Joint Comments of the American Bar Association Sections of Intellectual Property Law and International Law to the Request for Comments from the State Administration of Industry and Commerce and the Legislative Affairs Office of the State Council, for consideration by the Chinese Trademark Office

The views expressed in this submission are those of the Sections of Intellectual Property Law and International Law of the American Bar Association. They have not been submitted to or approved by the ABA House of Delegates or Board of Governors, and may not be construed as views of the Association as a whole.

I. Background

In 2009, a Joint Task Force between members of the ABA IPL Section and the ABA Section on International Law ("ABA SIL") was created to draft comments on the Proposed Trademark Law of the People’s Republic of China. The work provided by that Joint Task Force is the subject of this Report.¹

The membership of the Joint Task Force, at work on this matter for approximately 12 months, is comprised of attorneys working in diverse environments—corporations, private practice, and academia—who joined together to submit the comments herein because of a shared interest in offering timely suggestions for consideration by the Chinese Trademark Office. The comments, prepared by the Joint Task Force and approved by the leadership of the Section on Intellectual Property, offer the perspectives of the members’ experiences in the fields of intellectual property rights and international business law.

The Joint Task Force applauds the work done by State Administration of Industry and Commerce and the Legislative Affairs Office of the State Council in collecting broad-based feedback from experts in China and abroad, and in revising the previous drafts into the current form of the Proposed Trademark Law, publicized in March 2010. The Joint Task Force and the ABA IPL Section also appreciate the ongoing efforts of the Chinese government to bring the Trademark Law into greater compliance with international standards, as well as to explore solutions to problems that are special to China. Indeed, given China’s unique and rapid path of economic development, it is understood that China will consistently maintain certain unique features of its trademark system.

The members of the Joint Task Force appreciate the opportunity to submit comments and to present views on the most recent proposed amendments to the Trademark Law of the People’s Republic of China. The Joint Task Force looks forward to the opportunity to continue supporting the efforts of the Chinese government and legislative bodies to improve the Chinese trademark system.

¹ The members of the Joint Task Force are Cheryl Black, Elizabeth Bridge, Dr. Christel Botha, Laura Bowers, Thomas Brooke, Susan Brushaber, Leon Chen, Elizabeth Chien-Hale (Co-Chair), Jessica Darraby, Nadine Farid, Barbara Grahn, Doug Jennings Jr., Paul Jones (Co-Chair), Joseph Lin, Robert Sacoff, Joseph Simone, Louis van Wyk, Lynne Wang, Aaron Wininger, and Philip Yip.
II. Executive Summary of Comments

The Joint Task Force welcomes the Chinese Trademark Office’s efforts to streamline the application process, broaden and clarify the protectable subject matter under the Chinese Trademark Law, and to provide better mechanisms for enforcing registered good marks and protecting against marks registered in bad faith. The Joint Task Force offers comments and requests more specificity in some of the new provisions in the following several major areas: protection for unregistered trademarks, official marks and well-known marks, and protection against bad faith registrations. The Joint Task Force recommends that additional topics be addressed by the amendments to the Trademark Law, such as to allow applicants to provide evidence of acquired distinctiveness during the examination process and to allow the registration date to be retroactive to the filing date in order to be consistent with filings made through the Madrid Union, the Madrid Protocol and in most jurisdictions. The Joint Task Force presents its views based on practical experience.

The Joint Task Force is concerned that the provisions on Assignment assert too much control over what are essentially business or contractual relationships between parties and that they are inconsistent with the approach taken in other jurisdictions. The Joint Task Force welcomes the provisions regarding the permissive recordation of Trademark Licenses with the Chinese Trademark Office and is also pleased to note that greater protection will be afforded to common law trademark rights. Given the increasing importance of securitization to the commercialization of intellectual property internationally, consideration should be given to addressing whether security interests in Chinese Trademark Registrations must be registered with the SAIC Trademark Office and the criteria to be used to determine the priority of such a registration.

The Joint Task Force recommends that there be greater cooperation between the Department of Industry and Commerce and the Public Security Bureau in the investigation and prosecution of criminal cases that involve trademarks, and that the National People’s Congress consider the possibility of amending the Criminal Code in the parallel with the amendment of the Trademark Law in order to facilitate greater cooperation and efficiency. The Joint Task Force further recommends an increase in civil damages to reflect China’s growing economy and that certain limitations to damages not apply when an infringer has acted in bad faith. Given the prevalence of counterfeiting, we also recommend that consideration be given to: 1. lowering the knowledge requirement for contributory liability for infringement; and 2. clarifying the authority of local AICs to order “take down” of offers of counterfeit goods on the Internet, and to instruct intermediaries to implement reasonable procedures to facilitate the detection, prevention and cessation of the production and distribution of infringing goods.
III. Arrangement of Comments

The comments below are introduced according to the Article Number in the Proposed Trademark Law, accompanied by a topical description of the substance of the Article. Under each box containing the language of the Article, the specific comments are provided.

IV. Comments on Proposed Article 8: Concept of Trademark

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<tr>
<th>Article 8 [concept of trademark]</th>
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<tr>
<td>Any visual mark, consisting of words, devices, letters, numbers, three-dimensional marks, colors, or the combination of said factors, that can distinguish the goods of a natural person, legal person or other organization from those goods of others, can be applied as a trademark for registration.</td>
</tr>
<tr>
<td>The trademark office may, in due time, accept applications for the registration of trademarks, such as sound, smell, animation etc. Specific registration guidelines shall be enacted separately by the administrative authority for industry and commerce under the State Council.</td>
</tr>
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</table>

Comment 1: This Article has been expanded appropriately to include non-visual marks such as sound and smell. The ABA IPL Section and Joint Task Force await promulgation of specific guidelines for the more ambiguous specifications, such as the precise definition for “animated mark.”

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2 Please note that this version includes only the English translation used in assessing the proposed provisions. Attached as the Appendix hereto is the version of the report which will be sent to the appropriate body of the PRC; in that version, the Chinese language and the English translations used are each included in order to provide full clarity and understanding in terms of the interpretation and meaning given all of the terms in the Proposed Law. In both versions, under each box containing the text of the provisions (whether in English only or with both the Chinese language and English translations), the specific comments are provided.
V. Comments on Proposed Article 9: Distinctive Feature and Good Faith Principle

**Article 9 [distinctive feature and good faith principle]**

Any trademark applied for registration shall be so distinctive as to be distinguishable and shall not be in conflict with other people’s prior-acquired legitimate rights.

The application and use of a trademark shall be made in good faith.

The trademark registrant shall have the right to mark the indication “Registered Trademark” or a sign of trademark registration.

