



# TOP 10 DEVELOPMENTS IN CHINA FOR BRAND OWNERS

## 1. INCREASING POLITICAL SENSITIVITY

The Chinese government has become increasingly sensitive to use of flags and emblems, particularly with regards to use which touches upon matters of politics or sovereignty. There has been increased public and regulatory scrutiny regarding territorial issues, particularly around Taiwan, Hong Kong, Macau and Tibet. For example, in January 2018, a leading hotel chain was pressurized by the Cyberspace Administration of China into editing its China website and publishing an apology over references which suggested that Taiwan, Hong Kong, Macau and Tibet were independent territories. Given that online campaigns can quickly achieve great prominence, western businesses should be cautious about posting politically sensitive content on their websites and social media account.

## 2. INCREASINGLY TOUGH ONLINE ENVIRONMENT

The Chinese government has implemented a series of measures aimed at “cleaning up” the internet in China, including provisions on live broadcasting over the internet, the management of internet news services and trial measures in relation to online literature. The new Cybersecurity law in China and the recent crackdown on the use of virtual private networks (VPNs) in China (which are used to circumvent the Chinese Great Wall) also form part of this trend of increasing government control over all aspects of the internet. Notably, the new Cybersecurity Law (i) imposes data localisation requirements and restricts off-shore data transfer; and (ii) empowers government authorities to obtain encryption, source codes and company’s intellectual property of companies that hold customer data (which could include brands operating an e-commerce platform). More developments and stringent controls are expected to come in 2018, especially in view of the promulgation of implementing regulations and rules on the new Cybersecurity Law. All brand owners with presence in China are urged to review its compliance in China and keep track of the developments to avoid sanctions.

## 3. HUGE INCREASE IN THE NUMBER OF TRADEMARK FILINGS MADE IN CHINA

China’s trademark applications exceeded 5.7 million in 2017, setting record highs. Most of the applications were made online as China has streamlined the trademark registration process. The China Trade Mark Office (“CTMO”) aims to speed up the overall examination term of trademark applications from 9 months to 6 months by the end of 2018. As China suffers a crowded register,

it is expected that obtaining trade mark registration in China will become increasingly challenging and expensive as a result of the greater risk of conflicts with pre-existing marks on the register. In view of the streamlined trademark registration process and the reduced official fees for trademark registration in China, it is expected that trademark “piracy” will continue to be rife in China.

## 4. NEW CHINESE ANTI-UNFAIR COMPETITION LAW

Effective from January 1, 2018, China’s revised Anti-Unfair Competition Law has expanded the scope of commercial bribery offenses and has introduced additional offenses for IP, commercial secrets and other market conduct-related violations. Under the revised law, a company’s unregistered brand name, trade name, domain name, website and other business identifiers are protected against acts intending to “mislead” or “cause confusion” in the market, which is in contrast with the earlier position that the acts must “cause harm to competitors”. The revised law has abolished the restrictive “famous” requirement and has imposed a lower burden of proof on brand owners by only requiring the business identifier which the brand owner seeks to protect to have “a certain degree of influence” in China. The revised law has also significantly increased the penalties and statutory damages for IP-related violations in China.

## 5. MORE STRINGENT EXAMINATION OF TRADEMARK APPLICATIONS TO COMBAT “BAD FAITH” FILINGS IN CHINA

To demonstrate its commitment to curb “bad faith” trademark filings, the CTMO has adopted a more stringent examination approach towards trademark applications which are believed to have been filed in bad faith. Most notably, the CTMO examiners are now empowered to exercise a greater discretion during the examination phase to refuse trademark applications which are: (i) a copy or an imitation of the name of a famous celebrity or the well-known trade mark obviously belonging to a third party; and/or (ii) filed by an applicant who is a known trademark pirate or who seeks to register scores of foreign brands in China with no legitimate reason. While realistically it is not expected that all “bad faith” filings will be identified at the examination stage, it is hoped that the CTMO’s closer scrutiny of new trademark applications will drastically reduce the number of “bad faith” applications proceeding to publication/registration and minimize the need for brand owners to bring opposition and/or invalidation proceedings to reclaim/protect their marks in China.

