



International Trademark Association
Representing the Trademark Community since 1878

February 16, 2005

Mr. An Qinghu
Director General
Trademark Office
State Administration for Industry and Commerce
People's Republic of China

Re: Proposals on Amendment to China's Trademark Law

Dear Mr. An,

The International Trademark Association (INTA) understands that the State Administration for Industry and Commerce (SAIC) is proposing a draft amendment to the PRC Trademark Law. We appreciate your interest in our views on this subject and the opportunity for INTA, as an association representing the international trademark community, to provide comments on the current Trademark Law that might assist in your deliberations on the draft amendment. Our observations and suggestions on the revision are enclosed.

Aside from the comments accompanying this letter, if your Office requires specific information on international practice or other comments from INTA, please do not hesitate to contact Ms. Chen Min (Telephone: 21-5111-9146; Email: mchen@inta.org;) at our China representative office or Ms. Piin-Fen Kok (Telephone: +1(212) 642-1715; Email: pkok@inta.org) at our New York office. Thank you for your attention, and best regards.

Sincerely,

Anne Gundelfinger
President

Enclosures

Cc: Ms. Chen Min, INTA China Representative Office
Ms. Piin-Fen Kok, INTA New York Office
Mr. Alan C. Drewsen, INTA New York Office



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OBSERVATIONS ON CHINA'S TRADEMARK LAW

International Trademark Association

China Subcommittee

**With additional comments by
East Asia & Pacific Legislation Analysis Subcommittee and
Anti-counterfeiting & Enforcement Committee –
East Asia & Pacific Subcommittee**

February 2005

1) Article 8 - Registrability

The requirement in the law that marks be “visual signs” leaves unclear whether registration may be sought for smells and sounds -- both of which may be described in written form, but which are not themselves visually perceptible by consumers. INTA favors the registration of such marks, and suggests consideration be given to permitting registration of “any signs that are visually perceptible, or capable of being depicted or described by written notation, diagrams or other sufficiently certain visual means”, and as long as they are sufficiently distinctive and function as an indicator of source. A smell or sound can serve as an indicator of source, just as a visual mark does.

INTA notes the inclusion of three-dimensional symbols as registrable subject matter in the law. INTA hopes, however, that registration of product labels and product packaging designs will be permitted, since in many cases, product labels and product packaging designs themselves are distinctive and serve to identify the sources of the goods, therefore functioning as trademarks.

INTA also suggests further clarification on the registration of color marks. “Color combinations” are now registrable but it remains unclear how they should be registered (for example, how the mark specimen should be submitted). INTA notes that single colors remain unregistrable under the 2001 Trademark Law. As businesses are increasingly using colors as a visual identifier to help distinguish their goods or services, INTA believes that color, whether a single color or color combinations, should be entitled to recognition, protection and registration as trademarks under appropriate circumstances, i.e., only when the color functions as an indicator of source, and are not "essential to the use or purpose of the article" and do not "affect the cost or quality of the article".

2) Article 13 - Well-Known Trademarks

Article 13 of the 2001 Trademark Law, Article 45 of the Trademark Law Implementing Regulations, and the 2003 Well-known Marks Recognition and Protection Rules represent substantial progress in promoting the rights of brand owners in well-known marks by defining the scope of protection for such marks, and stating the criteria and administrative procedures for determining well-known mark protection.

Article 13 of the 2001 Trademark Law allows for protection of well-known marks on dissimilar goods or services if the mark is registered in China, while for similar goods or services, the mark need not be registered in China. TRIPS Article 16(3) provides the legal basis for well-known mark protection in the case of dissimilar goods or services if the trademark is registered. The WIPO Joint Recommendation Concerning Provisions on the Protection of Well-known Marks (WIPO Joint Recommendation), which was drafted to interpret the TRIPS provisions on well-known marks protection, recommends well-known mark protection for dissimilar goods or

services under Article 4(b)¹. The Joint Recommendation also states, in Article 2(3), that registration of a mark in or outside a Member State, among other factors, should not be a requisite for well-known mark protection. The relevant provisions of Article 2(3) are reproduced below:

A Member State shall not require, as a condition for determining whether a mark is a well-known mark:

- (i) that the mark has been used in, or that the mark has been registered or that an application for registration of the mark has been filed in or in respect of, the Member State;
- (ii) that the mark has been used in, or that the mark has been registered or that an application for registration of the mark has been filed in or in respect of, any jurisdiction other than the Member State; ...

