

# Purpose of use matters for trademark applications in China

Roger HUANG and Nikita XUE of HongFangLaw discuss the newly amended Trademark Law in China.

Statistics tell the story: “As with other forms of intellectual property (IP), the increase in trademark filing activity (measured in application class counts) largely reflects the strong growth in the number of trademark applications filed in China. In 2018, the trademark office of China accounted for 84.4% of the annual increase in global trademark filing activity using this measure. It was followed by the offices of India (3.1%) the Republic of Korea (1.7%), France (1.5%) and the United States of America (U.S.) (1.4%), each accounting for considerably smaller portions of total growth,” says from World Intellectual Property Indicators 2019 (page 75), issued by World Intellectual Property Organization (“WIPO”).<sup>1</sup>

Over 7.3 million trademark applications were filed with the Trademark Office in China in 2018, including both resident and non-resident (abroad) filings. For a better understanding on what this number means, it equals more than ten times the number of filings in the USA, which ranks second in 2018 globally, and it is even more than the total amount combined of

<sup>1</sup> See World Intellectual Property Indicators 2019, page 75, [https://www.wipo.int/edocs/pubdocs/en/wipo\\_pub\\_941\\_2019.pdf](https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2019.pdf)

<sup>2</sup> See World Intellectual Property Indicators 2019 page 76, [https://www.wipo.int/edocs/pubdocs/en/wipo\\_pub\\_941\\_2019.pdf](https://www.wipo.int/edocs/pubdocs/en/wipo_pub_941_2019.pdf)



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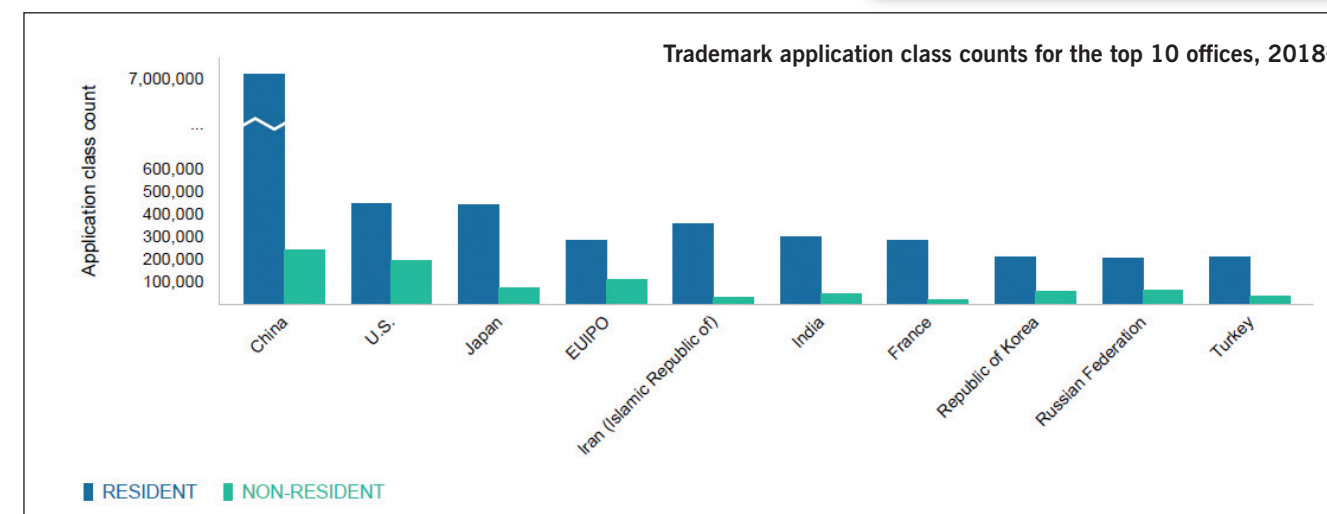
## Résumés

### Roger HUANG

Roger is an attorney at Law at HFL. He is familiar with all kinds of legal affairs related to intellectual property. He has served many well-known enterprises and provided excellent legal services during his years of practice. He performs well in the fields of domain name arbitration, trademark infringement, unfair competition, and intellectual property criminal lawsuits.

### Nikita XUE

Nikita is a partner at HFL and has practiced in IPR since 2002. She has experience in handling various kinds of disputed matters, including, but not limited to, trademark infringement, unfair competition, copyright infringement, anti-counterfeiting, and contractual matters. Apart from contentious matters, she is also experienced in risk assessment on legal rights applications by providing useful advice, and during the long term practice she has helped clients from all over the world to apply for thousands of applications and acquire the legal rights in China.



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all the trademark filings of the nine countries ranked in the top ten.



As an innovative and fast-growing economy with the highest global trademark application statistic for the past 16 years, China has contributed a surprisingly large number to global trademark applications. However, behind the impressive figure there are some worrying situations occurring. Following some research, two applicants, of the many we reviewed, have been brought to our attention. In May 2018, two limited liability trading companies were established in Zhuhai City, Guangdong Province, which had the same name of their legal representatives and a similar business scope. The “coincidences” extended to their trademark applications in China; there were 5745 and 5061 pieces of trademark applications by these two companies respectively, filed in one day. This was an unusual situation, although very rare.

On 23 April 2019, the Standing Committee of the National People’s Congress issued the “Decision on Revision of Eight Laws”, which included a fourth amendment of the Trademark Law. It has been six years since the last amendment of the Trademark Law, in 2013. This new amendment, taking effect from 1 November 2019, sees changes in both trademark acquisition and trademark infringement, and, as regards acquisition, “purpose of use” has been officially written into law for the first time, to prevent bad faith applications, and more severe compensation has also been imposed against trademark infringement activity.

