4 THE THIRD REVISION OF CHINESE TRADEMARK LAW AND ITS IMPACT ON FOREIGN COMPANIES

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ABSTRACT

Comprehensive modifications of the enforcement of Chinese trademark law have been made in the recent third revision of the People's Republic of China's Trademark Law. This revision not only provides more effective protection of the exclusive right to use a trademark, but also represents a significant improvement of the Chinese legal trademark system, establishing a fair and competitive market order that will contribute to a more inviting legal environment for foreign companies.

***Keywords**: Chinese Trademark Law, trademark, bad-faith trademark registration, trademark infringement, foreign company*

I. INTRODUCTION

On 30 August 2013, the Decision on Revising the Trademark Law of the People's Republic of China[1] (the 'Decision on the Third Revision') was adopted at the Fourth Meeting of the Standing Committee of the Twelfth National People's Congress. The Third Amendment of Trademark Law of the People's Republic of China (the 'Third Amendment')[2] will come into effect on 1 May 2014. This is another substantive revision of China's Trademark Law in the wake of the Second Amendment of 2001. This article provides a historical overview of the third revision, and discusses the revised contents and potential problems in the enforcement of the Third Amendment. It also puts forward proposals for the effective protection of the exclusive rights of trademarks owned by foreign enterprises.

II. BACKGROUND, PROCESS AND FEATURES OF THE THIRD AMENDMENT

The initial Trademark Law of the People's Republic of China[3] is the first legislation on intellectual property rights since China launched its economic reforms and opening-up policy in the 1980s. On 1 March 1983, legal protection for the exclusive right to the use of a trademark was initiated in China.[4] Thereafter, China was a signatory to the Paris Convention for the Protection of Industrial Property in 1985 and the Madrid Agreement Concerning the International Registration of Marks in 1989. In order to make it consistent with international practices and to meet the needs of the development of the market economy, in 1993[5] the Trademark Law was amended for the first time.[6] In 2001, the Trademark Law[7] was again significantly revised with a view to fulfilling the requirements of accession to the World Trade

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[1] Decision of the Standing Committee of the National People's Congress on Revising the Trademark Law of the People's Republic of China (promulgated by Order No. 6 of the President of the People's Republic of China, 30 August 2013, effective 1 May 2014), translated in Westlaw China (accessed 15 October 2013).

[2] The Third Amendment of Trademark Law of the People's Republic of China (amended according to the Decision on Revising the Trademark Law of the People's Republic of China, effective 1 May 2014), the English version is available in Westlaw China (accessed 15 October 2013).

[3] Shang biaofa [Trademark Law 商标法] (adopted at the 24th Meeting of the Standing Committee of the Fifth National People's Congress, 23 August 1982, effective 1 March 1983), 1982 Standing Comm. Nat'l People's Cong. Gaz. 3 (P.R.C.). Available at: <http://www.npc.gov.cn/wxzl/gongbao/2000-12/05/content_5001321.htm> (last visited 15 October 2013).

[4] RenZhonglin [任中林], Guan yuZhonghuaRenminGongheguo Shang biaofaxiuzheng an cao an de shuoming [Explanation on the Draft of the Trademark Law of the People's Republic of China. 关于《中华人民共和国商标法》（草案）的说明], 1982 Standing Committee of the National People's Congress Gaz. 3 (People's Republic of China). Available at: <http://www.legalinfo.gov.cn/zt/2005-01/19/content_183660.htm> (accessed 15 October 2013).

[5] The First Amendment of the Trademark Law of the People's Republic of China (adopted at the 30th meeting of the Standing Committee of the Seventh National People's Congress, 22 February 1993), the English version is available at: <http://www.wipo.int/wipolex/en/text.jsp?file_id=181327> (accessed 15 October 2013).

[6] Liu Minxue [刘敏学], Guan yuZhonghuaRenminGongheguo Shang biaofaxiuzheng an cao an de shuoming [Explanation on the Draft of the Trademark Law of the People's Republic of China. 关于《中华人民共和国商标法》（草案）的说明], 1993 Standing Committee of the National People's Congress Gaz. 1 (People's Republic of China). Available at: <http://www.npc.gov.cn/wxzl/gongbao/1992-12/22/content_1481237.htm> (accessed 15 October 2013).

[7] The Second Amendment of the Trademark Law of the People's Republic of China (adopted at the 24th meeting of the Standing Committee of the Ninth National People's Congress, 27 October 2001) is the existing Trademark Law, the English version is available at: <http://www.wipo.int/wipolex/en/text.jsp?file_id=131395> (accessed 15 October 2013).

Organization (WTO) and further strengthening its trademark protection.[8]

Considering that the Second Amendment of the Trademark Law was to a great extent merely filling the gap toward the Trade-Related Aspects of Intellectual Property Rights Agreement (the 'TRIPS Agreement'), some practical problems with respect to trademark registration and protection in China were still left unsolved, such as the inconvenience of the application procedure for trademark registration, the time-consuming and complicated opposition procedure, difficulties in preventing bad-faith registration, bad-faith opposition and other unfaithful actions.[9] Thus, in 2003, the State Administration for Industry and Commerce of China (the 'SAIC') officially launched the third revision of the Trademark Law. After more than ten modifications, the initial Amendment Draft of the Trademark Law was finalized by SAIC and submitted to the State Council for approval on 18 November 2009.[10] On 1 September 2011, the Legislative Affairs Office of the State Council circulated the Amendment Draft of the Trademark Law to seek public opinion[11], upon which the Amendment of the Trademark Law (the 'Draft Amendment') was based and passed after discussion at the executive meetings of the State Council on 31 October 2012. On 24 December 2012, the Standing Committee of the National People's Congress undertook the first review of said Amendment Draft[12], which was circulated thereafter again for public opinion,[13] and on 27 June 2013, the second review of the Amendment Draft was undertaken, with revision of several points based on feedback from the public on the previous version.[14] After the third review by the Standing Committee of the National People's Congress, the Decision on Revising the Trademark Law of the China was finally adopted and promulgated on 30 August 2013.[15]

After nearly ten years of intense debate and repeated discussion, the third revision of the Trademark Law was concluded. Overall, this modification of the Trademark law bears the following features:

- First, the process of this revision is transparent and open. It is unusual in the legislative history of China that the Amendment Draft was published for comments not only by the State Council, but also by the National People's Congress. Public opinions have been taken into consideration to a great extent during this revision. For instance, the rule that forbids the use of the wording of 'well-known trademark' in the advertising and packaging of goods was adopted into the revision at the last minute[16], as suggested by the public, especially with the strong support by the trademark law professionals.[17] This regulation is meant to

[8] Wang Zhongfu [王众孚], Guan yuZhonghuaRenminGongheguo Shang biaofaxiuzheng an cao an de shuoming [Explanation of the Draft of the Trademark Law of the People's Republic of China. 关于《中华人民共和国商标法》（草案）的说明], 2001 Standing Committee of the National People's Congress Gaz. 7. Available at: <http://www.npc.gov.cn/wxzl/gongbao/2001-12/06/content_5280833.htm>

[9] See Li Jibin [李吉斌] (24 December 2012), Shang biaofaxiuzheng an cao an shou ci beitiqingshenyi [The draft of the Trademark Law amendment is submitted for review for the first time 商标法修正案草案首次被提请审议], available at: <http://www.npc.gov.cn/huiyi/cwh/1130/2012-12/25/content_1748210.htm>

[10] The unpublished Amendment Draft by SAIC for Approval of the State Council contains a total of 79 articles. The Explanation on the Amendment Draft for Approval of the State Council by SAIC is also unpublished. (18 November 2009).

[11] The Amendment Draft for Public Comments published by the Legislative Affairs Office of the State Council on 1 September 2011 contains a total of 75 articles, available at: <http://www.gov.cn/gzdt/2011-9/02/content_1939013.htm>

[12] Idem *supra* note 9.