INTA fully supports the more defined and comprehensive protection for well-known marks on dissimilar goods and services as provided in the WIPO Joint Recommendation. Therefore, we ask that registration of a trademark in China should not be a requisite for it to obtain well-known mark protection under the Trademark Law, irrespective of the goods or services. Attached for your reference is the full text of the WIPO Joint Recommendation.

Article 14 of the 2001 Trademark Law and Article 3 of the 2003 Well-known Marks Recognition and Protection Rules set out various factors to be considered by the authorities in determining the well-known status of the marks in question.

Although none of the factors are restricted to evidence arising from within China and there is no express requirement of use in China, INTA hopes that the Trademark Law and relevant regulations will state clearly that these factors are not cumulative; it should be sufficient that only some of these factors are relevant in determining that a mark is well known, as is stated in Article 2(c) of the WIPO Joint Recommendation. Also, no one factor should outweigh another, regardless of whether its evidence originates from within or outside China.

INTA notes that under Article 16(2) of the TRIPS agreement, recognition as a well-known mark can be achieved through promotion. Specifically, there is no requirement that the promotion or advertising should be targeted primarily or exclusively at the country in which protection is sought.

¹ Article 4(b) of the WIPO Joint Recommendation states: “Irrespective of the goods and/or services for which a mark is used, is the subject of an application for registration, or is registered, that mark shall be deemed to be in conflict with a well-known mark where the mark, or an essential part thereof, constitutes a reproduction, an imitation, a translation, or a transliteration of the well-known mark, and where at least one of the following conditions is fulfilled...”

INTA hopes that there will be clear indication in the Trademark Law and / or its implementing regulations that, in determining the well-known status of a trademark, consideration is given to the actual economic, legal and historical conditions in China. (For example, advertising bans or restrictions on certain sectors of industry or specific types of goods / services will render the provision of evidence of local use impossible or very difficult.) More importantly, due to the rapid economic development in China and the increased level of travel and trade between China and foreign states, INTA believes that it is necessary for China to adopt a liberal approach when determining the well-known status of a foreign trademark by taking into account the mark's fame in major trading areas outside mainland China. As China becomes an increasingly critical part of an integrated world economy, it is important that these international aspects be considered under the law.

INTA also hopes that the new Trademark Law will contain explicit provisions against dilution, thus preventing the blurring of a well-known mark's distinctiveness or the tarnishment of its image through its unauthorized use. Allowing dilution to be recognized as a ground for opposition or cancellation will further strengthen the implementation of international trademark policy by preventing diluting registration as well as diluting use, consistent with Article 6*bis* of the Paris Convention as interpreted through TRIPS Article 16(3). INTA recommends that likelihood of dilution be the appropriate standard for a dilution claim.

3) Articles 32, 33 and 49 – Terms for Review

These articles provide 15 days for trademark owners to file a request for review of the Trademark Office decision, and no extension of time is possible, while prior law allowed a 30-day extension of time following the expiry of the 15-day term. The current 15-day term, which normally contains 10 working days, is too short considering the time needed to communicate with trademark owners who may be outside China and the time needed for the trademark owner to make a decision on whether to file a review request and to prepare necessary documents. In some countries, the term to file a request for review can be as long as six months but still with the possibility to request an extension of time, while in other countries, the term can be two or three months with the possibility to request an extension of time. INTA hopes that the 15-day term may be extended to at least 60 days, with the possibility of two 30-day extensions.

There are two reasons why the 15-day deadline creates difficulties for trademark owners: a) Where the companies are located outside of China, it takes time for communication with them. Furthermore, this does not include the time required by trademark owners to evaluate the likelihood of success of a review and the company's marketing plans and priorities. b) Foreign applicants are requested to sign or even notarize and legalize certain documents. This is a complicated process that is beyond the control of trademark owners and depends on other government entities. (INTA takes the position that the prohibition of requirements of certification for signatures – including notarization and legalization – as contained in the Trademark Law

Treaty should be extended to such requirements for evidence in administrative appeals and other proceedings.)

Specifically, INTA also believes that where both parties consent to an extension of time (e.g., where parties are conducting settlement negotiations), such extension should be allowed and provided. However, extension should also be available upon the reasonable request of one party.

4) Articles 34 and 37 – Effectiveness of Trademark Registration

INTA recommends that protection of all trademarks be retroactive to the filing date. Such retroactive protection is currently enjoyed in China, but only for registrations obtained through the Madrid system. Under Articles 34 and 37 of the current law, protection commences only three months after the publication of a trademark in the Trademark Gazette.

The significance of this protection is for enforcement purposes: once registered, trademark owners are able to take actions against infringement which took place after the filing date, as opposed to the expiry date of the opposition period under the current law. Retroactivity to the filing date is a well-accepted provision of most trademark laws around the world.

