

## Client Alert

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## China's amended Trademark Law to curb bad faith filings effective 1 November 2019

On 23 April 2019, the Standing Committee of the National People's Congress announced the amendments to the Trademark Law ("**Law**"), which are effective from 1 November 2019. A key objective is to curb bad faith trademark filings by providing new grounds of challenge at all stages of the prosecution process and imposing greater sanctions against trademark agencies for facilitating bad faith filings.

The State Administration for Market Regulation later issued the Several Provisions on the Regulation of Trademark Application and Registration Behavior ("**Provisions**") to facilitate the implementation of the amendments. The Provisions will take effect from 1 December 2019.

### What is new

#### *New grounds for challenging bad faith filings*

- Trademark applications **filed in bad faith without intent to use** shall be rejected (Article 4), i.e. the National Intellectual Property Administration of the People's Republic of China (CNIPA) can reject such bad faith trademarks outright during examination. Article 4 is further included as a basis for opposing a trademark application (Article 33) and invalidating a trademark registration (Article 44).
- If a trademark agency knows or should know that a trademark application instructed violates Article 4, it should not accept the engagement (Article 19).

#### *Sanctions against bad faith filings and trademark litigation instituted in bad faith*

- A trademark agency that files trademarks in bad faith is liable for administrative penalties including warnings and fines; a trademark agency that institutes trademark litigation in bad faith should be penalized by the People's Courts (Article 68).
- A trademark agency that assists with bad faith filings in violation of Article 19 is also subject to administrative penalties including warnings and fines, which can be imposed on both the agency and the responsible officers.

#### *Increased damages for trademark infringement*

Increased statutory damages from CNY 3 million (approx. USD 425,000) to CNY 5 million (approx. USD 708,500) and punitive damages from 3 times to 5 times of the actual damages based on the rights holder's losses, the infringer's illegal profits or a reasonable multiple of the trademark license fees.





### *Disposal of counterfeit goods*

Absent special circumstances, the Court must, at the request of the rights holder, order the destruction of the counterfeit goods<sup>1</sup> as well as the materials and tools mainly used to manufacture those goods without compensation to the counterfeiter. Counterfeit goods should not be allowed to enter commercial channels even if the marks concerned have been removed.

## Keys points to note

### *Bad faith trademark application without intent to use*

Article 4 of the Law originally provides that "*natural persons, legal persons or other organizations that need to obtain exclusive rights to use a trademark for its goods or services in production or business activities shall file an application for trademark registration*". The revised Law supplements it by expressly prohibiting applications filed in bad faith without intent to use. Emphasis is placed on "without intent to use" because Chinese trademark pirates typically apply to register a large number of trademarks with the intention to sell or obtain other improper benefits, instead of putting the trademarks to actual use. Although "bad faith" is not defined, the Provisions set out various familiar factors that the CNIPA should consider comprehensively when determining "bad faith without intent to use". For example:

- The number and nature of trademarks filed by the applicant or its associates, e.g. whether the marks are identical with or similar to others' famous brands<sup>2</sup>, trade names or personal names;
- The applicant's industry and business status (relative to the class(es) of goods/services specified for use); and
- Administrative and judicial decisions that have taken effect, where the applicant has been found to have engaged in bad faith filings or infringements of others' trademark rights.

Mere trademark assignment does not affect the determination of "bad faith without intent to use", i.e., subsequent assignment cannot legitimize a trademark filed in bad faith. During examination, a trademark applicant may be asked to provide explanation if its application is suspected to be a bad faith filing without intent to use.

While the focus on intent to use is helpful to tackle the traditional form of bad faith filings (i.e. to file and hoard the marks for sale), the downside is that a filing by a trademark pirate actually using or can somehow produce evidence of plans to use the pirate mark may not be readily caught by Article 4. Arguably, it is the use of such pirate marks that can lead to real consumer

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<sup>1</sup> The amendments only refer to "counterfeit goods". Further clarification is required as to whether infringing goods (e.g. goods using a similar trademark) are also covered and what constitutes "special circumstances" that would justify non-destruction.