**Trademark acquisition: Purpose of use is a prerequisite**

“Purpose of use” is a core element in trademark application and is now listed as a fundamental principle of the entire Trademark Law in China. As we may observe from the amended Trademark Law, the first and crucial change would be in Clause 4th. Lawmakers added an important clause: “Any application for trademark registration that is malicious and is not filed for the purpose of use shall be rejected”. As a matter of fact, Clause 4th, often regarded as “good faith” clause, is the basic regulation for legal acts concerning trademarks.

A party who first files a trademark application will be granted registration in China, where a first-to-file principle is applied rather than first-to-use. Under this policy, quite a few applicants submitted trademark applications with various purposes. The *Bayer Coppertone*<sup>3</sup> case would be one of these examples, reflecting malicious trademark applications.

In this case, an individual named LI Qing applied two patterns  and  as trademarks, which, according to the judgement, were claimed by Bayer as their copyrighted design and products. After having the two trademarks registered, LI Qing did not provide any substantial trademark usage evidence, while on the contrary, he kept himself busy

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filing complaints, both online and offline, against the distributors of Bayer in China, accusing them of trademark infringement activity for using identical trademarks without his prior consent, and later attempted to negotiate payment in return for transferring the trademarks to Bayer. In that case, supported by prior copyright registration evidences, Bayer filed civil litigation against LI Qing and finally convinced the collegiate bench and won.



Remark: the pattern (top) used on the Coppertone Ultra Guard sunscreen product by Bayer, which is identical to the trademark filed and registered by LI Qing (TM No. 16886091), and the mark has been rendered invalid; the other pattern (above) used on the Coppertone KIDS sunscreen product by Bayer, which is identical to the trademark filed and registered by LI Qing (TM No 16890535) - the mark has been rendered invalid.

<sup>3</sup> The Bayer Consumer Care Holdings LLC v. LI Qing re. unfair competition case, judged on March 8, 2017, (Court docket number: 2017 Z0110MC 18624).

To strengthen the importance of the good faith filing principle, several other relevant clauses have been amended at the same time, including a heavier burden on trademark practitioners with Clause 19.3, whereby: “Where a trademark agency is or should be aware that the trademark to be registered by the entrusting party falls under the circumstances stipulated in Clause 4th, 15th or 32nd of the Law, it shall not accept the entrustment.” In other words, more liability is put on trademark practitioners to be attentive and not to represent bad faith applications, or otherwise they will receive relevant legal consequences. Specific legal liability in Clause 68th added Clause 4th as another reason for trademark agencies to obey the new law. The new paragraph reads “Whoever maliciously applies for trademark registration shall be subject to a warning, a fine or any other administrative punishments, as the case may be; and whoever maliciously lodges a trademark lawsuit shall be penalized by the People’s Court according to law”.

Considering the clauses concerning the burden on trademark practitioners, it might still be hard to clarify whether the trademark agency knows or should be aware of the trademark registration application with a hidden bad faith filing purpose. Some specific terms and regulations might be issued later regarding how to define these clauses.

More constraints were posed on malicious trademark application as well. The added provisions clearly provide that bad faith applications without purpose of use shall be rejected. In addition, the absence of requisite intent to use was included as grounds for opposition and invalidation proceedings, specifically as a requirement of the intent to use of the mark as a principle, and bad faith application without intent to use regarded as an absolute ground in opposition and invalidation examination.

Clause 33rd and 44.1 of the amended Trademark Law procedurally provided bad faith application without purpose of use as a ground for opposition and invalidation. By these revisions, Clause 4th and Clause 19.4 became absolute grounds for trademark opposition and invalidation, which means any person, without restriction to the relevant parties, is entitled to file the opposition and invalidation pursuant to these clauses.

**More severe consequences for trademark infringement**

Apart from the purpose of use when filing the trademark registration, either substantially or intentionally, the newly amended Trademark Law also displays an obvious determination to stop trademark infringement, as a purpose of brand protection, by increasing the upper limit of statutory compensation from 3 million to 5 million yuan, and raising the punitive damages to a maximum of five times. In most cases of trademark infringement,

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statutory compensation would be referred to the court, when lacking evidence to prove the actual loss from the brand being damaged, or the actual profit from the infringement, or even the trademark license fee.

Furthermore, it is also highlighted in Clause 63rd, the penalty clause, that new terms are added to supervise the goods, materials and tools in trademark infringement, as stated below. In a trademark infringement case, the infringing materials need, without a doubt, to be disposed by whatever means necessary in order to eliminate the damage against the protected trademark. However, on the other hand, tools and facilities used to make infringing materials might be sold on for other nefarious purposes; as such, the bad loop would be interrupted if the authorities were entitled to destroy and prevent them from being used again. In other words, we believe that the law is making every effort to maximize the protection of the lawfully registered trademark and to minimize the possibility of such goods being utilized again by potential infringers.

“The people’s court that tries a trademark dispute case shall, at the request of the right holder, order destruction of goods on which a registered trademark is falsely used, except under special circumstances; order destruction of materials and tools primarily used for the manufacture of such goods without compensation; or under special circumstances, order prohibition of the said materials and tools from entering commercial channels without compensation. Goods on which a registered trademark is falsely used may not enter commercial channels even if the registered trademark so used is removed only.”

Every step on the road of law development matters, even though it may sometimes be a tough road to follow. Trademark practitioners predict that in the coming years the trademark registration applications will be influenced according to the effectiveness of the amended Trademark Law in China. Whether for the benefit of the whole society or the brand owners filing in good faith, we are required to achieve better quality trademark applications in the future.

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