5) Article 40 - Trademark Licensing Recordation

INTA has long advocated that license recordation requirements in all countries be voluntary and not mandatory, because the monetary costs and time spent in order to comply with mandatory license recordation requirements create an undue burden on trademark owners and unjustified impediments to the enforcement of trademark rights. License recordation is currently not mandatory in most trademark regimes around the world, including the United States, Canada, Australia, the Community Trademark system, Argentina and South Africa.

Further, INTA members express the hope that recordation application procedures will be simplified in order to reduce the time and resources needed for their completion. Some of the specific provisions required to be included in a license agreement under the 1997 Measures for the Recordal of Trademark License Agreements are arbitrary and mean that in practice, many license agreements already in effect between foreign parties need to be reworked and re-executed in order to be able to be recorded in China. INTA also notes that too often, recordation of the trademark license takes over a year to complete.

6) Article 44 - Non-Use Cancellation

Article 19 of the TRIPS Agreement requires a broader definition of circumstances under which a trademark registration that is under attack for non-use may be sustained, even though it has not been used in the relevant period leading up to a non-use cancellation petition. China's current law

merely requires a “reasonable explanation” (Article 39, Trademark Law Implementing Regulations), whereas relevant TRIPS language covers “circumstances beyond the owner’s control, including government restrictions.” It is suggested that corresponding changes in the Implementing Regulations be adopted in order to bring Chinese law into conformity with the TRIPS Agreement, and that further corresponding explanations be given in the Regulations to clarify the types of other circumstances that might be “beyond the owner’s control”.

Furthermore, INTA believes that new rules should be adopted that would guarantee access to judicial review in cases involving the cancellation of a mark for non-use. INTA also believes that in the course of administrative handling of non-use cancellation petitions, relevant filings and evidence submitted by each party should be disclosed to the other. Judicial review and exchange of evidence among the parties during administrative proceedings will help to reduce the incidence of fraud and may encourage settlement of disputes at an earlier stage.

Article 44(4) provides that the Trademark Office shall cancel a registered trademark if there has been a suspension of use for a continuous period of three years. The Trademark Law Implementing Regulations Article 39 provides that anyone may apply to the Trademark Office for cancellation on this basis.

Frequently, a party interested in petitioning to cancel a mark for non-use will first conduct an onsite investigation of the registrant’s use of the mark. These investigations often show that the subject mark was never used (for business or other reasons), and is vulnerable to cancellation. However, when that party proceeds with the cancellation petition, the registrant produces alleged use evidence that the Trademark Office accepts as valid. The Trademark Office then holds that the registration remains effective.

The Trademark Office does not allow the petitioner, before or after the cancellation proceeding, to review or test the validity and authenticity of the evidence that the registrant submitted. The petitioner’s position, based on its prior investigation, is that the evidence may have been false or manufactured for defensive purposes. This position is often confirmed when the petitioner is able, post-decision and through informal channels, to obtain the evidence the registrant submitted. Increasingly, after the issuance of decisions maintaining the registrations, the Trademark Office allows petitioners to access the evidence upon special requests. By then, it is difficult to challenge the decisions, as such decisions normally cannot be appealed by the petitioners.

The result of this policy of the Trademark Office is the retention on the register of many “deadwood” marks that block legitimate users from obtaining registration for their marks. Another result is that the legitimate user is forced to either purchase the deadwood mark or choose another mark solely for use in China.

INTA hopes that the new Trademark Law and its Implementing Regulations will provide for a

procedure whereby the cancellation petitioner can review and respond to the evidence that the registrant submits in defense of cancellation prior to any decision by the Trademark Office. Such a procedure would require that the Trademark Office provide copies of the registrant's evidence to the petitioner, who could respond within a given time limit (e.g., 30 days). The Trademark Office could then provide the petitioner's response to the registrant for comment, and provide the registrant's comments to the petitioner for reply. The contemplated procedure would thus provide an adversarial process whereby the parties may provide the Trademark Office with complete arguments and evidence as to why the mark should be maintained or cancelled.

As mentioned above, INTA also suggests that the Trademark Office's decisions in non-use cancellations be subject to review by the Trademark Review and Adjudication Board (TRAB) and further by the courts even if the Trademark Office maintains the registrations. Appeals of non-use cancellation decisions, at least at the judicial level, are common in most jurisdictions, including major ones like the United States, the European Union and Japan.

