China’s Top 10 Trademark Developments

I. CONTINUED AND INCREASING EFFORT IN TACKLING TRADEMARK SQUATTING

Following the amendment of the Trademark Law in 2019, the China National Intellectual Property Administration’s ("CNIPA") took the initiative to reject over 10,000 trademark applications for lack of intention to use based on Article 4 of the Law in the first half of 2021. It was reported that the CNIPA blacklisted around 1,000 applicants as of May 2021 and would continue the effort to identify and add applicants with obvious bad faith to the internal blacklist. While there is still no published mechanism for adding squatters to the blacklist, if brand owners have already received favourable decisions recognising squatters’ bad faith, they may consider writing to the CNIPA to request that the squatters be added to the blacklist.

II. CLOSER SCRUTINITY ON TRADEMARK ASSIGNMENTS

Trademark assignments only take effect after approval by the CNIPA. Article 42 of the Trademark Law confers the CNIPA the power to disapprove assignments that would easily cause confusion or have other adverse effects.

Previously, the CNIPA mainly raised objections if similar marks covering similar goods/services are not assigned together pursuant to Article 31 of the Implementing Rules. However, to curb trademark squatting, we have recently seen more cases whereby the CNIPA relies on Article 42 to reject assignment applications if assignees have registered many trademarks and the assignments are suspected to be for profit. In such cases, assignors and assignees will be required to provide use evidence or to show the intent to use the assigned trademark(s). When negotiating buybacks, it is advisable to include clauses in the assignment agreement to deal with the consequences of non-approval of assignment (e.g. concerted effort to respond to objections and voluntary surrender of the trademark(s) if assignment is finally disapproved) and to file back-up trademark applications.

III. FIRST PUNITIVE DAMAGES AWARD AGAINST SQUATTER IN UNFAIR COMPETITION LAWSUIT

Trademark squatting is generally dealt with by opposition, invalidation, and non-use cancellation actions. However, there is no cost award even if rightowners succeed in the
actions. A judgment from the Shanghai Minhang District People’s Court in Brita GmbH v. Shanghai Kangdian Industrial Co., Ltd., which has just become final, may change the game for combating trademark squatting. The Court held that Kangdian’s bad faith filing activities and subsequent challenges to Brita’s trademark filings fall within the definition of “act of unfair competition” under Article 2 of the Anti-Unfair Competition Law as the bad faith applications were intended to cause obstacles to Brita’s business and undermine its competitive advantage. The Court awarded Brita a costs award of RMB 2.8 million (approx. USD 434,400), which, *inter alia*, compensates Brita’s economic losses as a result of Kangdian’s bad faith filing activities. This judgment may set a precedent for recovery of legal expenses incurred for combating bad faith filings from squatters. However, it is worth noting that this is not a pure case of trademark squatting, as Kangdian also engaged in trademark infringement activities, and the Court held that its bad faith filing activities were part of its infringing acts. To rely on this judgment, claimants may have to show that squatters have also engaged in trademark infringement or unfair competition activities.

**IV. TIGHTENED EXAMINATION OF CONSENT LETTERS**

While there is no legal provision confirming the legal effect of consent letters, the established practice is that consent letters may be accepted unless the conflicting marks are identical or substantially similar to each other. This is confirmed by a guideline issued by the Beijing Higher People’s Court in 2019. However, the CNIPA has recently refused to accept consent letters in refusal review procedures on the basis that consent letters alone are insufficient to show that there will be no actual consumer confusion. Currently, no official guidelines or notices has been issued. Applicants relying on consent letters should be prepared to lodge appeals to the Beijing IP Court, which, from our experience, is more sophisticated and will give due consideration to the likelihood of actual confusion. Applicants should also consider exploring other means to overcome citation objections, e.g., non-use cancellations and buybacks.

