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Client Alert: Draft Trademark Law Amendment and its Potential Impact on China Trademark Strategy

As China's importance for brand owners continues to grow, so too does the sophistication of China's IP application processes. Earlier this year, the China National Intellectual Property Administration (CNIPA) released a Draft Amendment to its Trademark Law which, although not yet finalized, could result in significant changes to trademark applications and rights enforcement. The most notable proposed changes include strengthening protections against malicious registrations in the application and enforcement contexts, enacting more stringent requirements for trademark maintenance, and changing what facts Chinese courts can use to evaluate trademark appeals. This article addresses a few key provisions in the Draft Trademark Law Amendment.

The Draft Trademark Law Amendment

First, the Draft Amendment places significant emphasis on combating bad faith and repetitive trademark applications through a number of changes. For example, Article 22 of the Draft Amendment clarifies the parameters of malicious filings, which would be defined as follows:

(1) Filing a large number of applications for trademark registration not for the purpose of use.

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Lee J. Eulgen
Alexandra Maloney

(2) Applying for trademark registration by deception or other improper means.

(3) The application for registration of trademarks that are detrimental to the national interest, the public interest or have other significant adverse effects.

(4) . . . [Filing with intent to] damage of the legitimate rights or interests of others, or the act of seeking improper benefits.

(5) Other bad-faith act[s] of trademark registration application.

As brand owners will appreciate, these changes would significantly strengthen their ability to enforce against increasingly frequent malicious trademark filings in China. However, while these provisions are aimed at malicious and repetitive applications, the Draft's language is broad enough that well-meaning applicants may get caught in one of the above provisions, depending on how CNIPA chooses to interpret the provisions.

Second, the Draft Amendment provides new ways for brand owners to enforce against bad faith trademark filings. Article 22 Paragraph (4) of the Draft allows brand owners to bring legal action against applicants violating that Paragraph—*i.e.*, those engaging in “the intentional damage of the legitimate rights or interests of others, or the act of seeking improper benefits.” The Draft also establishes a mandatory transfer process for trademarks registered in bad faith, which permits brand owners to request that malicious registrations be transferred to them. To do so, the mark owner needs to show either that the disputed registration infringes their well-known trademark, was filed by the owner's agent without authorization, or infringes on their prior use. In addition, under the anticipated changes, brand owners will now be able to more easily suspend prosecution of their applications while third-party cancellations are

pending. In light of these new enforcement options, brand owners may want to consider more aggressive actions to clear infringements off the Chinese register, as rightsholders should no longer have to endure the costly process of filing backup applications while third-party cancellation actions are pending.

Third, the Draft Amendment significantly increases application and maintenance requirements. Applicants will need to (1) show use or (2) promise to use the mark in Chinese commerce, much like a Section 1(b) intent-to-use filing in the US. Under Article 61 of the Draft, registrants will also have to file statements of use every five years or provide a justification for non-use, and unused trademarks will be cancelled automatically. This will mean brand owners need to keep careful records of their marks' use in China as evidence for these statements. Additionally, CNIPA will be able to conduct random audits and request supplemental information from trademark registrants. The public opposition period for an application will also decrease from three months to two months under Article 36, and parties dissatisfied with an opposition outcome will be required to appeal to a court rather than request a second administrative review by CNIPA.

Finally, the Draft also changes what courts can consider in an appeal from a CNIPA decision. Under Article 42, a court can only consider the circumstances of the case at the time CNIPA made the decision, instead of how facts and usage may have developed with time (barring circumstances that would be an obvious violation of "the principle of fairness"). This Article has been controversial among observers, since consent agreements can be reached, trademarks may expire, and trademarks may be cancelled between a CNIPA decision and a judicial decision. It is unclear whether courts under this Article would take these changes into consideration on appeal.



Conclusion

In sum, the Draft Trademark Law Amendment represents a significant expansion of China's trademark and trademark litigation procedures. The Draft Trademark Amendment sets out new ways for trademark holders to enforce their rights against malicious registrants, but only if they are able to meet the new use-based registration and maintenance requirements as well. While the draft changes have not gone into effect, it would be worthwhile for brand owners to monitor their IP for infringements in China more closely, both to protect their rights against bad faith registrants and infringers and to ensure they still can maintain their registrations. Existing trademark holders would also be well-advised to begin collecting evidence of use in China in order to defend against potential non-use cancellation procedures. NGE and its network of associates in China will be closely monitoring Chinese IP procedures in the coming year to assess how these Amendments evolve the trademark application and maintenance processes in China.

Should you have any questions concerning your IP portfolio in China or other matters, do not hesitate to contact Lee Eulgen, Lee Barrington Stark, Alexandra Maloney, or your NGE attorney.

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