[13] The Amendment of the Trademark Law of the People's Republic of China (Draft) and the Explanation of the Amendment of the Trademark Law of the People's Republic of China (Draft), announced by the National People's Congress for Public Opinion on 28 December 2012, the English version is available in Westlaw China (accessed 15 October 2013).

[14] *See* Shang biaofaxiugaijinruershen [The revision of the Trademark Law is undergoing its second review 商标法修改进入二审], Ren min ribao [People's Daily 人民日报], (28 June 2013), available at: <http://www.npc.gov.cn/huiyi/lfzt/sbfxzcazt/2013-06/28/content_1799396.htm> (accessed 15 October 2013).

[15] *Id. supra* note 1.

[16] After the first review of the Trademark Law draft by the Standing committee of the National People's Congress, the following proposals have been put forwarded by some members of the NPC Standing Committee, local governments, relevant departments and enterprises: (1) the connotation of the well known trademark should be further clarified; (2) the provisions on the authorities in charge of recognizing the well known status and how to recognize the status should be specified according to the 'individual judgement, passive protection' principle; and (3) taking the well known trademark as a means of advertisement should be explicitly forbidden, so as to prevent the consumer from being misled. These proposals are aimed at the abnormal use of the well known trademark as an honorary title, which is pervasive in China and has lead to some problems in practice.

[17] For instance, Dong Baolin [董葆霖], Guanyu Shang biaofa di shi san tiao di shisitiaoxiugai de yijian [Opinion on modification of Articles 13 and 14 of the Trademark Law 关于商标法第十三条、第十四条修改意见], available at: <http://blog.sina.com.cn/s/blog_9b45f8da01016guy.html> (accessed 15 October 2013). Mr Dong is the chief of the

address the phenomenon in China that the wording of 'well-known trademark' is often misused as an honour for goods, or a means of advertising in practice, and therefore deviates from the essential purpose of the institution.

- Second, this revision is an active amendment based on the actual, domestic needs of China. As mentioned before, the First Amendment of the Trademark Law in 1993 and the Second Amendment in 2001 largely contributed to China's accession to the WTO and the international pressure, especially from developed countries like the United States, for the purpose of passively meeting the requirements of international agreements such as the Paris Convention and the TRIPS Agreement. However, rather than focus on international treaties that China has joined, the Third Amendment focusses further on China' actual domestic needs.[18]

Finally, this revision seeks to resolve practical enforcement of trademark protection, in particular by making the trademark registration process more convenient for the applicant, regulating the application and use of trademarks, and safeguarding the market order of fair competition through strengthening protection of the exclusive right to the use of a trademark and other legitimate interests of the trademark owner.[19]

III. THE CONTENTS AND CONTROVERSY OF THE THIRD AMENDMENT

A. PREVENTING BAD-FAITH TRADEMARK REGISTRATION AND PROTECTING PRIOR USE OF THE TRADEMARK

As China's trademark registration system originally adopted the 'first to file' principle, the interests of prior rights holders have been more or less overlooked. Consequently, it is very common in trademark disputes where companies have rushed to register a trademark that is already in use by others, and some trademark applications infringe upon others' existing prior rights (e.g. trademark applications using the names of athletes like Yao Ming or Michael Jordan etc.). Such unfair competition behaviours are harmful to market-oriented values and should therefore be prohibited.

The Second Amendment of the Trademark Law of 2001 has sought to prohibit trademark applications made in bad faith, such as providing protection for well-known trademarks by preventing others from applying for registration or using another's well-known trademark.[20] According to Article 6 of the Paris Convention, the agent or representative of the person who is the proprietor of a trademark is forbidden to apply for the registration of the mark in his own name or to use the mark, without such proprietor's authorization.[21] Additionally, no applicant for trademark application may infringe upon another person's existing prior rights, nor may he, by illegitimate means, rush to register a trademark that is already in use by another person and has certain influence.[22] Nonetheless, applications that are made in violation of the good faith principle and trademark registrations by illegitimate means still abound. Thus, during the third revision of the Trademark Law, preventing violations of the good-faith principal was regarded as essential[23], and was one of the bases for further improvement.

(i) INCORPORATION OF THE GOOD FAITH PRINCIPLE

Article 7 of the new Trademark Law clearly defines the principle of good faith as a dominating principle in the application for trademark registration and the use of trademarks, namely, that this principle shall be observed in the application for trademark registration and in the use of trademarks.[24] This serves to deter preemptive registrations in bad faith of trademarks, which are already in use by others.

(ii) STRENGTHENED PROTECTION OF WELL KNOWN TRADEMARKS

During the Chinese enforcement of the protection of well-known trademarks, the understanding of the well-known trademark shifted away from being understood as an honorary title of the goods, and the requirements to earn the title were enhanced. This, in turn, eased the preemptive registration of others' well-known trademark by illegitimate means, as it became more difficult to claim protection of well-known trademarks. For instance, a Chinese company in Jiangsu, DER International Home Furnishing Co. Ltd, applied for a 'BMW' trademark for class 19 goods of the classification of the goods on floorboards in 2003. The German BMW Co. Ltd.

expert committee of China's Trademark Association and former director of the Legal Affairs Department of China's Trademark Office.

[18] Idem *supra* note 6.

[19] Idem.

[20] Article 13 of the existing Trademark Law.

[21] Article 15 of the existing Trademark Law.

[22] Article 31 of the existing Trademark Law.

[23] *Id. supra* note 13.

[24] Article 7 paragraph 1 of the new Trademark Law provides: The principle of good faith shall be observed in the application for trademark registration and in the use of trademarks.

objected to the trademark registration on grounds of well-known trademark. However since it is the Chinese translation of 'BMW' -- '宝马' [Bao Ma]and not the 'BMW' itself (which is well known by the public in China), the Trademark Office found the objection unjustified. Thereafter, the German BMW Company requested a review. The review decision was finally made by the TRAB in October 2012 that the 'BMW' was a well-known trademark on goods in class 12 of the classification of automobiles and the registration application for the opposed trademark was rejected.[25]

Figure 4.1: The trademark 'BMW' filed by DER for registration in China

Detail information of Trademark

Registrantion No./ Application No.	3647360	International Classification No.	19	Application Date	2003-07-25
Name of Registrant (Chinese)	德尔国际家居股份有限公司		Address of Registrant(Chinese)	江苏省吴江市七都镇人民东路	
Name of Registrant (English)			Address of Registrant(English)		
Trademark Image	BMW		List of Goods/Services	铺地木材;地板;大理石;石膏板;瓷砖;耐火材料;非金属管道;彩色玻璃窗;玻璃钢制门、窗; Refer to details ...	Similar Group: 1901 1902 1903 1906 1907 1909
No. of Preliminary Publication Trademark Gazette	980		No. of Registration Publication Trademark Gazette	992	
Date of Preliminary Publication	2005-06-21		Date of Registration Publication	2005-09-21	
Effective Period of Exclusive Right	09/21/2005 - 09/20/2015			Year	

To achieve the basic functions of the institution of well-known trademark (i.e. to prohibit others from registering and using the trademark which is identical with or similar to the well-known trademark)[26], the Third Amendment of the Trademark Law makes the following revisions and improvements:

- First, the only precondition to request protection of a trademark as a well-known trademark is that 'the trademark shall be well known by the relevant public'[27], that is to say, any other elements need to be taken into account when determining whether a trademark is a well-known trademark or not.

- Furthermore, a well-known trademark shall only be recognized 'upon request by the party concerned … as a fact that needs to be ascertained in the handling of a trademark-related case'.[28] The recognition of a well-known trademark 'has only effect in the specific dispute where a fact needs to be ascertained in the handling of the related case'.[29] Thus, it shall not be deemed as granting an honorary title on goods or services, and its recognition requirements shall not be artificially or improperly enhanced.