*Comment 1:* These provisions are a most welcome addition to the Trademark Law. Our comments are offered to assist in possibly improving the expression and use of the concepts. The existing proposals are quite acceptable.

*Comment 2:* The principle of (chengshi) or “good faith” as used in the proposed amendments to Article 9 was first added to Chinese law when it was used in Article 4 of the (Zhonghua Renmin Gongheguo Minfa Tongze – General Principles of the Civil Law) that was adopted in 1986. It is a concept borrowed from civil law jurisdictions such as Germany.

One of the concerns regarding the use of such a broad concept is that it is not well understood by those not well trained in the law. The concept itself cannot be amended as it is a general concept in all of Chinese law.

The civil law concept of “good faith” has undergone refinement in various countries in Europe and other expressions of the concept have been developed. One example of such practice is Article 10 of the Russian Civil Code (drafted by Dutch scholars at the University of Leiden), which provides in its original language as follows:

Статья 10,

1. Не допускаются действия граждан и юридических лиц, осуществляемые исключительно с намерением причинить вред другому лицу, а также злоупотребление правом в иных формах.

Не допускается использование гражданских прав в целях ограничения конкуренции, а также злоупотребление доминирующим положением на рынке.

2. В случае несоблюдения требований, предусмотренных пунктом 1 настоящей статьи, суд, арбитражный суд или третейский суд может отказать лицу в защите принадлежащего ему права.
3. В случаях, когда закон ставит защиту гражданских прав в зависимость от того, осуществлялись ли эти права разумно и добросовестно, разумность действий и добросовестность участников гражданских правоотношений предполагаются.

This translates to:

Article 10,

1. Individual and juridical persons shall not exercise their rights exclusively with the intention of causing harm to the other party, or abuse their rights in any manner.

   Civil rights shall not be used with the object of restricting competition, or abusing a dominant position in the market.

2. In the event of non-compliance with the requirements of paragraph 1 of this Article, the general court, arbitrazh court or tribunal may deny such person the protection of his rights.

3. Where the law makes the protection of the civil rights dependent on whether these rights have been exercised in good faith and reasonably, the good faith and reasonableness of the parties shall be presumed.

Thus, it is suggested that perhaps Article 9 of the draft Trademark Law could be amended by adding similar, additional conditions for an application after the requirement that such an application be in good faith, as follows:

“The application for registration, and use, of trademark shall be in accordance with the principle of good faith and shall not be made with the intention of causing harm to or confusing ownership of the rights of others or with the object of gaining unfair competitive advantage without justification or abusing a dominant position in the market.”

Such language would be consistent with the latest changes introduced in Article 13 of the State Council Legislative Affairs Office draft.

Comment 3: It is recommended that this Article be amended to provide guidance to good faith users of unregistered marks, such that any protection they are afforded is clearly outlined. Specifically, it is recommended that the following be added:

a. specific language indicating that good faith users of unregistered trademarks—those whose use does not fall under Article 58—will be granted certain rights in the unregistered marks; and
b. a clear delineation of those certain rights afforded such users.

VI. Proposed Article 10: Prohibited Signs
**Article 10** The following marks may not be used as trademarks:

1) those identical with or similar to the national name, national flag, national emblem, military flag or medals of the People’s Republic of China, as well as those identical with the name, **marks of the central government agencies**, names of the specific sites or the names and designs of the symbol buildings of the places where the central government agencies are located;

2) those identical with or similar to the national name, national flag, national emblem or military flag of any foreign country, except with the consent of the government of that country;

3) those identical with or similar to the name, flag, or emblem of any intergovernmental international organization, except with the consent of that organization and those unlikely to mislead the public;

4) those identical with or similar to the official marks, inspection marks that indicate the controlling or providing guarantee, except with authorization;

5) those identical with or similar to the name or symbol of the Red Cross or the Red Crescent;

6) those having the nature of discrimination against any nationality and race;

7) those are likely to mislead the public regarding to the quality or other features of the goods, or service, or the place of origin;

8) those constituting exaggerated advertising and are deceitful; and

9) those detrimental to socialist morality or customs, or having other harmful influences.

The official marks, inspection marks mentioned in the above section 4) shall be recorded with and published by the Trademark Office.

The place names of the administrative districts at the level of county or above or the foreign place names known by the public may not be used as trademarks. However, the place names that have other meanings and those used as part of a collective mark or certification mark are exceptional; the registered trademarks that use place names shall continue to be valid.

*Comment 1:* This draft of the proposed amendments to the Trademarks Law includes new provisions expanding the scope of the protection for what are known in some countries as “official marks.” The amendments now also propose that such marks be recorded with and published by the Trademark Office.
Comment 2: By itself this is not problematic. However there is a concern that without a clear definition of such marks and an application procedure designed to verify that the marks are indeed qualified Official marks, there is significant potential for abuse.

Firstly there is the potential that government agencies operating commercially in the marketplace may use Article 10 to register marks that they use when competing with private firms, thereby gaining an unfair advantage. This is a special concern in transitional economies such as China with a large number of state-owned firms. Further the range of state-interests in firms varies considerably.

One solution may be to include a provision that government agencies may only use this provision when the activity for which they are registering the mark is a government function and not a commercial function.

Secondly, there needs to be a process for approving applications by government agencies to place an Official mark on the registry. The Trademark Office’s right to refuse an application should be clearly set out. Even better would be an advertisement and opposition process for such marks.

Thirdly, there needs to be a set of rules as to what should happen when a government agency decides to adopt a mark that is confusingly similar to a mark held and/or used by a private entity. Can the private entity continue its existing use to the mark? Can the private entity expand the use of its mark as it grows its business?

Although the United States does not have a similar provision in its Trademark Laws, all of these problems have arisen in Canada, where Section 9 of the Trade-marks Act is the equivalent of the proposed Article 10. Universities and government agencies (such as lotteries, government run sports, recreational and entertainment facilities such as stadiums) register their advertising slogans and marks under this process. In doing so they sometimes register marks that are confusingly similar to marks used or held by private businesses, essentially expropriating the property of such businesses without compensation.

The process in Canada to challenge or review such official mark applications is very limited and expensive. There is no restriction on government agencies claiming official mark protection for marks used in their ancillary operations that compete with commercial providers of goods and services. And, at one time the entitlement to official marks was interpreted so broadly that many charities and non-profit organizations were applying for and obtaining official marks.

