

China's Top 10 Trademark Developments

NEWSLETTER
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1. New Guidelines for Trademark Examination and Trial Took Effect

The China National Intellectual Property Administration (CNIPA) published the new Guidelines for Trademark Examination and Trial (the "Guidelines") with effect from January 1, 2022. It bridges the gaps between the previous edition and the amended PRC Trademark Law, which took effect in 2019. Particularly, a new chapter concerning the examination of bad faith applications with no intent to use has been added, summarizing factors considered by the CNIPA with real-life examples illustrating their decision-making progress. Exceptions to the general ban are for defensive applications and applications for future business needs, provided that they are made within a necessary and reasonable scope.

2. Pro-Rightowner Examination Practice

The CNIPA is well aware of the phenomenon of squatters incorporating multiple companies (some are even incorporated outside China, e.g. Hong Kong and the UK to create false impressions that they are legitimate foreign companies) and assigning trademarks from

one entity to another to keep the number of bad faith filings to a minimum. From our recent favourable cases, we observe that the CNIPA will now also take into account the trademark filings made by related individuals and companies as well as assignors. We also notice that it is no longer a prerequisite to show that a squatter owns a large number of bad faith filings. In one of our cases, the CNIPA recognised bad faith although the squatter and the assignor owned only 29 applications as they are unable to prove their intent to use nor explain the origin of the trademarks.

3. Increasing Effort to Tackle Trademark Squatting

The State Administration for Market Regulation (SAMR) issued the Measures for the Administration of Lists of Serious Illegal and Dishonest Acts effective from September 2021, which provides that any persons engaged in serious bad faith trademark filings which harm the public interest are punishable with their details publicised on the National Enterprise Credit Information Publicity System and subject to administrative measures. Subsequently, the CNIPA published Provisions on Intellectual

Property Credit Management in January 2022, which provides that any persons engaged in bad faith trademark filings may be added to publicized lists on the CNIPA's website and subject to administrative measures for one year, which can be prolonged if they commit the dishonest acts again within the period. It is reported that this new mechanism may replace the internal blacklist system of the CNIPA. Although the two documents do not include any procedures for brand owners to file requests, we welcome this new measure as such publications can serve as evidence of bad faith, facilitating brand owners' actions to clear bad faith filings and hence disrupting squatters' businesses. The administrative measures may also affect squatters' credit ratings and hence significantly affect their business operations.

4. Closer Scrutiny on Assignments of Trademarks from Squatters

To further curb trademark squatting, we notice that the CNIPA may reject assignment applications if they are suspected to be made for profit. The new Guidelines provide that objections may be raised if registrants own considerable number of trademarks and have previously assigned their marks to various assignees. Evidence showing the intent to use the assigned trademarks may be required. If such evidence is unavailable or the evidence submitted is invalid, the assignment applications may be rejected. When negotiating buyback with squatters, we recommend including clauses in assignment agreements to deal with situations of non-approval of assignment applications (e.g. cooperation in responding to objections and voluntary withdrawal/surrender of the trademark(s) if assignment is disapproved) and filing back-up trademark applications.

5. Courts Order Squatters to Compensate for Expenses for Tackling Squatting

In China, there is no cost award if right owners succeed in removing bad faith filings via actions before the CNIPA. However, recent court judgments show that the Courts may order squatters to reimburse trademark owners for the reasonable legal expenses incurred in tackling bad faith filings based on the Anti-Unfair Competition Law if such bad faith filings constitute obstacles to right owners' businesses and undermine their competitive advantages. In the landmark case *Brita GmbH v. Shanghai Kangdian Industrial Co., Ltd.* (2021), the Shanghai Minhang District People's Court awarded the plaintiff a costs award of RMB 2.8 million (approx. USD 434,400), which compensates for, among others, the plaintiff's legal expenses resulting from the defendant's bad faith filings, oppositions and invalidations. While it remains unchanged that trademark squatting alone is not sufficient to establish unfair competition, the Courts may find unfair competition should squatters also rely on such bad faith filings to lodge malicious opposition and invalidation actions, complaints or infringement lawsuits.