- Moreover, manufacturers and business operators shall neither indicate the words 'well-known trademark' on goods and the packaging or containers of goods, nor shall they use the same for advertising, exhibition, or other commercial activities.[30] This provision intends to eliminate certain requests by companies for recognition of well-known trademarks that are based on improper purposes and return the protection of well-known trademarks to its true meaning by identifying a well-known trademark on the actual needs of protection, without other artificial barriers.

However, it is doubtful whether such revisions will actually be able to change ineffective protection of well-known trademarks in China. While Article 13 paragraph 1 of the Third Amendment expressly defines a 'well-known trademark' as a trademark that is well known by the relevant public, the TRIPS Agreement provides that, in determining whether a trademark is well known, only 'the knowledge of the trademark in the relevant sector of the public' matters.[31] Article 14 of the new Trademark Law still preserves all the factors provided in the existing Trademark Law that need to be taken into consideration in determining a well-known trademark, such as the duration of time in which the trademark has been in use, the duration and extent of its advertising, and the geographical areas the advertising has covered. For this reason, 'the recognition threshold is still too high to cross and the limitations remain too many to conquer'[32] and in the end it remains difficult to stop illegitimate actions of preemptive registration of the unregistered

[25] See News on the CCPIT Patent and Trademark Law Office website, available at: <http://www.ccpit-patent.com.cn/china/News/2013010901.htm> (accessed 15 October 2013).
[26] Id. *supra* note 13.
[27] Article 13 paragraph 1 of the new Trademark Law provides:

> A holder of a trademark that is well known by **the relevant public** may request protection of the trademark as a well known trademark in accordance with this Law if the holder is of the opinion that any rights have been infringed upon. (emphasis added).

[28] Article 14 paragraph 1 of the new Trademark Law.
[29] Id. *supra* note 13.
[30] Article 14 paragraph 5 of the new Trademark Law.
[31] Article 16 paragraph 2 of the TRIPS Agreement.
[32] Xinshangbiaofaliangdianjie du [Analysis of highlights of the new Trademark Law 新商标法亮点解读], Fazhiribao [Legal Daily 法制日报] (3 September 2013), available at: <http://epaper.legaldaily.com.cn/fzrb/content/20130903/Articel06002GN.htm> (accessed 15 October 2013).

trademark which is, in fact, well known by the relevant public.

(iii) PROHIBITION OF PREEMPTIVE REGISTRATION OF THE TRADEMARK IN PRIOR USE BY BUSINESS PARTNERS

Considering the reality of increasing bad-faith registrations of others' trademarks in China and the requirement of Article 6 of the Paris Convention, the Second Amendment of the Trademark Law of 2001 provided that, where an agent or representative, without authorization of the client seeks to register in its own name the client's trademark and the client objects, the trademark shall not be registered and its use shall be prohibited.[33] As the wording of 'agent or representative' was simply copied from the Paris Convention without sufficiently considering the meaning of the terms in the context of the Chinese legal system, the explanation of the terms 'agent or representative' was rather debatable after the announcement of the Second Amendment of the Trademark Law.[34] Some believe that 'agent' stands for trademark agents who are entrusted to deal with application affairs for trademark registration and 'representative' stands for the person who represents the enterprise to deal with trademark registration applications and other matters.[35] While some understand 'agent or representative' as the subjects that include not only the entities mentioned above, but also the business agencies and representatives for the company such as distributors or officers[36], others consider it as incompatible with the Paris Convention to limit 'agent' merely to 'trademark agents' and consider that the 'agent or representative', pursuant to the Paris Convention, should refer to all agencies in other countries that are entitled to sell the products in their countries in which the registered trademark of the proprietor is used.

Such controversy has a direct influence on legal practice. On 3 April 2006, the decision of the Beijing Higher People's Court (Decision No. [(2006) Xing ZhongZi No. 9]) defined the wording 'agent', pursuant to Article 15 of the contemporary Trademark law, only as 'trademark agent' and dismissed the review decision of the TRAB and the ruling of the court of first impression. Thereafter, the Supreme People's Court brought up the case directly and held in its decision (Decision No.:[(2007) Xing Ti Zi No.]) that in conforming with the authoritative explanation to the Paris Convention, the common practice in the member states, and the usual enforcement of relevant administrative laws of China, the terms 'agent or representative' in Article 6^{septies} of the Paris Convention should be defined broadly as agents or representatives who are in special sales relationships with the proprietor of the trademark, including exclusive distributors and general agents. In considering the legislative history, the legislative intent of the Trademark Law, and the provisions of the Paris Convention and judicial explanations, the Supreme People's Court of China held that the term 'agent' of Article 15 of the Trademark Law refers broadly, not only to the trademark agents who are entrusted by applicants for trademark registration to deal with trademark affairs within the scope of their authorization, but also to the agencies who are in special sales representative relationships with the proprietor of the trademark, including exclusive sellers and general agencies.[37]

Although agents in special sales relationships with the proprietor of the trademark were explicitly included in the definition of 'agent or representative' pursuant to Article 15 of the existing Trademark Law, there are still certain malicious registrations by parties who do not have a sales representative relationship, yet share other business cooperative relationships with the proprietor of trademark. Thus, the Third Amendment adds supplementary provisions to Article 15 of the existing Trademark Law:

> an application for registering a trademark for the same or similar goods shall not be approved if the trademark under application is identical with or similar to an unregistered trademark already used by another party; the applicant clearly knows the existence of the trademark of such another party due to contractual, business or other relationships with the latter, other than

[33] Article 15 of the existing Trademark Law.

[34] Wu Xinhua [吴新华], Shang biao ping shenyushijian de jian nan dui jie [Difficult adapting trademark examinations to practice 商标评审与实践的艰难对接], Zhongguozhishichanquanbao [China Intellectual Property News], 28 January 2007, available at: <http://blog.sina.com.cn/s/blog_4aa52ecd010007nd.html> (accessed 15 October 2013).

[35] Xinshangbiaofajieshiyuzaozuoshiwu [Interpretation and practice of new Trademark Law 新商标法释解与操作实务], at 44-48 (Hu Jihua, et al ed. [扈纪华等编], Zhongguoshang ye chu ban she, 2001).

[36] ZhonghuaRenminGongheguoshangbiaofashiyi [Interpretation of the Trademark Law of the People's Republic of China 中华人民共和国商标法释义], at 42-44 (XuYulin, et al.ed [徐玉麟等编], Zhongguofazhichu ban she, 2002).

[37] Ma Dongxiao [马东晓],Yi ci buche di di fan zheng -- jian ping shangbiaofa di shiwutiao'dai li ren'degainian [A not complete correction -- comment on the concept of 'agent' in Article 15 of the Trademark Law 一次不彻底地反正——兼评商标法第十五条'代理人'的概念], available at: <http://cpfd.cnki.com.cn/Article/CPFDTOTAL-ZHQL200910001035.htm> (accessed 15 October 2013).

> those prescribed in the preceding paragraph; and such another party raises objections to the applicant's trademark registration application'.[38]

In this way, the malicious preemptive registrations for the trademark of clients or business partners by the relevant parties could be effectively prohibited for those who are trademark agents, representatives entrusted with dealing with trademark registration affairs, goods distributor agencies and any other parties who are in a commercial cooperative relationship with the owner of the trademark.

It is worth noting that Article 15 paragraph 2 of the new Trademark Law adds two more requirements: first, the applicant for trademark registration must clearly know the existence of the trademark of another party due to contractual, business or other relationships with the latter; second, the unregistered trademark must 'have already been used' by said other party. It is still unclear whether the 'prior use' is restricted to the area within China or not.

It remains an open question as to whether a foreign company may raise an objection to an application for trademark registration, whose trademark is only used outside China and the goods for which the trademark is used have not been sold on the Chinese market or promoted commercially. It remains to be seen which provision is applicable in cases where a sales agent improperly registers the trademark owned by his principal.[39] In accordance with the decision of the Supreme People's Court, the sales agencies are clearly covered by Article 15 paragraph 1 of the Trademark Law. However the newly added provision of Article 15 paragraph 2 seems to touch upon the nature of the relationship between sales agencies and principals.