The problem of such administrative monopolies has been recognized in Canada, in Chapter 5 of its new Anti-Monopoly Law (“AML”). While one option is to defer such issues to the enforcement authorities under the AML, asking such authorities to review applications for official mark status may over burden them. Further, it is the Trademarks Office that has the most expertise with the concept of a “confusingly similar mark” rather than the AML enforcement officials.
However, use of an official mark (and not just making an application for such a mark) so as to abuse the intellectual property right granted may be better handled by the AML enforcement authorities in accordance with Article 55 of the AML.
VII. Proposed Article 13: Prohibition to Register and Use Well-Known Trademarks

**Article 13 [prohibition to register and use well-known trademarks]**

Where a trademark applied for registration or in use in respect of identical or similar goods is identical with or similar to other people's unregistered well-known trademarks and the applied/used trademark is likely to cause confusion, it shall not be allowed for registration and shall be forbidden from practical use.

Article 13 If a trademark, for which an application for registration is filed or use of which, is likely to cause confusion due to being identical or similar to another’s unregistered well-known trademark for the identical or similar commodity, it shall not be registered and its use shall be prohibited.

If a trademark, for which an application for registration is filed or use of which, misleads the public due to being identical or similar to another’s registered well-known trademark for different or dissimilar commodities and is likely to unfairly exploit or damage the distinctiveness or reputation of the well-known trademark, it shall not be registered and its use shall be prohibited.

*Comment 1:* We commend Clause 1 of this Article for its protection of well-known marks without registration.

VIII. Proposed Article 14: Factors to Consider for Identification of Well-Known Trademark

**Article 14 [factors to consider for identification of well-known trademark]**

A well-known trademark refers to a trademark well known by relevant public and bears comparatively high fame in China.

A well-known trademark shall be determined in the registration, administration and review of trademarks and/or shall be determined in the civil cases regarding trademark dispute upon the concerned party’s request. The following factors shall be taken into consideration in the determination of well-known trademarks:

1) how well is that trademark known by the relevant public;
2) the period during which that trademark has been in use;
3) the period, extent and geographic scope of any publicity of that trademark;
4) the record of protection of that trademark as a well-known trademark; and
5) other factors for which that trademark is well-known.

*Comment 1:* We commend this Article as it comports with TRIPS (and generally with Article 6bis of the Paris Convention, ref. therein).
IX. Proposed Article 18: Entrusted Agency

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<tr>
<th>Article 18 [entrusted agency]</th>
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<tr>
<td>Article 18 Application for trademark registration or other trademark matters can be handled personally or by an organization certified by the Chinese Government as having the qualification for trademark agency.</td>
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<tr>
<td>Where a foreigner or a foreign enterprise applies for trademark registration or deals with other trademark matters in China, it shall entrust an organization certified by the Chinese Government as having the qualification for trademark agency to act on its behalf.</td>
</tr>
<tr>
<td>Trademark agencies shall obey the laws and administrative regulations, handle application for trademark registration and other trademark matters according to the instructions given by the principal, and shall not injure the principal’s interests.</td>
</tr>
<tr>
<td>Administrative departments of all levels shall strengthen the supervision and administration on activities of trademark agency. Detailed administrative measures for activities of trademark agency shall be set forth by the State Council separately.</td>
</tr>
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</table>

Comment 1: First, it is unclear whether this Article will affect parties using the Madrid system to extend protection, as the Madrid provision does not foresee the use of a local agent in procuring extension. Thus, any potential interface with the Madrid system should be addressed specifically.

Second, the reasoning behind this Article is unclear, insofar as it purports to make distinctions between nationals and foreign citizens in procuring trademark protection. With respect to the latter point, we note that while a domestic representative may provide some use to foreign citizens or enterprises seeking trademark protection, such a representative is not always desired or necessary (note, for example, the experiences of Chinese nationals, like nationals of other states, who may and do seek international trademark protection without the use of a local agent). We note, too, that the international trend is to avoid unnecessary differences in treatment between foreign and local rights holders. Further clarification on these points is recommended.
X. Proposed Article 20: Accepting One Application for Different Classes

<table>
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<tr>
<th>Article 20 [one application for different classes may be accepted]</th>
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<tr>
<td>Article 20 If an applicant intends to apply for the registration of the same trademark on the commodities in different classes, it shall submit separate applications for registration in accordance with the classification of commodities.</td>
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<tr>
<td>The Trademark Office can at proper times accept applications for registration that in one application the identical trademark covers multiple classes of commodities. The specific rules on the acceptance and the severance of the application, and other implementing rules shall be separately formulated by the State Council’s industry and commerce authority.</td>
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*Comment 1:* The proposed article allows one single application for one trademark on several classes on goods. This will simplify and facilitate some application process and hopefully save costs.

XI. Proposed Article 34: Preventing Registration in Bad Faith

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<tr>
<th>Article 34 [prevent registration in bad faith]</th>
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<tr>
<td>Any application for a mark that is identical with or similar to another party's mark on identical or similar goods, where the applicants if aware of the existence of the other party's mark already used in China through the applicant’s contractual, business, geographical or other relations with the other party, shall not be approved for registration.</td>
</tr>
<tr>
<td>Any trademark that is a plagiarism of another party’s registered trademark, that has relatively strong distinctive characters and certain influence, which is filed for registration on different or dissimilar goods, and where the use of the trademark is likely to mislead the public, shall not be approved for registration.</td>
</tr>
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</table>

*Comment 1:* These provisions are a most welcome addition to the Trademark Law. Please refer to our comments under Art. 9.

*Comment 2:* It is unclear whether the conditions for bad faith listed in Article 34 are to be interpreted as being the only conditions recognized under the law. To clarify this and to
best protect trademark holders, it is recommended that the Article be amended to indicate that the listed conditions are examples of what will be considered bad faith, but do not comprise an exhaustive list.

II. Proposed Article 36: Procedure for Correcting Mistakes

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<tr>
<th>Article 36 [procedure for correction of mistakes]</th>
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<tr>
<td>Where the trademark applicant or registrant finds out any obvious mistake in the trademark application documents or trademark registration documents, he may apply for correction of the mistake.</td>
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<tr>
<td>The Trademark Office shall, within the limits of its functions and powers, make correction of the mistake, and shall notify the party concerned.</td>
</tr>
<tr>
<td>The correction of mistake mentioned in the first paragraph shall not involve any substantive contents in the trademark application documents or trademark registration documents.</td>
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Comment 1: The last paragraph indicates that the mistake mentioned shall not involve any “substantive contents” in the trademark application/registration documents. We suggest listing what content are regarded as “substantive” to make it clear and to avoid confusion.