7) Article 46 - Prohibition on New Filings

Article 46 of the trademark law imposes a one-year prohibition on the filing of applications for trademarks that are identical or similar to another mark that was previously cancelled or expired. This limitation is impractical and unjustifiable in certain situations, including those in which the prior mark was cancelled due to improper registration. It is also unjustifiable in cases where a mark was cancelled due to non-use or otherwise where non-use during the three years prior to the application can be established.

8) Articles 52, 53, 55 and 56 - General Enforcement and Penalties for Infringement and Compensation

INTA recognizes the resolve of the central government to deal effectively with counterfeiting. This is a problem which afflicts brand owners and consumers in many developed and developing countries. Because of its size and prominence in international trade, however, this problem is of special significance in China.

While more intensified enforcement by relevant administrative and judicial authorities is welcomed, INTA questions whether the existing law in China provides adequate tools for achieving "effective" protection that creates real deterrence against third parties (as mandated under Article 50 and other relevant provisions of the TRIPS Agreement).

INTA is particularly concerned with criminal enforcement and the lack of clear and practical standards for pursuing criminal enforcement against counterfeiters. The question of criminal liability standards is of course one that relates to China's Criminal Code, and INTA lauds current efforts to resolve problems under the Criminal Code through the issuance of a judicial

interpretation by the Supreme People's Court.

In the meantime, we believe measures should be considered to increase the powers of administrative enforcement authorities and trademark owners themselves to take action against counterfeiters and other serious infringers, and to thereby create real deterrence against future infringements.

INTA's recommendations in this regard include the following:

- (a) A provision defining "counterfeiting" to assist with determining which infringements may or may not be dealt with as a possible criminal offense.

INTA believes that the definition of "counterfeiting" in the Trademark Law should be consistent with that in the December 2004 *Interpretation of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues in the Concrete Application of the Law in Handling Criminal Cases of Intellectual Property Infringement*, as well as with TRIPS Article 51 (footnote 14) which defines "counterfeit trademarked goods" as "any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation."

As far as trademark counterfeiting is concerned, the following acts, if committed in the course of trade or business, should constitute acts of counterfeiting.

1. Unauthorized affixation of registered trademarks on goods;
2. Manufacturing, or preparation for manufacture, of goods on which registered trademarks have been, or are to be, affixed without authorization;
3. Packaging, or preparation for packaging, of goods on which registered trademarks have been, or are to be, affixed without authorization;
4. Exportation, importation, transportation or storage of goods on which registered trademarks have been, or are to be, affixed without authorization;
5. Sale or distribution, or offering for sale or distribution, of goods on which registered trademarks have been, or are to be, affixed without authorization;
6. Unauthorized use of registered service marks in relation to services;
7. Provision, or preparation for supply, of services on which registered service marks have been, or are to be, used without authorization;

8. Sale or distribution, or offering for sale or distribution, of services on which registered service marks have been, or are to be, used without authorization; and
9. Possession of goods, with the intention of doing any of the acts referred to above.

INTA suggests that the abovementioned recommendations also form the basis for the definition of trademark counterfeiting under future Opinions or Rules issued by the Trademark Office.

- (b) The ability of trademark owners to file enterprise name complaints without having to obtain a determination that their mark is well-known. Article 53 of the Implementing Regulations of the Trademark Law has made it more difficult to bring enterprise name complaints to the AICs, and the provision should be amended to drop the requirement that a mark be “well-known”, which would make the provision more user-friendly and consistent with the 1999 SAIC *Opinion on the Resolution of Several Issues Concerning Trademarks and Enterprise Names*.
- (c) Calculation of fines based on the retail or wholesale value of the legitimate product, rather than the value claimed by the infringer. This will provide a more objective basis for calculating fines and increase the deterrent impact thereof, particularly vis-à-vis products that have a high intellectual property content, i.e., products that are priced high compared to their production costs.
- (d) Clear standards for enforcement authorities to determine maximum fines and minimum fines against counterfeit manufacturers, vendors and accomplices. The lack of clear standards for determining maximum and minimum fines in a given case leaves a large loophole for “protectionism.” It also deprives authorities and brand owners of an important tool for leveraging cooperation from infringers in the form of settlements or disclosure of useful information on the source of fakes. INTA suggests minimum fines of 150 percent of the value of goods be considered in any case involving counterfeits, with even higher fines required in cases involving repeat offenders, refusal of infringers to cooperate with government investigations into the source of fakes or labels, and infringers operating without a business license.
- (e) Identification of the failure to keep accurate records as a factor for deciding whether the maximum fine should be imposed where the illegal business amount cannot be determined. A minimum fine for infringers that do not maintain accurate records of their prior production and/or sales should also be stipulated.