(iv) PRIOR USE RIGHTS DEFENCE

Although the Chinese Trademark Law observes the 'first to file' principle for trademark registration applications, an overemphasis of this principle would promote the unfaithful application for trademark registrations. Therefore, the existing Trademark Law states:

> No applicant for trademark application may infringe upon another person's existing prior rights, nor may he, by illegitimate means, rush to register a trademark that is already in use by another person and has certain influence.'[40]

The Third Amendment keeps this provision (as Article 32) and adds Article 15 paragraph 2 prohibiting preemptive registration of a trademark by an applicant who knows clearly that the said trademark is already used by his business partners.

The determination of 'illegitimate means' lies largely in the subjective status of the applicant. However, it is always difficult in practice to prove that the trademark applicant had or should have had the knowledge of the prior use by a prior user and it is therefore difficult to stop such behaviour by requesting the TRAB to declare the trademark invalid. Consequently, it is obviously unfair and improper if the holder of the exclusive right to use the trademark may prohibit prior users from continuing to use the trademark, which is now in use by him.

Accordingly, the Third Amendment of the Trademark Law takes the position in Article 59 paragraph 3:

> where, before a trademark registrant applies for registration of the relevant trademark, another party has used ahead of the trademark registrant a trademark that is of certain influence and is identical with or similar to the registered trademark on the same or similar goods, the holder of the exclusive right to use the registered trademark shall have no right to prohibit the said party from continuing to use the trademark within the original scope of use, but may require the latter to add suitable logos for distinguishing purposes.

The 'continue to use' right is restricted according to this provision within the original scope of prior use, but which at the same time could be understood in practice differently. The following issues still need to be clarified in the enforcement of the Trademark Law by implementing rules or judicial practice: above all, how to define the geographical area of the use (especially with respect to subsidiaries within the original geographical area of the use). Furthermore, are there any limitations to the quantity and scale of the products and is it possible to expand the scale of operation within the original geographical area of the use? Additionally, is it beyond the original scope of use where the goods are circulated in the market outside the original geographical area of the use because of an operator other than prior user?

[38] Article 15 paragraph 2 of the new Trademark Law.
[39] Article 15 paragraph 1 or Article 15 paragraph 2 of the Trademark Law.
[40] Article 31 of the existing Trademark Law.

(v) TRADEMARK AGENCIES' ENHANCED DUTY OF GOOD FAITH

A trademark agency is a profession in which trademark representative organizations provide trademark-related agency services based on legal knowledge and experience. The quality of the service and the standards of professional morality concern both the interests of the principal and the trademark registration application, as well as the quality and effectiveness of the Trademark Office. Therefore, the regulations regarding trademark agency have been strengthened by this trademark law revision. For one thing, the interests of principals are protected. In addition to the regulation pursuant to Article 15 paragraph 1 of the existing Trademark Law mentioned above, prohibiting the agent and representative from registering in his own name the trademark of the principal without authorization, Article 19 paragraph 1 of the new Trademark Law states.

> Trademark agencies shall observe the principle of good faith, apply for trademark registration or handle other trademark-related matters according to the entrustment of principals, and keep confidential the principals' trade secrets that come to their knowledge during the agency process.

In addition, Article 19 paragraph 4 of the Trademark Law states:

> A trademark agency shall not apply for registration of trademarks other than the trademark for its agency services.

Violation of this rule subjects the trademark agency to administrative penalties.[41]

For another, the preemptive trademark registration for the principals by illegitimate means should be prohibited. As mentioned above, both Articles 15 and 32 of the new Trademark Law provide prohibition against preemptive registration of a trademark that is already in use by others. To prevent such preemptive registration more effectively, Article 19 paragraph 3 of the new Trademark Law adds:

> A trademark agency shall not accept the entrustment of a principal if it knows or should have known that the trademark entrusted by the principal for registration application falls under any of the circumstances prescribed by Article 15 and Article 32 of this Law.

By violating this rule, the trademark agency might be ordered to make a correction, be given a warning or even be subject to a fine or other administrative punishments.[42] However, this rule demands, in essence, that the trademark agencies carry the burden of examining whether the entrustment of their principals is a preemptive registration in bad faith, which in turn subjects the trademark agency to potentially heightened liabilities. Furthermore, it is not easy to determine whether the trademark agency knows or should have known the circumstances of the subjective stand of the principals. Hence, the feasibility of this rule in practice is still under observation.

B. REINFORCING THE ENFORCEMENT OF THE EXCLUSIVE RIGHT TO USE THE REGISTERED TRADEMARK

On 10 November 2001, the WTO Fourth Ministerial Conference approved China's accession to the WTO, which indicated that the Chinese intellectual property legislation had, in principle, complied with the minimum requirements of the TRIPS Agreement, as well as other pertinent international conventions. Even so, the effective enforcement of these intellectual property legislations in China where, as a developing country, piracy and counterfeiting are pervasive, has always been a challenging problem.[43] For this reason, intensifying efforts to crack down on counterfeits is a crucial task in the third revision of the Trademark Law.[44] In doing so, the adopted Third Amendment of Trademark Law has improved the remedies for trademark infringement in the following aspects:

[41] Article 68 paragraph1 of the new Trademark Law provides:

> A trademark agency that commits any of the following shall be ordered to make correction within the prescribed time period by the relevant administration for industry and commerce, be given a warning, and be subject to a fine of not less than CNY 10,000 but not more than CNY 100,000; its primary person-in-charge subject to direct liabilities and other personnel subject to direct liabilities shall be given a warning an<d be subject to a fine of not less than CNY 5,000, but not more than CNY 50,000 ... (3) violation Paragraph 3 or Paragraph 4 of Article 19 of this Law ... .

[42] Idem.

[43] For instance, on 10 April 2007, the United States requested consultations with China concerning certain measures pertaining to the protection and enforcement of intellectual property rights in China. See Dispute DS362, China — Measures Affecting the Protection and Enforcement of Intellectual Property Rights, available at: <http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds362_e.htm> (accessed 15 October 2013).

[44] Idem *supra* note 10, 13.

(i) ADMINISTRATIVE MEASURES

In the process of the enforcement of intellectual property rights, the system of administrative enforcement of law has been established by the Chinese Government with Chinese characteristics. In the event of infringement of the exclusive right to use a registered trademark, any entity may request the administrative department of industry and commerce to handle the matter. When the department is of the opinion that an infringement has been established, it orders the infringer to cease infringing upon that right immediately, and it will confiscate and destroy the infringing goods and instruments specially used to manufacture the said goods and counterfeit the representations of the registered trademark. It may also impose a fine.[45] The administrative enforcement of law is indeed beneficial to the effective protection of trademarks.