XIII. Proposed Article 39: Registration Adjustments

| Article 39 If a change needs to be made in the applicant, or name, address or any other application or registration matters concerning the registrant of a trademark registration application or a registered trademark, an application to make the change shall be filed. |
| Where the name or address of the registrant of a trademark shall be changed, the registrant of a trademark shall change correspondingly all its registered trademarks. Where it fails to change all its registered trademarks, Trademark Office shall demand it to correct it in designated period, and where no change is made in the designated period, it shall be deemed as give up the change application, and the Trademark Office shall notify the applicant. |

Comment 1: The applicant should be given a second chance, such as by paying an extension fee, if s/he fails to correct within the period prescribed by the Trademark Office.
XIV. Proposed Article 40: Assignments

<table>
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<th>Article 40 [assignment]</th>
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<tr>
<td>Where the application to register a trademark is assigned, or a registered trademark is assigned, the assignor and the assignee shall jointly file an application with the Trademark Office. The assignee shall guarantee the quality of the goods in respect of which the registered trademark is used.</td>
</tr>
<tr>
<td>The assignment of a registered trademark shall be published after it has been approved, and a new trademark certificate [in the name of the assignee] shall be issued. The assignee shall enjoy the exclusive right to use the assigned trademark from the publication date.</td>
</tr>
<tr>
<td>When assigning a registered trademark, the registrant shall assign all his identical or similar trademarks that are used on identical or similar goods. If he fails to assign all his trademarks, the Trademark Office shall inform him to rectify within a prescribed time period. If he fails to rectify during the time period, he shall be deemed to have abandoned the application for transferring the trademark, and the Trademark Office shall notify him accordingly.</td>
</tr>
<tr>
<td>If the assignment of a registered trademark is likely to mislead, or cause confusion or other unfavorable effects, the application for such assignment shall not be approved by the Trademark Office who shall inform the applicant together with an explanation of the reasons.</td>
</tr>
</tbody>
</table>

Comment 1: The old provisions required that “The Assignee shall guarantee the quality of the commodities on which the registered trademark is to be used” The same provision has remained in the amendment.

Comment 2: It is unclear how quality of goods should play a role in the assignment of trademarks. It could mean that the assignee must assure its use of the mark with high quality goods. In that case, trademarks of well-known lower end goods would be allowed to be assigned to another party. On a strict literal interpretation, the assignee would be required to guarantee a better quality of the goods and would then have to take the necessary steps to improve the quality of the goods and thus destroying its own market in the process. If it fails to do so the trademark assignment would be open to attack in law even if the assignee on paper guarantees the quality of the product.

Comment 3: An alternative, preferred, interpretation would mean that the quality of the goods must be maintained. This however is also somewhat difficult to comprehend in a situation where, for example, one purchases a manufacturing business (together with the trademarks) and that business only initially manufactured niche higher-end goods. If the new owner decides to mass market the goods, thus lowering the quality of the goods and price, one would probably be in breach of this provision, based on the “maintaining standards” interpretation.
Therefore, we suggest that the provision relating to quality should be deleted or clarified.

Comment 4: The introduction of the requirement to assign identical or similar trademarks that are used on similar or identical goods is contrary to developments elsewhere in the world. As assignments of trademarks are commercial decisions it should best be left in the hands of assignor and assignee. It should not be up to the Registrar to play custodian of commercial decisions. These provisions should be deleted.

XV. Proposed Article 42: Trademark Licensing and Recordal

<table>
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<tr>
<th>Article 42 [trademark license and recordal]</th>
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<tr>
<td>Article 42 A trademark registrant may, by concluding a trademark licensing contract, authorize another person to use its registered trademark. The licensor shall supervise the quality of the commodities on which the licensee uses the licensor’s registered trademark, and the licensee shall guarantee the quality of the commodities on which the registered trademark is to be used.</td>
</tr>
<tr>
<td>The one licensed to use the registered trademark of another person must indicate the name of the licensee and the origin of the commodities on the commodities on which that registered trademark is used.</td>
</tr>
<tr>
<td>Where a registered trademark is licensed to another person, the licensor shall record the license with the Trademark Office, and the Trademark Office shall issue a corresponding public notice. With the recordal, the license can be used against a third party.</td>
</tr>
</tbody>
</table>

Comment 1: Under this Article the law makes it the burden of the licensor to record a license. This provision is welcome as it effectively grants *locus standi* to a licensee.

Comment 2: At the same time, the Trademark Office should keep to a minimum any new regulations which may impede the flow of commercial activities.
XVI. Proposed Article 52: Illegal Behavior Concerning Registered Trademarks

<table>
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<tr>
<th>Article 52 [illegal behavior concerning registered trademark]</th>
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<tr>
<td><strong>Article 52</strong> In the event of any of the following acts concerning the use of a registered trademark, the Trademark Office shall order rectification of the situation within a specified period or shall revoke the registered trademark:</td>
</tr>
<tr>
<td>1) if the registered trademark is altered without authorization;</td>
</tr>
<tr>
<td>2) if the registrant’s name, address or any other registered matters concerning the registered trademark is changed without authorization;</td>
</tr>
<tr>
<td>3) if the registered trademark is assigned without authorization; and</td>
</tr>
<tr>
<td>4) if the registered trademark, <strong>without valid reason</strong>, has not been used for three consecutive years.</td>
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<tr>
<td>5) the registered trademark has become the common name of the commodity or service it designates to use.</td>
</tr>
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</table>

For the activities listed in 4), 5), any other person could apply for the cancellation of the registered trademark. For the activities listed in 1), 2) and 3), the local administrative department for industry and commerce where the activities have been conducted shall order to stop the activities, and can also impose a fine.

*Comment 1:* Article 52 should be amended as follows:

(5) where the registered trademark has become the generic name of the designate goods or services **as indicated by the primary significance of the mark to the relevant public.**

This will clarify when a mark becomes generic.
XVIII. Proposed Article 65: Remedies in Infringement Disputes

Article 65 [remedy for infringement disputes]

Article 65 In the event of any of the acts, listed in Article 62 of this Law, infringing upon the right to exclusive use of a registered trademark, and a dispute arises accordingly, the parties shall negotiate to settle it; if any party refuses to negotiate or the negotiation has failed, the registrant of that trademark or the interested persons may bring a suit before a people’s court, either may they request the administrative department for industry and commerce to handle the matter.

The administrative department for industry and commerce shall have the right to investigate into and punish the acts infringing upon the right to exclusive use of a registered trademark; the administrative department for industry and commerce at provincial level may conduct recognition and protection of famous trademarks according to local regulations and local rules; if a crime is suspected to be constituted, the case shall be promptly transferred to the judicial departments for handling according to law.

Comment 1: Art. 65 regarding the transfer of suspected criminal cases to the police PSB (the Public Security Bureaux or “PSB”) remains unchanged. We do not recommend changing this provision, but we do suggest the TMO and legislature give closer consideration to the obstacles that limit the number of transfers of cases by AICs to the PSBs each year.

Comment 2: We appreciate that criminal transfers to the police present complicated and sensitive issues, but there still clearly a need for greater cooperation among AICs and police in criminal investigation work.