<sup>2</sup> While not provided under the Provisions, according to the Beijing Higher People's Court's recent guidelines, Article 4 can apply even if a bad faith applicant targets the marks of only one brand owner (as opposed to many). The pirated marks need to have a certain level of fame or higher level of distinctiveness. However, Article 4 can also apply if an applicant files for a large number of trademarks without proper reasons.



confusion in the market place, causing actual harm to the goodwill and economic interests of the legitimate brand owner. Savvy trademark pirates are also likely to diversify and use different offshore companies to hide their connection and avoid scrutiny by the CNIPA and brand owners. These activities will continue to pose challenges to brand owners.

Interestingly, the CNIPA is said to be considering further measures such as including bad faith filings as a type of serious dishonest behavior affecting social credit and subject to “joint punishment” by multiple government authorities. Based on the relevant measures for patent protection, the joint punishment may include, for example, enhanced supervision and restrictions on import and export of goods, recordation of dishonest status in financial credit information database, as well as restrictions on government funding. Such measures can create significant impact on the commercial activities of the blacklisted entities and may serve as effective deterrent against trademark pirates who make active use of their pirate marks.

### *Penalties applicable to trademark agencies and applicants*

While the amendments to Articles 19 and 68 seem to have only broadened the penalties imposed on *trademark agencies* which have facilitated bad faith filings, subsequent statements by the CNIPA suggest that Article 68 is also applicable to *trademark applicants* filing applications or instituting litigation in bad faith. In addition, the Provisions provide that a *trademark applicant* who files a trademark in bad faith without intent to use or under other specified circumstances (such as copying or imitating another person's well-known mark, agent applying to register its principal's mark, applying to register a mark that infringes another person's prior rights, etc.) shall be liable for administrative penalties, including warnings and fines (up to CNY 30,000 or approx. USD 4,250 if there is illegal gain, or below CNY 10,000 or approx. USD 1,420 if there is no illegal gain), in accordance with Article 68.

While the maximum fines are not high, the imposition of administrative penalties does cast some doubt on the economic benefits of trademark piracy on trademark agencies and potentially trademark applicants. Any decisions or rulings made under Article 68, if against trademark applicants, can also aid the bad faith arguments under Article 4. We expect to see further clarifications on the scope of the revised Article 68, although how it will be enforced and whether there will be active enforcement remain to be seen.

## What this means for brand owners

The revised Law provides additional legal grounds for challenging bad faith filings and it allows earlier intervention by brand owners. Brand owners are advised to:

- Take advantage of the new grounds in oppositions and invalidation applications where applicable<sup>3</sup>. More comprehensive background searches or investigations may be necessary to identify and collect bad faith evidence.

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<sup>3</sup> Currently, it is unclear whether the new grounds can be used against filings before 1 November 2019. However, they will unlikely be applicable to trademarks *registered* prior to this date as the amendments should not have retrospective effect.



- Monitor new pirate applications and intervene early by filing petitions along with evidence of bad faith to urge the CNIPA to reject the applications during examination under Article 4 in appropriate cases. We believe that such petitions are more likely to succeed where the bad faith evidence is clear and strong, e.g., the applicant holds a large number of trademarks targeting different famous brands and/or has already been ruled to have violated the relevant provisions in previous cases.

While there is no prescribed procedure for filing the petitions under the revised Law and the CNIPA is not obliged to take note of, or to respond to them, the potential gain of having the CNIPA placing greater scrutiny and possibly rejecting multiple pirate filings made by a known trademark pirate, to (a) reduce costs of oppositions and (b) clear the way for the brand owner's later filings, can be significant; and

- Keep an eye on further legal developments and enforcement of the revised Law and the Provisions, and make use of the provisions on sanctions against bad faith applicants and trademark agencies where applicable.

## Action to take

Brand owners who have in the past encountered issues due to bad faith filings may wish to utilize the revised Law to renew, reinforce or strengthen their filing strategies in China that will drive their overall brand equity.

If you need support in formulating or renewing your strategies, please get in touch with us.

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