## 6. CHINA'S NATIONWIDE CAMPAIGN TO PROTECT FOREIGN COMPANIES' IP RIGHTS

China has introduced extensive measures to improve the protection of IP rights so as to encourage inward foreign direct investment, including launching a nationwide campaign to severely crack down on violations and offenses such as the infringement of trademark rights and patent rights owned by foreign-invested enterprises. China will also intensify efforts to protect well-known trademarks, geographical indications and foreign-related trademarks by – (i) strengthening the judicial protection and administrative enforcement of trade marks in China; (ii) expanding the sino-foreign cooperation in IPR enforcement in China; and (iii) facilitating the establishment of arbitration and mediation centers in China by international organizations.

## 7. INCREASE IN THE NUMBER OF NON-USE CANCELLATIONS

Because of a crowded register there is a definite trend of legitimate third parties mounting non-use attacks against registered trademarks in China as a means to resolve the conflict between an earlier mark and a pending trademark application. Trademark pirates are also becoming more sophisticated and are using non-use cancellations as a tool against western brand owners. In China, non-use cancellations are quick, easy to bring and relatively inexpensive. The applicant in a non-use cancellation action is only required to establish a prima facie case of no use, before the burden to prove use of the mark is shifted to the registrant. In view of the increasing number of non-use cancellations being brought in China, brand owners need to be aware of the risk of non-use cancellation in China for defensive filings which have not yet been put into use.

## 8. INCREASING NUMBER OF OPPOSITIONS SUCCEEDING ON THE GROUND THAT THE REGISTRATION OF THE SUBJECT MARK WAS ACQUIRED BY DECEPTIVE/IMPROPER MEANS (ARTICLE 44)

Article 44 provides a legal basis to invalidate a registered trade mark which was acquired by deceptive/improper means in China. On a literal reading, Article 44 does not strictly apply to opposition proceedings and should only be invoked in invalidation proceedings. However, we have seen an increasing number of oppositions succeeding based on Article 44 as the Chinese courts have affirmed that the practical application of Article 44 should reflect the legislative intent which is, essentially, to create an orderly trademark registration system and combat trademark filings made in bad faith. In view of this, it is expected that Article 44 will be invoked more liberally in opposition proceedings in the future. Article 44 is particularly useful in cases where the other side is clearly a pirate but there are no prior registrations/rights which can be relied upon by the brand owner.

## 9. INCREASING ACCEPTANCE OF LETTERS OF CONSENT

Letters of consent are traditionally problematic in China. There is no codified or statutory basis setting out how the Chinese authorities/courts should treat a letter of consent (or a co-existence agreement) between the parties. The general practice has not been to give great weight to letters of consent or co-existence agreements. This position is in contrast with jurisdictions such as Hong Kong or the United Kingdom, where consent justifies registration of an identical or similar trade mark for the same or similar goods or services sold in the same market. However, two recent decisions of the Supreme People's Court in China have allowed, for the first time, similar marks to co-exist on the register in respect of similar goods, on the basis of a coexistence agreement/consent letter entered into between the parties. These decisions will provide guidance to the courts in the future, possibly paving the way for co-existence agreements/consent letters to hold greater weight even for identical or highly similar marks.

## 10. INCREASINGLY LARGE DAMAGES AWARDED IN TRADEMARK INFRINGEMENT CASES

Since the current PRC Trademark Law was introduced in 2014, there has been an increasing number of successful cases in which brand owners defeat trademark infringers in China and are awarded significant damages. Most notably, in August 2017, the Chinese court ruled that a Chinese company infringed New Balance's signature "N" logo and awarded US\$1.5 million in damages, reportedly the largest trademark infringement award ever granted to a western business in China. The case is significant because foreign plaintiffs have for many years complained about low damages awarded to brand owners which does not act as an effective deterrent against trademark pirates. The fact that a Chinese company was heavily sanctioned suggests that the climate for brand owners in China is slowly but surely changing for the better, notwithstanding the widely publicized challenges facing brand owners in China.

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