Comment 3: Given the close connection between administrative and criminal enforcement, we suggest the National People’s Congress be encouraged to review the possibility of amending the Criminal Code in parallel to the Trademark Law, in part to facilitate a higher level of transfers of cases from AICs to the police, and in part to render criminal enforcement simpler and more cost-effective, overall.

Comment 4: It is also suggested that the powers of AICs to conduct investigations and to seek support therein from police, other administrative bodies as well as judicial authorities. Since the number of criminal transfers in 2008 was so low—less than 200—deeper consideration should be given to amending Art. 65 to help promote a greater number of transfers.

XIX. Proposed Article 66: Investigations
**Article 66 [ex officio]**

On the basis of available evidence or reported facts concerning illegal acts, the administrative authority for industry and commerce above county level shall, in the investigation and treatment of the infringement of the exclusive right to use a registered trademark, have the right to exercise the following functions and powers:

1. to inquire of the interested parties about the matters concerning the infringement of the exclusive right to use a registered trademark;
2. to examine or reproduce the interested party’s such contracts, receipts, account books and any other materials as connected with the infringing act;
3. to make on-the-spot investigations of the place where any interested party is suspected to be involved in the infringement of other people’s exclusive right to use a registered trademark; and
4. to check up articles relating to the infringing act, and seal or detain the articles which are suspect of infringing upon other people’s exclusive right to use a registered trademark, or properties which are used to implement infringing act.

When the administrative authority for industry and commerce exercises such functions and powers as enumerated in the preceding paragraph, the interested parties shall give assistance thereto. Where anyone refuse or obstructs the administrative authority for industry and commerce’s performance of its office, the administrative authority for industry and commerce may impose a fine.

The administrative authority for industry and commerce is entitled to suspend the investigation, based on concrete circumstances that are likely to impact on the result of the case.

*Comment 1*: Art. 66 gives the AICs the power to suspend investigations into cases “based on the concrete situation that may impact the result of handling the case.” We do not understand the need for this provision, as the current law and relevant SAIC notices appear adequate.

**XX. Proposed Article 68: Civil Compensation**

**Article 68 [civil compensation]**

**Article 68**

The amount of compensation for infringing upon the right to exclusive use of a trademark shall be the proceeds obtained from the infringement during the period of infringement, or the losses suffered by the infringed due to the infringement during the period of being infringed, including the reasonable expenses paid by the infringed to stop the infringing...
If it is difficult to determine the proceeds obtained from the infringement referred to in the preceding paragraph, or it is difficult to determine the losses suffered by the infringed due to the infringement, the people’s court shall determine a compensation of 1,000,000 RMB or below according to the circumstances of the infringing acts.

Comment 1: As the economy of China continues to grow, the statutory damages should be raised to reflect the economic reality, and to be more consistent with recently damages awarded by the various people’s courts in recent intellectual property cases. Therefore, it is recommended that the maximum statutory damages be raised to RMB 10 million.

Comment 2: Art. 68 would require the trademark owner to provide evidence of its use of its mark over the course of the preceding three years. Under a recent interpretation by the SPC, parties that fail to use their marks may be denied compensation and only awarded injunctions and/or perhaps legal expenses. Thus, we suspect the intention of Art. 68 is ostensibly to ensure that courts are provided adequate evidence to implement the new prohibition on damages for infringements of trademark registrations that have not been used.

Comment 3: We believe the SPC’s interpretation is overly broad, and suggest the Trademark Office and NPC review its contents, and use the Trademark Law to regulate this area, rather than leaving it to the SPC.

Comment 4: We appreciate that, under current law, a trademark owner has the right to recover compensation calculated by the infringer’s profits, and that this may seem overly generous in some cases. We believe however that such cases are not that common, and that courts already retain sufficient discretionary power in calculating damages to help avoid such problems. We therefore believe it preferable that the current provisions on damages in the SPC’s recent interpretation be invalidated.

Comment 5: But assuming a decision is made to retain the limitation on damages for plaintiffs that have not used their marks in the last three years, we suggest the future law clarify that such limits are not applicable in cases where infringers have acted in bad faith or where the plaintiff has a reasonable explanation for not using its mark in the PRC.

XXI. Other Topics and Supplementary Information

1. Acquired Distinctiveness

It is recommended the future law permit TMO examiners to give applicants a chance to provide evidence of acquired distinctiveness during the examination process, thereby
accelerating registration for trademarks that are deserving of such protection and reducing the administrative burdens on the TRAB.

2.  **Registration Date**

Under Arts. 32 and 37, the date of registration of an application starts on the date the opposition period expires. It is proposed that this be changed to confirm to international practice and the current law as it affects Madrid extensions to China, i.e., so that the registration date is retroactive to the filing date.

This proposed change could introduce a number of benefits, while offering only limited disadvantages.

The advantage would principally include earlier registration and greater deterrence against bad faith pirates.

The main disadvantage is that bad faith pirates may likewise seek to leverage settlements with legitimate trademark owners prior to the registration of their marks. However, the chances of such problems arising from this proposed change appear low, while the benefits appear to outweigh the disadvantages. It is suggested instead that registration be deemed to occur retroactive to the filing date. This is already the case for filings made through the Madrid Union and the Madrid Protocol, and it is also consistent with practice in many countries.

Under current practice with respect to Madrid extensions, we understand that compensation is only payable by an infringer commencing from the date on which he is put on actual notice of the trademark owner’s application. This same practice could be adopted for all applications to avoid unfair outcomes.

3.  **License Recordal**

Art. 42 of the draft retains the requirement that trademark licenses be recorded, and it confirms that recorded licenses are enforceable vis-à-vis third parties. Art. 52 also allows local AICs to impose unspecified fines or orders to rectify.

License recordal can involve significant costs and paperwork, and while trademark owners should be encouraged to record licenses, it should not be made mandatory.

There are obvious benefits to making license recordal mandatory—including deterrence against infringements and the provision to local AICs of greater power to police manufacturers that use trademarks belonging to others. However, prior to 2001, the Trademark Law required license recordal and granted AICs the power to impose fines for non-compliance. To our knowledge, fines were not commonly imposed and the threat of fines did not greatly increase the level of compliance within China.

In light of the above, we believe the benefits of providing fines for non-compliance do not outweigh the burdens of recordal.
Further, we understand China has signed the Singapore Convention, which prohibits mandatory recordal.

Finally, if recordal of licenses remains mandatory under the future law, we recommend that the Trademark Office issue guidelines to clarify just what qualifies as recordable license. Under current law and practice, it is ambiguous whether an OEM supply agreement qualifies as a license subject to recordal. Given the large number of such agreements, the risk of fraud by OEM factories, and the fact such agreements do not bear most of the characteristics of a normal “trademark license”, it is strongly urged that the TMO make clear as soon as possible that such agreements need not be recorded.