Based on Article 52 of the existing Regulations for the Implementation of the Trademark Law, the amount of a fine imposed on an act infringing the exclusive right to use a registered trademark shall not be more than three times the volume of the illegal business revenue. If it is impossible to calculate the volume of the illegal business revenue, the amount of the fine shall not be more than CNY 100,000. To increase deterrence, the administrative penalties are enhanced further in the Third Amendment of the Trademark Law:

- Where the infringer has gained CNY 50,000 or more of illegal business revenue, a fine of up to five times the illegal business revenue may be imposed thereon; or
- where the infringer has no illegal business revenue or has gained less than CNY 50,000 of illegal business revenue, a fine of up to CNY 250,000 may be imposed.
- in addition, the infringer shall be subject to heavier punishments if he has committed a trademark infringement on two or more occasions within five years or for other cases of a more serious nature.[46]

(ii) IN RESPECT OF CIVIL REMEDIES

In compliance with Article 45 of the TRIPS Agreement[47], the existing Trademark Law adopts the 'compensatory principle' in determining the damages for trademark infringement and sets forth three calculation methods including:

(a) the amount of the profits that the infringer has achieved due to the infringement during the period of the infringement;

(b) the amount of the losses that the infringed has suffered due to the infringement during the said period, including any reasonable expenses the infringed has paid in its effort to put an end to the infringement (e.g. attorney fees); and

(c) if the infringer's profits and actual losses of the infringed are difficult to prove, the damages shall not be more than CNY 500,000, based on the circumstances of the infringement (the so-called 'statutory damages').[48]

Given the incompleteness of account books and difficulties in evidence collection, the infringed party is often unable to prove effectively the actual losses he suffered from the infringement or the infringer's profits. Consequently, instead of proving the actual losses or the infringer's profits, infringing parties in many cases claim some portion of the statutory damages directly.[49] It is worth noting that the statutory damages approach does not possess any punitive characteristics by itself. Instead, this calculation method is an approach, with which a judge could base it's determination of the amount of the damage award, within the allowed scope, by reference to the circumstances of the infringement and which still follows compensatory principles. However, when the statutory damages method is applied for determining the statutory damages, there is always a lack of sufficient evidence or even no evidence to support the final determination of

[45] Article 53 paragraph 1, 2 of the existing Trademark Law; Article 51 of Regulations for the Implementation of the Trademark Law.
[46] Article 60 paragraph 2 of the existing Trademark Law.
[47] Article 45 of the TRIPS Agreement:

1. The judicial authorities shall have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered because of an infringement of that person's intellectual property right by an infringer who knowingly, or with reasonable grounds to know, engaged in infringing activity.

2. The judicial authorities shall also have the authority to order the infringer to pay the right holder expenses, which may include appropriate attorney's fees. In appropriate cases, Members may authorize the judicial authorities to order recovery of profits and/or payment of pre-established damages even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity.

[48] Article 56 of the existing Trademark Law.
[49] Zhishichanquanqinquanru he suan sun haipeichang [How to calculate the damages for IP infringement? 知识产权侵权如何算损害赔偿？], Zhongguozhishichanquanbao [China Intellectual Property News 中国知识产权报] (10 December 2009), available at: <http://www.cipnews.com.cn/showArticle.asp?articleid=14435> (accessed 15 October 2013).

damages.[50] In order to solve the problem, the Third Amendment has attempted to improve the trademark infringement damages system through the following two methods:

(a) RAISING THE CEILING OF THE STATUTORY DAMAGES

In the latest revision of the Chinese Patent Law, the upper limit of statutory damages awards was raised from CNY 500,000 to CNY 1 million.[51] Consequently, in the early versions of the drafts for the Third Amendment of the Trademark Law, the scope of statutory damages had always been confined within the sum of CNY 1 million.[52] In the Amendment Draft for the second review of the Congress in June 2013, the upper limit of the statutory damages was revised to CNY 2 million[53] and this has been unexpectedly raised once again to CNY 3 million in the final adopted Amendment, with the intention of furthering the crackdown on the trademark infringements.[54]

This modification has given the courts more discretion in determining the statutory damages awards. However, as mentioned before, the amount of the statutory damages could by no means be decided by the court arbitrarily and is still subjected to the circumstances of the infringement and the compensatory principle. In practice, although the upper limit of the statutory damages is CNY 500,000, the courts can still determine an amount of damages in excess of the said upper limit on the basis of a comprehensive consideration of all the evidence in the case, where the exact amount of the damage caused by the infringement or profits generated by such infringement is difficult to prove, but there is competent evidence that the aforementioned amount is apparently higher than the maximum amount of the statutory damages as provided by law.[55] Therefore, it remains to be seen whether the increased maximum amount of statutory damages could bring about an increase in the amount of damages awarded in practice.

(b) IMPOSING PUNITIVE DAMAGES UPON MALICIOUS INFRINGEMENT

Whether punitive damages should be incorporated into the Amendment was one of the hot issues during the third revision. The Amendment Draft announced by the State Council[56] did not contain a provision concerning punitive damages. However, just one year later, this provision appeared in the Amendment Draft announced by the National People's Congress[57] which provides:

> Where an infringer maliciously infringes upon another party's exclusive right to use a trademark and falls under grave circumstances, the amount of damages may be determined as not less than one time but not more than three times as the amount determined according to the foregoing methods.

The Explanation on the Amendment Draft provides the following rationale: 'In light of the phenomenon that the right holders usually incur high costs in protecting their rights and the loss outweighs the gain for them, the Draft adopts the system of punitive damages.[58]

This provision has finally been adopted in the new Trademark Law.[59] However, the argument

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[50] Idem. Tthe opinion quoted is by Chen Jinchuan, the presiding judge of the IP tribunal of Beijing Higher People's Court.

[51] Article 65 paragraph 2 of the Chinese Patent Law provides:

> If the losses of the patentee, profits of the infringer, or royalties of the patent cannot be easily determined, the people's court may, on the basis of the factors such as the type of patent right, nature of the infringement, and severity of the case, determine the amount of damages within the range from CNY 10,000 to CNY 1,000,000.

The existing Patent Law of the People's Republic of China (as amended up to the Decision 'Regarding the revision of the Patent Law of the People's Republic of China on 27 December 2008) is available at: <http://www.wipo.int/wipolex/en/details.jsp?id=5484> (accessed 15 October 2013).

[52] Idem *supra* note 10, 11 and 13.

[53] Idem *supra* note 14.

[54] Idem *supra* note 34.

[55] Supreme People's Court Opinion on Certain Issues with Respect to Intellectual Property Judicial Adjudication under the Current Economic Situation, as promulgated by the Supreme People's Court on 29 April 2009 (hereinafter: SPC Opinion on IP Issues under Current Situation). The English version is available at Westlaw China (last visited 15 October 2013).

Section 16 thereof provides:

> Where it is difficult to prove the loss caused or profits made but there is competent evidence that the aforementioned amount is apparently higher than the maximum amount of the statutory damages as provided by law, the court shall, on the basis of a comprehensive consideration of the actual case situation, determine a compensation amount greater than the statutory maximum... '.

[56] Idem *supra* note 11.

[57] Idem *supra* note 13.

[58] Idem.

[59] Article 63 paragraph 1 of the new Trademark Law provides:

> The amount of damages for infringement on the exclusive right to use a trademark shall be determined according to the actual loss suffered by the right holder as a result of the infringement or may be determined according

mentioned in the Amendment Draft is neither reasonable nor logical. First, the purpose provided is merely to offset the loss suffered by the right holders and the cost of safeguarding the right. The necessity of adding the punitive damages system in the Third Amendment is quite questionable, since the existing law has already provided remedial means in light of the compensatory principle, under which the loss and the expenses of infringed parties shall be comprehensively and sufficiently compensated by damages awards.

Moreover, the grounds for low damages awards in Chinese judicial practice do not lie in the imperfection of the substantive law with regard to damages, but in the difficulties in determining the amount of the actual losses and the infringer's profits due to the infringement. Surprisingly, the calculation of the amount of the punitive damages again happens to depend upon the confirmed amount of the actual losses or the infringer's profits. Considering the reality that the compensation for damages in most intellectual property cases in China is decided based on the statutory damages, even if the rule of punitive damages is set forth in the revision, its enforceability and practical effects are still extremely questionable.

In addition, as to the two preconditions for punitive damages—'subjective malice' and 'infringement of a serious nature'—there is still a lack of clarity with regard to the definitions. Whether 'malice' can be interpreted as knowingly infringing another's registered trademark and whether an 'act of infringement with malice' already indicates that such infringement itself is also an 'infringement of a serious nature', need to be clarified by future judicial interpretation.