Such provisions would be consistent with Article 3 of the PRC Accounting Law, which requires that all companies keep accurate accounting records.

- (f) Additional fines for parties that refuse to cooperate with government investigations. Articles 43, 46 and 49 of the TRIPS Agreement require that enforcement authorities enjoy the power to compel parties to produce relevant evidence. Such powers are granted to Chinese courts under Articles 65 and 103 of the Civil Procedure Code, but the Administrations for Industry and Commerce (AICs) currently lack such powers. Accordingly, it is recommended they be given the power to impose both minimum and maximum fines to encourage compliance with investigations, particularly with respect to counterfeiting cases.
- (g) Clear standards for determining when seized goods are to be destroyed, as opposed to merely having infringing labels removed and the goods donated to charity or auctioned off. Counterfeit goods, and the components and equipment used to manufacture such goods, should be destroyed at the infringer's expense. This request is consistent with TRIPS, Article 46. Destruction of these items will help prevent their re-entry into the stream of commerce and will impose greater economic penalties on violators, thereby increasing the deterrent impact of the law. The law should therefore explicitly state that the costs of destruction will be borne by the infringer, thereby reducing the burdens on government and trademark owners. In addition, INTA recommends that there should be no auctioning of infringing goods without prior approval of the trademark owner.
- (f) Clarification of the right of trademark owners to obtain prompt access to information concerning the identity of other infringers from enforcement authorities (including the AICs, customs, Public Security Bureaus (PSBs), prosecutors, courts or others), so as to facilitate further action by trademark owners to protect themselves, their distributors and consumers. This right is set out in Article 47 of the TRIPS Agreement.
- (g) Acts of exportation and importation of infringing goods be explicitly included in the list of acts that are deemed to infringe registered trademarks, both under the Trademark Law and any future revision of the Criminal Code. This expansion of the definition of infringement is particularly needed to facilitate criminal enforcement against counterfeits that are seized by customs just prior to their export from China.
- (h) Clarification of procedures for the timely transfer of cases from AICs and other administrative enforcement authorities to the Public Security Bureaus. Aside from transfers of cases, we are hopeful that administrative enforcement

authorities can be trained and encouraged under relevant policies to work with trademark owners in developing evidence required to bring criminal prosecutions against serious violators.

Arguably, a portion of the above recommendations exceeds the minimum requirements of the TRIPS Agreement (Articles 46 and 49). However, INTA regards them as appropriate and useful measures, given the level of counterfeiting that is currently harming Chinese and foreign brand owners alike, as well as doing damage to China's reputation and prestige. Our recommendations, for example on the imposition of minimum fines for counterfeiting, are also consistent with current practice in many jurisdictions.

9) Article 47 of the Implementing Regulations – Termination or Death of Trademark Owners

INTA notes that Article 47 of the Implementing Regulations allows third parties to cancel a registered trademark where the trademark owner has terminated its business or died for more than a year and that no assignment has taken place during the one-year period.

INTA wishes for clarification on the type of documents required to evidence the termination of an enterprise (whether Chinese or foreign). The difficulty in verifying the date of termination of a Chinese enterprise is especially prevalent as there currently lacks strict insolvency laws.

As opposition proceedings are currently lengthy, INTA believes a similar mechanism should also be provided for the timely termination of opposition proceedings to prevent registration of an opposed trademark when the applicant's business has terminated during the opposition proceedings. A trademark for which no legal entity exists to own the exclusive right to use should not be registered.

10) Evidence Exchange During Opposition Proceedings

Evidence exchange is now a standard procedure for proceedings before the TRAB. INTA believes that there should also be a similar evidence exchange process for opposition proceedings before the Trademark Office so that parties may promptly address issues of concern arising from the other's submission. Under the current law, the opponent is not given notice and has no access to review the defense filed by the opposed party, if any. If evidence exchange is allowed for opposition proceedings, the need to file appeals against the Trademark Office's decisions with the TRAB may be reduced.

11) Confidentiality of Sensitive Information Submitted During Proceedings

It is currently unclear whether the confidentiality of confidential information submitted during

proceedings before the Trademark Office or TRAB will be preserved.

INTA understands that for well-known status submissions, the authorities have indicated that confidentiality of sensitive information may be preserved. INTA suggests that confidentiality also be preserved for commercially sensitive information. Information relating to the sales and distribution network, for example, while being very useful in demonstrating the coverage and extent of use of the mark by the mark owner, is often commercially important to the mark owner. The need to prevent the disclosure of such information is especially important when the other party to the proceeding is a competitor in the same industry.