4. Securitization

Securitization is an increasingly important aspect of the commercialization of Intellectual Property. The United Nations Commission on International Trade (UNCITRAL) has just completed a series of discussions on the securitization of intellectual property assets (Working Group VI http://www.uncitral.org/uncitral/en/commission/working_groups/6Security_Interests.htm). The proposed amendments to the Trademark Law are an opportunity for the PRC to adopt and clarify aspects of the discussions as they apply to China.

For example, it is unclear whether security interests in a Chinese trademark registration currently may be registered with the SAIC Trademark Office. Further, whether such registration would definitely give the holder priority in seizing the trademark assets in China based on such registration.

Also to be clarified is what law will govern the determination of the priority of such a registration. The current UNCITRAL Working Group recommendation is a mix of the law of the debtor (which may be foreign) as with respect to a trustee in bankruptcy, but the law of the country of registration otherwise.

At a minimum the current amendments could anticipate the addition of provisions with respect to securitization by providing that regulations governing securitization on an interim basis made be promulgated by the State Council.

5. Enforcement

The scope and scale of counterfeiting in China remains huge and is spreading to the Internet. While we do not attach our comments to any specific articles in the draft law, we hope the drafters of the Trademark Law amendments will give specific consideration to the following:

- Lowering the knowledge requirement for contributory liability for infringement to the “should have known” standard, and other infringing acts requirements such as “misleading the public.”
- Clarifying the authority of local AICs to order the take-down of offers for sale of infringing good on the Internet.
- Clarifying the authority of AICs to instruct intermediaries, such as ISPs, ICPs, landlords, shippers, etc., to implement reasonable procedures to help in the detection, prevention, and cessation of infringements. An example of this is the Trademark Authorization System, which is being gradually introduced by the local AICs in various cities to clarify the duties of landlords and vendors in major retail and wholesale markets in managing trademark rights.

XXII. Conclusion

We sincerely hope that this submission is useful. We would be pleased to respond to any questions regarding these Comments, or to provide any additional comments or information that may be of assistance.

August ___, 2010
APPENDIX: DUAL-LANGUAGE SUBMISSION

Response of the ABA Section of Intellectual Property Law to the Request for Comments from the State Administration of Industry and Commerce and the Legislative Affairs Office of the State Council, for consideration by the Chinese Trademark Office

The views expressed in the attached commentary are those of the Section of Intellectual Property Law of the American Bar Association. They have not been submitted to or approved by the ABA House of Delegates or Board of Governors, and should not be construed as views of the Association as a whole.

The ABA Section of Intellectual Property Law (“ABA IPL Section”) is the largest intellectual property organization in the world and the oldest substantive Section of the ABA. Since 1894, we have advanced the development and improvement of intellectual property laws and their fair and just administration. As the forum for rich perspectives and balanced insight on the full spectrum of intellectual property law, the ABA IPL Section serves as the ABA voice of intellectual property law—within the profession, before policy makers, and with the public.

I. Background

In 2009, a Joint Task Force between members of the ABA IPL Section and the ABA Section on International Law (“ABA SIL”) was created to draft comments on the Proposed Trademark Law of the People’s Republic of China. The work provided by that Joint Task Force is the subject of this Report.

The membership of the Joint Task Force, at work on this matter for approximately 12 months, is comprised of attorneys working in diverse environments—corporations, private practice, and academia—who joined together to submit the comments herein because of a shared interest in offering timely suggestions for consideration by the Chinese Trademark Office. The comments, prepared by the Joint Task Force and approved by the leadership of the Section on Intellectual Property, offer the perspectives of the members’ experiences in the fields of intellectual property rights and international business law.

The Joint Task Force applauds the work done by State Administration of Industry and Commerce and the Legislative Affairs Office of the State Council in collecting broad-based feedback from experts in China and abroad, and in revising the previous drafts into the current form of the Proposed Trademark Law, publicized in March 2010. The Joint

1 The members of the Joint Task Force are Cheryl Black, Elizabeth Bridge, Dr. Christel Botha, Laura Bowers, Thomas Brooke, Susan Brushaber, Leon Chen, Elizabeth Chien-Hale (Co-Chair), Jessica Darraby, Nadine Farid, Barbara Grahn, Doug Jennings Jr., Paul Jones (Co-Chair), Joseph Lin, Robert Sacoff, Joseph Simone, Louis van Wyk, Lynne Wang, Aaron Wininger, and Philip Yip.
Task Force and the ABA IPL Section also appreciate the ongoing efforts of the Chinese government to bring the Trademark Law into greater compliance with international standards, as well as to explore solutions to problems that are special to China. Indeed, given China’s unique and rapid path of economic development, it is understood that China will consistently maintain certain unique features of its trademark system.

As a professional association representing intellectual property lawyers who work extensively on cross-border matters, the ABA IPL Section, along with the members of the Joint Task Force, appreciates the opportunity to submit comments and to present views on the most recent proposed amendments to the Trademark Law of the People’s Republic of China. The ABA IPL Section and the Joint Task Force each look forward to the opportunity to continue supporting the efforts of the Chinese government and legislative bodies to improve the Chinese trademark system.

II. Executive Summary of Comments

The Joint Task Force welcomes the Chinese Trademark Office’s efforts to streamline the application process, broaden and clarify the protectable subject matter under the Chinese Trademark Law, and to provide better mechanisms for enforcing registered good marks and protecting against marks registered in bad faith. The Joint Task Force offers comments and requests more specificity in some of the new provisions in the following several major areas: protection for unregistered trademarks, official marks and well-known marks, and protection against bad faith registrations. The Joint Task Force recommends that additional topics be addressed by the amendments to the Trademark Law, such as to allow applicants to provide evidence of acquired distinctiveness during the examination process and to allow the registration date to be retroactive to the filing date in order to be consistent with filings made through the Madrid Union, the Madrid Protocol and in most jurisdictions. The Joint Task Force presents its views based on practical experience.

The Joint Task Force is concerned that the provisions on Assignment assert too much control over what are essentially business or contractual relationships between parties and that they are inconsistent with the approach taken in other jurisdictions. The Joint Task Force welcomes the provisions regarding the permissive recordation of Trademark Licenses with the Chinese Trademark Office and is also pleased to note that greater protection will be afforded to common law trademark rights. Given the increasing importance of securitization to the commercialization of intellectual property internationally, consideration should be given to addressing whether security interests in Chinese Trademark Registrations must be registered with the SAIC Trademark Office and the criteria to be used to determine the priority of such a registration.