**V. NEW PROVISIONS TO EXPEDITE REMOVAL OF INFRINGING ENTERPRISE NAMES**

The amendments to the Provisions on Administration of Enterprise Name Registration has been in force since March 2021. The new Article 23 specifically provides that the use of an enterprise name shall not prejudice others’ lawful rights and interests, which include trademark rights. The new Article 21 provides that right owners may commence actions before the Courts or file complaints with the Administration for Market Regulation (AMR). To expedite the name change process, Article 23 requires the infringing enterprise to change its name within 30 days from receiving an effective legal document or decision from the PRC Courts or the handling AMR. During the interim, the AMR will replace the infringing enterprise’s name with its unified social credit code. If the enterprise fails to effect the change within the prescribed timeframe, the AMR may place it on the abnormal operation list.

**VI. CLOSER SCRUTINY ON AUTHENTICITY OF EVIDENCE IN NON-USE CANCELLATION PROCEEDINGS**

Non-use cancellation is commonly deployed to remove bad faith registrations. However, professional squatters may take advantage of the loose examination practice and fabricate use evidence to maintain their registrations. For instance, they may submit VAT invoices that do not correspond with records of the National VAT Invoice Verification Platform or are outright fake. As registrants are not required to produce original evidence, the CNIPA may maintain registrations based on such fake evidence. Good news is that the Beijing IP Court is aware of this phenomenon and has taken active measures to tackle it. Registrants are now required to produce original copies of the evidence for inspection purposes, and evidence submitted will be cross-checked with government records to confirm its authenticity. Fines may also be imposed on parties who fabricate evidence.

**VII. NEW FORMALITY REQUIREMENTS FOR CLAIMING WELL-KNOWN STATUS**

From September 1, 2021, brand owners intending to claim well-known status in proceedings before the CNIPA need to submit an undertaking that information and evidence submitted are true, accurate and complete, and there is no falsification, alteration, concealment of evidence or other dishonest behaviour to defraud or obtain well-known trademark protection by improper means. Such a new practice is believed to ensure the authenticity of evidence and to prevent false evidence.

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VIII. NEW PROVISIONS ON EFFECTIVENESS OF EVIDENCE PROCURED VIA NOTARIZED PURCHASES

To establish infringement, claimants may need to preserve evidence by way of notarised purchase, which are often conducted on an anonymous basis without disclosing the purpose of the purchase. In late 2020, the Supreme People’s Court published provisions governing evidence used in civil procedures involving intellectual property rights. According to the provisions, evidence procured via purchases made by claimants’ agents (including notary officers) in the name of ordinary consumers is admissible. However, the provisions also provide a possible defence to infringers if they can establish that they committed the infringement solely because of the claimant’s inducement. If such a defence is accepted by the Courts, infringement actions based on such evidence alone may fail. That said, infringers will have to produce cogent evidence of inducement, and bare assertion is insufficient.

IX. NEW TACTICS TO LEGITIMISE BAD FAITH FILINGS

To stay under the radar of the CNIPA, many squatters incorporate companies in Hong Kong and other jurisdictions to create a false impression that they are foreign companies. Some even adopt company names incorporating names of other brands seeking to legitimise their applications for the same brand names or marks incorporating the same. While, unlike China, company records may not be freely open to the public in other jurisdictions, such records are generally accessible upon payment of a minimal fee. As such, it is advisable to take further searches in relevant jurisdictions to identify the directors/shareholders of these companies. Company name complaints can be filed simultaneously to stop any unauthorised use of brand names as company names, and successful decisions may serve as evidence of bad faith in opposition / invalidation proceedings.

X. TIME EXTENSION TO FILE FORMALITY DOCUMENTS FOR ADMINISTRATIVE APPEALS

Due to the COVID-19, the Beijing IP Court may grant time extensions to foreign appellants to submit the full set of the notarised and legalised formality documents if they can demonstrate that they have taken active steps to procure the notarisation and legalisation of the documents and the existence of delay on the part of the government authorities / the Chinese Embassy in processing the documents. The Beijing IP Court has imposed new requirements since April 2021, requiring attorneys appointed in China to send an email to the government department or the Chinese Embassy processing the notarisation / legalisation of the formality documents to check the status and submit a copy of the email as sent as well as the reply of the government department / the Chinese Embassy as evidence. Currently, time extension requests must be filed two weeks before the deadline. As such, if brand owners foresee that a time extension is necessary, it is advisable to give early instructions to allow the local attorneys to comply with the new requirements.