6. Strict Regulations on the Registration and Use of Deceptive and Misleading Marks

The PRC Trademark Law prohibits registration of signs possessing negative meanings, contrary to national and public interests or misleading consumers as to characteristics or origins of goods and services. The Guidelines provide that the CNIPA will tightly scrutinise trademarks for any potential violations. For signs possessing multiple meanings or capable of being used in different ways, if one of the meanings or modes of use falls into any of the specified circumstances, it may be rejected. How the sign is actually used will generally not be considered. The CNIPA also published the

Standards for Determination of General Trademark Violations in December 2021, which reiterates that any person who uses such trademarks may be ordered to rectify and be punishable by fines. It further provides that once the CNIPA's decisions takes effect, the local AMRs are entitled to take actions against any further use of such trademarks. From our recent cases, we do observe that the CNIPA will not lightly waive their objections. That being said, the Courts are generally more sophisticated and may come to a different conclusion, especially for marks rejected for being misleading. Brand owners may consider lodging appeals to continue the effort in securing registration. If it is desired to use the marks without registration, it is advisable to use them in a descriptive manner to avoid liability.

7. CNIPA's Refusal of Trademarks Containing "METAVERSE"

The rise of the Metaverse and NFTs have led to a surge of related trademark applications in China. We notice that the CNIPA has been rejecting trademarks containing "METAVERSE" and its Chinese counterpart "元宇宙 (pronounced as YUAN YU ZHOU)" on the basis that these marks may mislead consumers as to the characteristics of the goods and services. Objections will be raised even though the trademarks containing other distinctive elements. While it is not possible to register "METAVERSE" and its Chinese counterpart, we still recommend brand owners to secure registrations for house marks and other core marks covering Metaverse-related goods and services in Classes 9, 41 and 42 to avoid trademark squatting.

8. Tightened Examination of Consent Letters

While the Law is silent on the legal effect of consent letters, the established practice

was that consent letters were acceptable unless the conflicting marks are identical or substantially similar to each other. This was confirmed in the Beijing High People Court's Guidelines for Trial of Trademark Right Granting and Verification Cases published in April 2019. However, the CNIPA has recently refused to accept consent letters on the basis that they alone are insufficient to show that there will be no actual consumer confusion. Currently, no official guidelines has been issued. Based on our observations, the Beijing IP Court may still accept consent letters but may occasionally question the authority of signatory. Applicants seeking to rely on consent letters should be prepared to lodge appeals and also gather evidence to prove the authority of signatory (e.g. a board resolution of the cited mark owner accompanied by the list of directors and the articles of association, all notarised and legalised).

9. Change in Examination Practice in Non-use Cancellations

Use on particular goods/services can help maintain registration for similar goods/services. However, it was notorious that the CNIPA adopted a loose examination practice in non-use cancellations and might maintain the entire registration even if use on dissimilar goods/services were not proven. A review action would then have to be filed to cancel the registration on the dissimilar goods/services. We notice that the CNIPA is moving away such a practice and will now partially cancel registrations if registrants cannot prove use on all goods/services. This could be a mixed blessing to brand owners. While cancelling prior conflicting registrations and bad faith registrations may become easier, resisting non-use cancellations may become more difficult as brand owners should show that their marks are used in each subclass.

10. CNIPA Confirms OEM Use is Effective in Resisting Non-Use Challenges

Previously, it was unclear whether original equipment manufacturing (OEM) use constitutes trademark use in the context of non-use cancellation proceedings. Following the publication of the Beijing High People Court's Guidelines, which provides that pure export of goods

without circulation in Mainland China constitutes trademark use in non-use cancellation proceedings, the CNIPA's Guidelines have also been updated to reflect the same position and provides certainty to brand owners who only engage in OEM activities in Mainland China.