The Joint Task Force recommends that there be greater cooperation between the Department of Industry and Commerce and the Public Security Bureau in the investigation and prosecution of criminal cases that involve trademarks, and that the National People’s Congress consider the possibility of amending the Criminal Code in the parallel with the amendment of the Trademark Law in order to facilitate greater
cooperation and efficiency. The Joint Task Force further recommends an increase in civil damages to reflect China’s growing economy and that certain limitations to damages not apply when an infringer has acted in bad faith. Given the prevalence of counterfeiting, we also recommend that consideration be given to: 1. lowering the knowledge requirement for contributory liability for infringement; and 2. clarifying the authority of local AICs to order “take down” of offers of counterfeit goods on the Internet, and to instruct intermediaries to implement reasonable procedures to facilitate the detection, prevention and cessation of the production and distribution of infringing goods.

III. Arrangement of Comments

The comments below are introduced according to the Article Number in the Proposed Trademark Law, accompanied by a topical description of the substance of the Article. The Chinese language and the English translations used are each included in order to provide full clarity and understanding in terms of the interpretation and meaning given all of the terms in the Proposed Law. Under each box containing the Chinese language and English translations, the specific comments are provided.

IV. Comments on Proposed Article 8: Concept of Trademark

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Any visual mark, consisting of words, devices, letters, numbers, three-dimensional marks, colors, or any combination of them, which is capable of distinguishing the goods of a natural person, legal person or other organization from those of others, can be a trademark.

The trademark office may, in due time, accept applications for the registration of trademarks, subject to relevant registration guidelines shall be enacted separately by the administrative authority for industry and commerce.

Comment 1: This Article has been expanded appropriately to include non-visual marks such as sound and smell. The ABA IPL Section and Joint Task Force await promulgation of specific guidelines for the more ambiguous specifications, such as the precise definition for “animated mark.”

V. Comments on Proposed Article 9: Distinctive Feature and Good Faith Principle

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<td>Article 9 [distinctive feature and good faith principle]</td>
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Any trademark applied for registration shall be so distinctive as to be distinguishable and shall not be in conflict with other people’s prior-acquired legitimate rights.

**The application and use of a trademark shall be made in good faith.**

The trademark registrant shall have the right to mark the indication “Registered Trademark” or a sign of trademark registration.

*Comment 1*: These provisions are a most welcome addition to the Trademark Law. Our comments are offered to assist in possibly improving the expression and use of the concepts. The existing proposals are quite acceptable.

*Comment 2*: The principle of (chengshi) or “good faith” as used in the proposed amendments to Article 9 was first added to Chinese law when it was used in Article 4 of the (Zhonghua Renmin Gongheguo Minfa Tongze – General Principles of the Civil Law) that was adopted in 1986. It is a concept borrowed from civil law jurisdictions such as Germany.

One of the concerns regarding the use of such a broad concept is that it is not well understood by those not well trained in the law. The concept itself cannot be amended as it is a general concept in all of Chinese law.

The civil law concept of “good faith” has undergone refinement in various countries in Europe and other expressions of the concept have been developed. One example of such practice is Article 10 of the Russian Civil Code (drafted by Dutch scholars at the University of Leiden), which provides in its original language as follows:

Статья 10,

3. Не допускаются действия граждан и юридических лиц, осуществляемые исключительно с намерением причинить вред другому лицу, а также злоупотребление правом в иных формах.

Не допускается использование гражданских прав в целях ограничения конкуренции, а также злоупотребление доминирующим положением на рынке.

4. В случае несоблюдения требований, предусмотренных пунктом 1 настоящей статьи, суд, арбитражный суд или третейский суд может отказать лицу в защите принадлежащего ему права.

3. В случаях, когда закон ставит защиту гражданских прав в зависимость от того, осуществлялись ли эти права разумно и добросовестно, разумность действий и добросовестность участников гражданских правоотношений предполагаются.
This translates to:

Article 10,

2. Individual and juridical persons shall not exercise their rights exclusively with the intention of causing harm to the other party, or abuse their rights in any manner.

Civil rights shall not be used with the object of restricting competition, or abusing a dominant position in the market.

6. In the event of non-compliance with the requirements of paragraph 1 of this Article, the general court, arbitrazh court or tribunal may deny such person the protection of his rights.

7. Where the law makes the protection of the civil rights dependent on whether these rights have been exercised in good faith and reasonably, the good faith and reasonableness of the parties shall be presumed.

Thus, it is suggested that perhaps Article 9 of the draft Trademark Law could be amended by adding similar, additional conditions for an application after the requirement that such an application be in good faith, as follows:

“The application for registration, and use, of trademark shall be in accordance with the principle of good faith and shall not be made with the intention of causing harm to or confusing ownership of the rights of others or with the object of gaining unfair competitive advantage without justification or abusing a dominant position in the market.”

Such language would be consistent with the latest changes introduced in Article 13 of the State Council Legislative Affairs Office draft.

Comment 3: It is recommended that this Article be amended to provide guidance to good faith users of unregistered marks, such that any protection they are afforded is clearly outlined. Specifically, it is recommended that the following be added:

c. specific language indicating that good faith users of unregistered trademarks—those whose use does not fall under Article 58—will be granted certain rights in the unregistered marks; and

d. a clear delineation of those certain rights afforded such users.
VI. Proposed Article 10: Prohibited Signs

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The following marks may:

1) those identical with or similar to the national name, national flag, national emblem, military flag or medallion of central government agencies, names of the specific sites or the names and designs of the symbol buildings of the central government agencies;

2) those identical with or similar to the national name, national flag, national emblem or military flag;

3) those identical with or similar to the name, flag, or emblem of any intergovernmental international organization;

4) those identical with or similar to the official marks, inspection marks that indicate the controlling or providing public service;

5) those identical with or similar to the name or emblem of any public service; and

6) those having the nature of discrimination against any nationality and race;

7) those are likely to mislead the public regarding to the quality or other features of the goods, or service, or business; and

8) those constituting exaggerated advertising and are deceitful; and

9) those detrimental to socialist morality or customs, or having other harmful influences.

The official marks, inspection marks mentioned in the above section 4) shall be recorded with and published.

The place names of the administrative districts at the level of county or above or the foreign place names shall...
Comment 1: This draft of the proposed amendments to the Trademarks Law includes new provisions expanding the scope of the protection for what are known in some countries as “official marks.” The amendments now also propose that such marks be recorded with and published by the Trademark Office.

Comment 2: By itself this is not problematic. However there is a concern that without a clear definition of such marks and an application procedure designed to verify that the marks are indeed qualified Official marks, there is significant potential for abuse.

Firstly there is the potential that government agencies operating commercially in the marketplace may use Article 10 to register marks that they use when competing with private firms, thereby gaining an unfair advantage. This is a special concern in transitional economies such as China with a large number of state-owned firms. Further the range of state-interests in firms varies considerably.