Last but not least, there is the consideration that in addition to the severe punitive damages institution, administrative penalties shall also be imposed upon the infringer accordingly. If all these punitive measures were to be stringently enforced in reality, the penalties the infringing party may assume are excessively high.

to the profits gained by the infringer from the infringement if the actual loss is different to determine, or may be reasonably determined by reference to the multiples of the trademark royalties if both the loss of the right holder and the profits of the infringer are difficult to determine. Where an infringer maliciously infringes upon another party's exclusive right to use a trademark and falls under grave circumstances, the amount of damages may be determined as not less than one time but not more than three times the amount determined according to the foregoing methods.'

(iii) BURDEN OF PROOF

Similar to Article 7 of the Directive 2004/48/EC on the enforcement of intellectual property rights ('Enforcement Directive'), Article 58 of the existing Chinese Trademark Law provides measures of evidence preservation. However, where the documents related to the infringing acts are mainly under the control of the infringer, the measures of evidence preservation are not able to ensure the acquisition of such evidences. Thus, by reference to Article 6 of the Enforcement Directive, Article 63 paragraph 2 of the new Trademark Law adds measures that entitle the People's Court to order the infringer to submit such related evidences:

(a) First, in the scenario where the right holder has duly discharged its obligation of burden of proof, but the account books and documents related to the infringing acts are mainly controlled by the infringer, the relevant People's Court may, for the purposes of determining the amount of damages, order the infringer to submit said account books and documents.

(b) Thereafter, provided the infringer fails to submit the account books and documents or submits false materials, the People's Court may determine the amount of damages by reference to the claims of the right holder and the evidence provided by the rights holder.[60] Thus, where the infringer refuses to provide evidence, the People's Court may infer the amount of profits gained by the infringer based on the evidence submitted by the right holder. Such a method has already been applied in some Chinese courts' decisions[61]; however, according to the

[60] Article 63 paragraph 2 of the new Trademark Law provides:

> Where the right holder has duly discharged its obligation of burden of proof, but the account books and materials related to the infringing acts are mainly controlled by the infringer, the relevant people's court may, for the purpose of determining the amount of damages, order the infringer to submit account books and materials related to the infringing acts. Where the infringer fails to provide such account books and materials or provides false account books and materials, the people's court may render a judgment on the amount of damages by reference to the claims of the right holder and the evidence furnished thereby.

[61] For example, *CHINT Group Co. Ltd v Schneider Electric* (Tianjin) for infringement of a small circuit breaker utility model patent, Decision of Wenzhou Intermediate Court 3rd Civil Tribunal (IP) first instance No. 135 (2006). The court decided on 26 September 2007 as follows: since the Schneider company refused to provide its cost accounts, its profit ratio from selling the infringing products was unable to be calculated directly. For this reason, this court regards the average operating profit ratio of Schneider's wholesale products as the operating profit ratio in calculating

opinion of the Supreme People's Court, where the infringer refuses to provide evidence under his control without reasonable excuse, the amount of the infringer's profits may be assumed by reference to the claim of the right holder, only if the claims are supported by reasonable evidences or grounds and the amount of profits is reasonably appropriate and persuasive enough.[62] In contrast with this opinion, the relevant provision of the new Trademark Law is more favourable to the infringed party.

(iv) DETERMINATION OF TRADEMARK INFRINGEMENT

Under Article 52 of the current Trademark Law, using a trademark that is identical with or similar to the registered trademark of the same or similar goods without permission of the owner of the registered trademark, constitutes an infringement of the exclusive rights to the use of a registered trademark.

With regard to this point, some hold that causing public confusion is a necessary precondition to constituting a trademark infringement: Under this argument, using the same trademark which is identical with the registered trademark for the same goods does not constitute an infringement, so long as no public confusion is actually caused. For example, with respect to trademark infringement disputes over products of original equipment manufacture (OEM) no infringement is established, since the OEM products are entirely exported, and hence it is impossible for the domestic customers in China to confuse and mistake the origin of the goods.[63]

However, based on the Interpretation of the Supreme People's Court, 'being liable to cause the relevant public to confuse the source of goods' is only one of the requirements in determining the similarity of trademarks.[64] That is to say, the likelihood of confusion is only a consideration when determining the similarity of trademark, but not for the case of identical trademarks. The likelihood of confusion is also not required to constitute a trademark infringement. This holding is not created by the Chinese People's Court originally. Early in the First Council Directive relating to Trademarks Directive 89/104/EEC, the two scenarios were clearly distinguished, providing that the protection of a registered trademark is absolute in the case of identity between the mark and the sign on the same goods or services, whereas it is only persuasive in the context of similarity in relation to the likelihood of confusion.[65]

Scheider's profits in the infringing products. The court judgement is available at:
<http://www.zscqf.com/shownews.asp?id=1283>
(last visited 15 October 2013).

[62] Section 16 of the SPC Opinion on IP Issues under Current Situation provides:

> In determining the amount of the profits caused by infringement on the basis of the claims of the claimant and the fact that the defendant refuses to provide evidences in its possession without any valid reasons, the court shall have sound base or ground, and the amount so determined shall be reasonable and fully persuasive.

[63] In the case of *Shanghai Shenda Audio Electronics Ltd. v. Jiulide Electronics (Shanghai) Ltd.*, Decision of the Shanghai High Court 3rd Civil Tribunal (IP) final No. 65 (2009), the Court found that the OEM products were entirely exported to the United States and therefore only the US market and American consumers were involved. In other words, without any sales of such OEM products in the Chinese market, it was impossible for the relevant consumers in China to be confused. As a result, the acts of the Jiulide Company did not constitute trademark infringement.

[64] Interpretation on the Application of Law in the Trial of Civil Trademark Dispute Cases (promulgated by the Supreme People's Court on 12 October 2002 and effective 16 October 2002). The English version is available at: <http://www.wipo.int/wipolex/fr/text.jsp?file_id=194263> (last visited 15 October 2013).
Article 9 paragraph 2 thereof provides:

> The phrase 'trademark that is similar' under Item (1) of Article 52 of the Trademark Law means where the suspected infringing trademark is compared with the plaintiff's registered trademark and the font, pronunciation or meaning of the words or the composition or colouring of the device are similar, or the overall structure of its combined main elements is similar, or where its three-dimensional shape and combination of colours are similar thereby easily leading the relevant public to mistake the source of the products or to believe that their source has a certain connection to products using the plaintiff's registered trademark.

[65] First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trademarks, Official Journal L 040 , 11/02/1989 P. 0001 – 0007, available at:
<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31989L0104:en:HTML>
Paragraph 10 of the Recital provides : Whereas the protection afforded by the registered trade mark, the function of which is in particular to guarantee the trade mark as an indication of origin, is absolute in the case of identity between the mark and the sign and goods or services; whereas it is indispensable to give an interpretation of the concept of similarity in relation to the likelihood of confusion.
Article 5 of the Directive provides:
1. The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:

That is why Article 57 of the new Trademark Law[66] further clarifies that in an instance of 'using a trademark that is identical with a registered trademark on the same goods', 'the likelihood of confusion' is not a necessary consideration; only in a case of using a trademark that is similar to a registered trademark on the same goods, or using a trademark that is identical with or similar to the registered trademark on similar goods', the likelihood of confusion is taken into account. This distinction is helpful to correct the misinterpretation by courts of the relationship between trademark infringement and the likelihood of confusion.

Further, there is no regulation concerning contributory infringement in the existing Trademark Law, in spite of the provision under Article 50 No. 2 of the Regulations for the Implementation of the Trademark Law, which states that intentionally providing facilities such as storage, transport, mailing, concealing, etc. for the purpose of infringing another person's exclusive right to use a registered trademark shall constitute an infringement on the exclusive right to use a registered trademark referred to in Article 52 (5) of the Trademark Law.[67] This provision has been adopted in the new Trademark Law, which states that 'intentionally providing convenience for the purpose of infringing another person's exclusive right to use a registered trademark and facilitating others to commit trademark infringement' shall be deemed as infringement on the exclusive right to use a registered trademark[68], in which the facilities measures are not enumerated in details anymore and thus various acts which facilitate the infringement can be included as contributory infringement.

