringement is considered malicious and the circumstances are considered serious, the maximum level of damages are increased to 5 times the relevant base amount (Article 63);
4. Upon request by the right owners, the Court may order the destruction of counterfeit goods and their production tools and materials (Article 63).

To ensure smooth implementation of the amended Trademark Law and effective control of bad faith filings,

following the Several Provisions on Regulating the Applications for Registration of Trademarks (Draft for Comments) on 12nd February 2019, the State Administration for Market Regulation announced the implementation of Several Provisions on Regulating the Applications for Registration of Trademarks (the "Provisions") on 11th October 2019, which will come into effect on 1st December 2019. The Provisions aim to regulate and combat abnormal trademark registration activities in China.

A. Factors for Consideration when Applying Article 4 of the Amended Trademark Law

One of the most important aspects of the Provisions is that it provides the factors to be considered when deciding whether a trademark application contravenes Article 4 of the amended Trademark Law, namely: -

1. the number of trademark applications filed by the applicant and related natural person, entities or other organizations, the number of designated classes and statuses of trademark transactions;
2. the industry where the applicant stays in, the operating status of his/her business, etc.;
3. any administrative decision or judgment against the applicant on grounds of bad faith filings or trademark infringement;
4. whether the marks applied for are similar or identical to marks of others which enjoy a certain level of reputation;
5. whether the marks applied for are similar or identical to names of famous persons, trade names and company names, and any identifications of trade origin; and
6. any other factors which the China National Intellectual Property Administration (CNIPA) considers relevant.

B. The CNIPA's Power to Refuse Trademark Applications based on Article 4

The Provisions further provide that if the CNIPA discovers any applications violating Article 4, it should reject the applications. Indeed, the CNIPA has been rejecting applications based on similar grounds before. This now confirms the CNIPA's power to reject applications based on Article 4.

C. Administrative Penalties on Bad Faith Applicants

The Provisions also clarify that the amended Article 68, which concerns administrative penalties imposed on trademark agencies assisting in bad faith filings, is also applicable to trademark applicants who involve in bad faith filings. It also specifies the types of penalties can be imposed on such bad faith applicants, including warnings, fines up to three times of their illegal gains (but no more than RMB 30,000 (around USD 4,300), or a maximum fine of RMB 10,000 (around USD 1,430) if there is no illegal gain.

The amended Trademark Law and the Provisions can be seen as the CNIPA's determination to tackle and curb bad faith trademark filings. We notice that the CNIPA is getting sophisticated when examining opposition and invalidation actions. We successfully persuaded the CNIPA to refuse applications solely on the grounds of bad faith despite the fact that the brand owners did not have any prior trademark rights in China. Brand owners are therefore advised to conduct in depth background searches against bad faith applications to collect as much evidence of bad faith as possible. Regular monitoring of new trademark filings of the bad faith applicants and checking of unfavorable administrative and court decisions issued against the applicant are also recommended as this may help provide further evidence of bad faith.