



Lightning fast IP reform in China:
Trademark Law and Anti-Unfair
Competition Law amended

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I. What has happened?

On 23 April 2019, the Standing Committee of China's People's Congress passed amendments to both the Trademark Law ("TML") and the Anti-Unfair Competition Law ("AUCL"), see [here](#) (our English translation is available upon request). The amendments to the TML are aimed at curbing bad faith trademarks and increasing damages for infringement, while the changes to the AUCL are aimed at improving the protection for trade secrets. The changes to the TML will enter into force on 1 November 2019, while the changes to the AUCL are effective immediately, as from 23 April 2019.

These amendments come hot on the heels of a flurry of other recent IP law reforms, the most significant of which include China's adoption of the new Foreign Investment Law and the reform of regulations regarding cross-border technology transfer, see [here](#). It is remarkable that the changes were passed without the customary multiple consultation rounds, reinforcing the trend of rapid developments of China's IP legislation.

II. What does it mean?

A. Changes to the Trademark Law

The changes to the TML address two main issues: fighting bad faith trademark applications and registrations, and increasing the sanctions for trademark infringement.

- **Fighting bad faith trademarks**

The most ground-breaking novel aspect under the new version of the TML is the addition of the short phrase: "*bad-faith trademark applications that are not intended for trademark use shall be rejected*" in Article 4. This new provision authorizes the China Trademark Office ("CTMO") to take pro-active measures to nip in the bud bad faith trademark applications, by rejecting them during the examination stage. This is a significant

improvement of the current legislation, under which bad faith applications must generally be challenged through cumbersome opposition or invalidation procedures, and the new regime may save both brand owners and the IP authorities a lot of time and resources.

Similarly, the new ground of rejection of bad faith applications not intended for use is also added as a ground for opposition and invalidation (Articles 33 and 44). Anyone (not limited to right owners or related parties) can initiate an opposition or invalidation proceeding on this ground.

Another very welcome change to the TML is that it strengthens the liability of the trademark agencies for facilitating bad faith trademark filings and registrations. Specifically, it forbids trademark agencies prosecuting such bad faith trademarks, if they know, or should know that they are bad faith trademark applications (Articles 19 and 64). The trademark agencies are subject to administrative punishments (warnings and fines) for bad faith filings, and the new version of the TML also grants civil courts the power to impose penalties on malicious trademark litigants. This rather vague amendment seems to be directed at malicious trademark infringement litigation based on bad faith trademarks. In particular, it seems to be directed at the existing practice of trademark squatters bringing trademark infringement proceedings against brand owners on the basis of squatted marks, often to obtain exorbitant license fees or force settlements for unreasonably high prices.

The practical interpretation and implementation of the new provisions in the TML remain, as of yet, uncertain. In particular, it remains unclear whether the two elements for bad faith (namely "*bad faith*" and "*not intended for trademark use*") are cumulative conditions, or whether "*not intended for trademark use*" is used as a mere example of a bad faith application. Another point of uncertainty is

whether the CTMO will request evidence of use, or intention of use of a trademark, and what types of evidence will qualify.

However, based on the legislative purposes as well as on the existing practices of the IP authorities, what does seem certain for now, is that applications of professional trademark squatters, who apply for a disproportionately large number of trademarks, or who apply for a series of famous unregistered marks, are likely to be considered bad faith applications under the new TML. In practical terms, sending complaint letters to the CTMO about bad faith applications at the examination stage could prove increasingly useful, as it may assist examiners in detecting bad faith and rejecting the registrations at an early stage. As for defensive filings filed by genuine brand owners for strategic purposes (who may, nevertheless, not intend to actually use them in the near future), according to our understanding of the legislative purposes and the current practice, these should not be deemed bad faith trademarks under Article 4.

We expect that the implementing rules of the new TML, which are currently in draft stage, will shed more light on these questions. In any event, these should be issued before the new version of the TML becomes effective on 1 November 2019.

- **Improved sanctions for infringement**

The new TML also significantly increases both the amount of direct damages (damages granted on the basis of direct evidence) for wilful infringement, and the statutory damages (a lump sum of damages granted by a court in case no direct evidence of damages can be provided). Damages for wilful trademark infringement are increased to up to five times the actual damages proven by the trademark owner, while the statutory damages are increased to an amount of up to RMB 5 million (USD 750,000).

Moreover, the amended TML finally addresses a contentious issue in China's trade negotiations with the USA and EU: upon the trademark owner's request, both the counterfeit goods *and* all moulds and materials for their production shall be destroyed. The amended TML also states that counterfeit goods shall not be put back into commercial circulation simply after removal of the counterfeited trademarks (e.g. logos on clothing etc.), as was the case sometimes in the past, to the frustration of many trademark owners.

B. Changes to the Anti Unfair Competition Law

There are three main changes to the trade secret provisions under the AUCL:

- Facilitating or instigating trade secret infringement now constitutes an independent trade secret infringement, and liability for trade secret infringement shall also extend to natural persons and unincorporated organizations (Art. 9). This is a significant change, since previously, individuals were excluded from the scope of these provisions under the AUCL.
- Reversal of the burden of proof in two situations (art. 32): (1) if the claimant provides *prima facie* evidence that it had taken confidentiality measures and that the trade secrets were nevertheless infringed, then the defendant will have to bear the burden of proving that the trade secret does not meet the AUCL's requirements for protection as a trade secret; (2) furthermore, the burden of proof shall be shifted if the claimant can establish any of the following: the defendant had ways of obtaining the trade secret and the information it uses is substantially the same; the claimant has evidence that the trade secrets are used or disclosed or about to be used or disclosed by the defendant; or the claimant has other evidence of infringement by the defendant. This is one of the most essential changes to the AUCL,

as the main hurdle in trade secret cases is often obtaining conclusive evidence of infringement.

- Higher damages: similar to the new provisions under the TML, wilful trade secret infringement is now punishable with one to five times the amount of damages determined by the claimant's direct evidence, and the statutory damages for trade secret infringement are raised to up to RMB 5 million (USD 750,000).

III. What happens next?

The amendments to the TML and to the AUCL are already passed and final. Furthermore, while the effective date of the amendments to the TML is delayed until 1 November 2019, the changes to the AUCL were given immediate effect upon promulgation, i.e. 23 April 2019.

These amendments will have a profound impact on the Chinese trademark and trade secret practice. In particular, the provisions regarding the rejection of bad faith trademarks at the examination stage and regarding the reversal of the burden proof in trade secret cases are hailed by IP practitioners as some of the most significant legal breakthroughs in Chinese IP law in recent years. Indeed, the amendments to the TML signal a turning point in the approach of fighting bad faith trademarks, as most legislation to date focused on *ex post* remedies, such as simplifying oppositions and invalidations procedures.

Just like the changes to [other recent IP legislation](#), these changes cannot be seen in isolation, being closely related to the current trade negotiations and WTO procedures between China and a number of other nations. In fact trade secret misappropriation and bad faith trademarks were some of the key issues listed in the [USA Section 301 Report](#), on which the USA based its "301 tariffs" imposed on Chinese exports to the USA. In this context, it is

hard to predict whether more of China's IP legislation will be amended soon, but it is likely that the trade negotiations will continue for the near future.

In any event, we expect the implementing rules and regulations regarding the new version of the TML and AUCL to shed more light and clarify some of the unclear aspects highlighted above.

IV. Next steps

We will keep a close eye on further developments in this area. Should you have further questions or should you require a full English version of the amended provisions of the TML or AUCL, please do not hesitate to get in contact with us.

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