C. STRENGTHENING THE OBLIGATION TO USE REGISTERED TRADEMARKS

The protection of the exclusive right to use a trademark by the Chinese Trademark Law is primarily based on registration. However, the actual use of a registered trademark is required as well. Under Article 44 of the existing Trademark Law, where a trademark user ceases the use of the registered trademark for three consecutive years, the Trademark Office shall order him to rectify the situation within a time limit or revoke the registered trademark. The third revision of Trademark Law makes further stricter requirements thereon.

First, provided that a trademark user ceases the use of the registered trademark for three consecutive years (rather providing an option to rectify the situation within a time limit) the registered trademark shall be directly revoked according to the new Trademark Law.[69]

Second, limitations are imposed on the amount of damages for the infringement upon a registered trademark that has never been used by its holder. In 2009, the Supreme People's Court expressed an opinion that:

> where a registered trademark for which protection is applied for has not been put into commercial use, ... in determining the damages, the court, as a general rule, shall take into account the fact that the trademark concerned has not been put into commercial use and shall not determine the amount of damages in light of the profit by the alleged infringing party, if there is no actual loss or other damage incurred in addition to the reasonable expenses for safeguarding the trademark right; where a trademark has been out of use for three consecutive years, as provided in the Trademark Law, the court may

(a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;
(b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trade mark.

[66] Article 57 (1) (2) of the new Trademark Law provides: 'Any of the following acts shall be deemed infringement of the exclusive right to use a registered trademark: (1) Using a trademark that is identical with a registered trademark on the same goods without the licensing of the registrant of the registered trademark; (2) Using a trademark that is similar to a registered trademark on the same goods, or using a trademark that is identical with or similar to the registered trademark on similar goods without the licensing of the registrant of the registered trademark, which is likely to cause confusion...'.

[67] *Id. supra* note 27.

[68] Article 57 (6) of the new Trademark Law provides:

> Any of the following acts shall be deemed infringement of the exclusive right to use a registered trademark: ... (6) Providing, intentionally, convenience for activities infringing upon others' exclusive right of trademark use, and facilitating others to commit infringement on the exclusive right of trademark use; ...'.

[69] Article 49 paragraph 2 of the new Trademark Law provides:

> Where a registered trademark ... **has not been in use for three consecutive years without justification**, any entity or individual may apply to the Trademark Office for **cancellation of the registered trademark**.' (emphasis added).

> reject the claim for damages by the right holder of such trademark.'[70]

The Third Amendment of the Trademark Law adopted this opinion, and provides that:

> where the holder of the exclusive right to use a registered trademark claims for damages, and the alleged infringer counterclaims that the said holder has never used the registered trademark, the relevant people's court may require the holder to furnish evidence of its actual use of the registered trademark in the previous three years. The alleged infringer shall not be liable for damages compensation if the said holder is neither able to prove its actual use of the registered trademark for the previous three years, nor able to prove other losses suffered as a result of the infringement.[71]

Unlike the opinion of the Supreme People's Court, two preconditions must be simultaneously met to apply this provision: first, that the holder of a registered trademark is unable to prove actual use of the registered trademark during the three years 'prior to the lawsuit'; and second, that the holder is unable to prove 'other losses' suffered from the infringement. In other words, so long as a trademark right holder proves actual use of the registered trademark or the existence of other losses (for instance, losses of goodwill, etc.), he is still entitled to claim for damages.

This provision, however, begs the question of if the right holder fails to prove actual use of the trademark in the past three years (i.e. no actual loss), but does have evidence for the 'other losses', shall the alleged infringer take responsibilities to compensate the loss? If so, can the amount of damages be calculated based on the infringer's profit, the reasonable royalty, or the approach of statutory damages?

The terms of 'non-use of the registered trademark for the previous three years' are not clearly defined by this provision. Literally speaking, the word 'previous' is next to the action of the 'counterclaim,' and thus the 'previous' here means previous to the counterclaim of the infringer. However, this rule shall not apply, provided that the holder of the exclusive right to use a registered trademark had never used the trademark prior to the infringing acts or the actual use did occur, but only after the infringing acts happened or after the lawsuit was brought to the court. Thus, considering that the civil liabilities shall be directed toward encouraging the use of trademarks, revitalizing trademark resources and preventing the use of registered trademark improperly and opportunistically'[72], it is reasonable to interpret 'non-use for the previous three years' as 'non-use of the registered trademark for three years prior to the infringing acts'.

IV. IMPACT OF THE THIRD REVISION OF THE TRADEMARK LAW OF THE PEOPLE'S REPUBLIC OF CHINA ON FOREIGN COMPANIES

In summary, comprehensive modifications dealing with the main issues in the enforcement of the Chinese trademark system have been made in the Third Amendment of the Trademark Law of the People's Republic of China, particularly with respect to facilitating the application for trademark registration and maintenance of a registered trademark for Chinese and foreign companies, simplifying the procedure for opposition to trademark registration, prohibiting bad-faith registration of the trademark in prior use by others, strengthening protection of the rights of trademark, and emphasizing the obligation of actual use of a registered trademark. Though there are still provisions and terms needed to enhance and further clarify this law, generally speaking, this revision of the Trademark Law further improves the legal trademark system in China, affords more effective protections of the exclusive right to use a trademark owned by Chinese and foreign companies, and establishes a fair and competitive market order. Overall, this sets up a good legal environment for foreign companies to protect their legitimate trademark rights and to enjoy fair competition in the business market of China.

Still, there are certain considerations that should be mentioned for foreign companies:

A. REGISTERING TRADEMARKS IN TIME IN CHINA

The potential of the Chinese market is being explored continuously as the market economy further develops. Any foreign company that wishes to explore the Chinese market and share benefits from the increase of the Chinese economy should pay attention to the application for trademark registration in China before entering the Chinese market.

As the existing Trademark Law adheres to the 'first to file' principle (though the Third Amendment also highlights the importance of prohibition of malicious preemptive registration of trademark, which is in

[70] Section 7 of the SPC Opinion on IP Issues under Current Situation.
[71] Article 64 paragraph 1 of the new Trademark Law.
[72] Section 7 of the SPC Opinion on IP Issues under Current Situation.

prior use of another person and the maintenance of fair competitive market order), it remains difficult for foreign companies to protect their legitimate interests effectively in practice through these legal institutions. For instance, because of the territorial limits of the protection of the intellectual property rights, a trademark sign which is well known abroad is not necessarily well recognized in China. If the sign has been registered as a trademark in the Chinese Trademark Office before other companies, its registration may not necessarily be cancelled on the grounds of conflicting with a well-known trademark. This becomes a hurdle for further exploitation of Chinese markets. Additionally, when some foreign companies assign Chinese agents as distributors to sell their goods, neither the company nor the distributor may have registered the trademark in China in time, nor have made an agreement with the agents regarding the use of the trademark. Some foreign companies may even lose their trademark rights, since no response and effective measures have been given after the agencies registered their trademarks without authorization.

Taking the trademark infringement dispute *Beijing Dewei Trading Co., Ltd. v Longyan Wanda Trade Co., Ltd.* as an example, the Dewei Trading Company imported and distributed Einsiedler Beer produced by the German Einsiedler Brewery as a long-term business, using the trademark '艾斯特'([Ai Si Te], the Chinese transliteration of 'Einsiedler') on a particular series of beers. In 2002, the Dewei Trading Company applied successfully to register the combination mark of Chinese characters, a head portrait of an old man and the German letters 'Einsiedler' on the goods in class No. 32 'beer.'

Figure 4.2: The combination trademark '艾斯特 Einsiedler' registered by Dewei

Detail information of Trademark

Registrantion No./ Application No.	1804026	International Classification No.	32	Application Date	2001-06-22
Name of Registrant (Chinese)	北京德威威麦啤酒销售有限公司	Address of Registrant(Chinese)	北京市崇文区天坛东路72号万福大厦518室		
Name of Registrant (English)		Address of Registrant(English)			
Trademark Image		List of Goods/Services	啤酒; Refer to details ...	Similar Group	3201
No. of Preliminary Publication Trademark Gazette	826	No. of Registration Publication Trademark Gazette	838		
Date of Preliminary Publication	2002-04-07	Date of Registration Publication	2002-07-07		
Effective Period of Exclusive Right	07/07/2012 - 07/06/2022		Year		

In 2008, the Longyan Wanda Trade Company imported products from the Einsiedler Brewery through a German distributor, the packaging of which used the trademark of the German letters 'Einsiedler,' combined with the head portrait of the old man. Meanwhile the food labels were marked with 'Einsiedler country lager', 'Einsiedler black beer', and 'Einsiedler bock beer'. The Longyan Wanda Trade Company also used the brand 'Einsiedler' for online sales and promotion. The Court ultimately determined that the Longyan Wanda Trade Company infringed upon the exclusive right to use the registered trademark of the Dewei Trading Company and should cease the infringing acts immediately.[73]

When the German Einsiedler Brewery first came to China, the trademarks in use were not promptly registered. Even after these trademarks were registered by the agencies or representatives, they did not exercise the right of cancellation in time. Although Article 41 of the existing trademark provides the remedies that the owner of the registered trademark or any interested party may, within five years from the date the trademark is registered, request that the TRAB make a ruling to cancel the trademark, the German Einsiedler Brewery apparently missed the five-year time limit and its sales of beer in China have been placed under control of its agency—the Dewei Trading Company only.

B. IMPORTANCE OF REGISTERING TRADEMARKS IN CHINESE CHARACTERS

It is essential for foreign companies to apply to register in China their already existing trademarks in their native language. However, it is of even more importance to register the Chinese translations of these trademarks in China to adapt to the specialty of the Chinese market and the customs of Chinese consumers, who prefer to pay close attention to and remember the trademarks in Chinese. Certain foreign companies choose to register fancy and catchy Chinese names as trademarks, such as '宝马' [Bao Ma] for BMW or '奔驰' [Ben Chi] for Mercedes-Benz, which have contributed largely to their business success in China. Without the prompt registration of the marks, whose pronunciations are similar to the transliteration of foreign registered trademarks (or if the Chinese translation has already been registered by other companies in China), foreign companies risk extreme passive effects of further business development in China.

One lesson is from a French wine company called CASTEL FRERES SAS, whose enterprise name 'CASTEL'

[73] *Beijing Dewei Trading Co., Ltd. v Longyan Wanda Trading Co.,Ltd*. See details of the decision of Beijing Second Intermediate People's Court 【(2008) Min Zhong Zi No. 17428, available at: <http://www.law-lib.com/cpws/cpws_view.asp?id=200401247449> (last visited 15 October 2013).

is similar to the Chinese pronunciation of a trademark '卡斯特'(Ka Si Te) registered in China owned by another company (which also sells foreign wines). Though the French company once intended to request cancellation of the registered Chinese trademark on the ground that the trademark 'CASTEL' is a well-known trademark in France, the claim was rejected by the court. Catering to the preference of the Chinese public, the French company also indicated the Chinese characters '卡斯特' [Ka Si Te] on the wine bottles sold in the Chinese market. Being sued for infringement, the French company was subject to significant damages (up to CNY 33,700,000).[74]

In 1991, Nike applied to the Trademark Office of China to register the trademark 'Michael Jordan' in English. However, it did not apply to register the trademark in the form of Chinese characters in time. Only in 2008 did it apply for registration of the trademark '迈克尔·乔丹' [Mai KeEr·Qiao Dan] (the Chinese transliteration of Michael Jordan). The application with the Chinese characters was rejected in the review process because the Fujian Qiaodan Sports Goods Co., Ltd. had already registered a series of trademarks relating to the sports star in various forms, including:

The combination trademark '乔丹QIAODAN', with an image of a baseball athlete, registered in 1997.

The trademark, including the image of a basketball athlete, registered in 1999;

The '乔丹' trademark in Chinese characters registered in 2000

Though this Chinese company was sued by Michael Jordan for infringement, the '乔丹' trademark has been actually used in the Chinese market for a very long time, and its cancellation would have been very difficult.

C. ACTIVELY LOGGING EVIDENCE AS A REQUISITE TO OBTAIN ADEQUATE COMPENSATION

Some foreign companies complain about the low amount of damages for intellectual property infringement awarded by Chinese courts. However, the true reasons are not rooted in the substantive legal regulations of intellectual property itself, but instead have to do with the difficulties in obtaining sufficient evidence to support a high damages award. In China, many companies do not have a complete and orderly system for financial accounting, nor is there a creditable system of intangible assets evaluation, which all increase the difficulties of obtaining the relevant evidence. Nonetheless, adequate damages can still be rewarded, if the party involved is able to furnish adequate and effective evidences.

In the case of *BMW Germany v Guangzhou Century Baochi Garment Industrial*, the evidence submitted by BMW was more than sufficient to prove the subjective bad-faith of the infringer, the seriousness of the infringement, the publicity of the BMW trademark, along with the fact that the infringer's profits and the reasonable expenses BMW paid to cease the infringing acts are more than CNY 2,000,000. To protect the legitimate interests of the right holder, increase the price the infringer has to pay and reduce the costs for the right enforcement, the court fully supported all the BMW company's claims for monetary relief in the amount of CNY 2,000,000, which exceeds the monetary limit of up to CNY 500,000 for damage under the existing Trademark Law.[75]

This revision of the Trademark Law imposes a punitive damages system upon malicious trademark infringement. If foreign companies are able to

[74] 人民网：'卡斯特'商标纠纷一审判决，法方被判罚3373万元，2012年4月10日 <http://wz.people.com.cn/n/2012/0410/c184386-16926546.html>

[75] Zhang Xuesong [张雪松] etc., Beijing shifayuan 2012 nian zhishichanquan susong shi da an li [2012 top ten IP cases of Beijing People's Court 北京市法院2012年知识产权诉讼十大案例], available at: <http://bjgy.chinacourt.org/article/detail/2013/03/id/931715.shtml> (last visited 15 October 2013).

present evidence of the actual losses suffered from infringement, the current situation of the unsatisfied amount of damages awards would effectively be changed.

Appendix

Legal Grounds for Opposition and Declaration of Invalidity

Who may raise opposition	Who may seek a declaration of invalidity	Related provisions	Legal grounds
Any person（Article 33 of the new Trademark Law）	Any unit or individual（any person）（Article 44 paragraph 1 of the new Trademark Law）	Article 10	Signs, which may not be used as trademarks
		Article 11	Signs, which may not be registered as trademarks because of lacking distinctiveness
		Article 12	The shape of the mark only represents the nature of the product, or its shape is required for achieving a technological result, or its shape adds substantial value to the product.
A holder of prior rights or an interested party（Article 33 of the new Trademark Law）	A holder of prior rights or an interested party（Article 45 paragraph 1 of the new Trademark Law）	Article 13 paragraphs 2 and 3	Reproduction, imitation or translation of another's well-known trademark
		Article 15	Agents or representatives acting outside the scope of their authority; or, applications seeking protection for trademarks in use by an entity with a contractual, business or other relationship with the applicant.
		Article 16 paragraph 1	A trademark contains a geographical indication of goods and the goods are not from the region indicated therein.
		Article 30	A trademark is identical with or similar to another trademark that has been registered or approved after the preliminary examination.
		Article 31	A trademark is identical with or similar to another trademark, the application for which was filed first.
		Article 32	the application infringes upon another person's existing prior rights or the applicant, by illegitimate means, rushes to register a trademark that is already used by another party and has certain influence