One solution may be to include a provision that government agencies may only use this provision when the activity for which they are registering the mark is a government function and not a commercial function.

Secondly, there needs to be a process for approving applications by government agencies to place an Official mark on the registry. The Trademark Office’s right to refuse an application should be clearly set out. Even better would be an advertisement and opposition process for such marks.

Thirdly, there needs to be a set of rules as to what should happen when a government agency decides to adopt a mark that is confusingly similar to a mark held and/or used by a private entity. Can the private entity continue its existing use to the mark? Can the private entity expand the use of its mark as it grows its business?

Although the United States does not have a similar provision in its Trademark Laws, all of these problems have arisen in Canada, where Section 9 of the Trade-marks Act is the equivalent of the proposed Article 10. Universities and government agencies (such as lotteries, government run sports, recreational and entertainment facilities such as stadiums) register their advertising slogans and marks under this process. In doing so they sometimes register marks that are confusingly similar to marks used or held by private businesses, essentially expropriating the property of such businesses without compensation.

The process in Canada to challenge or review such official mark applications is very limited and expensive. There is no restriction on government agencies claiming official mark protection for marks used in their ancillary operations that compete with commercial providers of goods and services. And, at one time the entitlement to official marks was interpreted so broadly that many charities and non-profit organizations were applying for and obtaining official marks.
The problem of such administrative monopolies has been recognized in Canada, in Chapter 5 of its new Anti-Monopoly Law (“AML”). While one option is to defer such issues to the enforcement authorities under the AML, asking such authorities to review applications for official mark status may over burden them. Further, it is the Trademarks Office that has the most expertise with the concept of a “confusingly similar mark” rather than the AML enforcement officials.

However, use of an official mark (and not just making an application for such a mark) so as to abuse the intellectual property right granted may be better handled by the AML enforcement authorities in accordance with Article 55 of the AML.

VII. Proposed Article 13: Prohibition to Register and Use Well-Known Trademarks

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<th>Article 13 [prohibition to register and use well-known trademarks]</th>
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Where a trademark applied for registration or in use in respect of identical or similar goods is identical with or similar to other people's unregistered well-known trademarks and the applied/used trademark is likely to cause confusion, it shall not be allowed for registration and shall be forbidden from practical use.

Article 13 If a trademark, for which an application for registration is filed or use of which, is likely to cause confusion due to being identical or similar to another’s unregistered well-known trademark for the identical or similar commodity, it shall not be registered and its use shall be prohibited.

If a trademark, for which an application for registration is filed or use of which, misleads the public due to being identical or similar to another’s registered well-known trademark for different or dissimilar commodities and is likely unfairly exploit or damage the distinctiveness or reputation of the well-known trademark, it shall not be registered and its use shall be prohibited.

Comment 1: We commend Clause 1 of this Article for its protection of well-known marks without registration.
VIII. Proposed Article 14: Factors to Consider for Identification of Well-Known Trademark

A well-known trademark refers to a trademark well known by relevant public and bears common reputation. A well-known trademark shall be determined in the registration, administration and review of trademark regarding trademark dispute upon the concerned party’s request. The following factors shall be taken into account when determining a well-known trademark:

1) how well is that trademark known by the relevant public;
2) the period during which that trademark has been in use;
3) the period, extent and geographic scope of any publicity of that trademark;
4) the record of protection of that trademark as a well-known trademark; and
5) other factors for which that trademark is well-known.

Comment 1: We commend this Article as it comports with TRIPS (and generally with Article 6bis of the Paris Convention, ref. therein).

IX. Proposed Article 18: Entrusted Agency
Article 18 [entrusted agency]

Article 18 Application for trademark registration or other trademark matters can be handled by an organization certified by the Chinese Government as having the qualification for trademark agency.

Where a foreigner or a foreign enterprise applies for trademark registration or deals with other trademark matters, they can entrust an organization certified by the Chinese Government as having the qualification for trademark agency.

Trademark agencies shall obey the laws and administrative regulations, handle application for trademark registration and other trademark matters according to the instructions given by the principal, and shall not injure the public interests.

Administrative departments of all levels shall strengthen the supervision and administration on activities of trademark agency. Detailed administrative measures for activities of trademark agency shall be set forth by the State Council.

Comment 1: First, it is unclear whether this Article will affect parties using the Madrid system to extend protection, as the Madrid provision does not foresee the use of a local agent in procuring extension. Thus, any potential interface with the Madrid system should be addressed specifically.

Second, the reasoning behind this Article is unclear, insofar as it purports to make distinctions between nationals and foreign citizens in procuring trademark protection. With respect to the latter point, we note that while a domestic representative may provide some use to foreign citizens or enterprises seeking trademark protection, such a representative is not always desired or necessary (note, for example, the experiences of Chinese nationals, like nationals of other states, who may and do seek international trademark protection without the use of a local agent). We note, too, that the international trend is to avoid unnecessary differences in treatment between foreign and local rights holders. Further clarification on these points is recommended.

X. Proposed Article 20: Accepting One Application for Different Classes
Article 20 [one application for different classes may be accepted]

Article 20 If an applicant intends to apply for the registration of the same trademark on the commodities in different classes, it shall submit separate applications for registration in accordance with the classification of commodities.

The Trademark Office can at proper times accept applications for registration that in one application the identical trademark covers multiple classes of commodities. The specific rules on the acceptance and the severance of the application, and other implementing rules shall be separately formulated by the State Council’s industry and commerce authority.

Comment 1: The proposed article allows one single application for one trademark on several classes on goods. This will simplify and facilitate some application process and hopefully save costs.

Comment 2: However, this gives the Trademark Office the right to decide whether to accept the multiple-class application or not, without giving instruction and criteria on which the decision should be based. The discretion of Trademark Office may cause confusion and inconvenience. The method of one single application of one trademark on several classes on goods is used in many countries and proved to be efficient. Therefore, it is recommended that trademark office shall accept registration of one trademark on several classes of goods through one single application.

XI. Proposed Article 34: Preventing Registration in Bad Faith

Article 34 [prevent registration in bad faith]

Any application for a mark that is identical with or similar to another party's mark on identical goods, where the applicants if aware of the existence of the other party's mark already used in China, applicant’s contractual, business, geographical or other relations with the other party, shall not be accepted for registration.

Any trademark that is a plagiarism of another party’s registered trademark, that has related distinctive characters and certain influence, which is filed for registration on different or dissimilar goods, where the use of the trademark is likely to mislead the public, shall not be approved for registration.
Comment 1: These provisions are a most welcome addition to the Trademark Law. Please refer to our comments under Art. 9.

Comment 2: It is unclear whether the conditions for bad faith listed in Article 34 are to be interpreted as being the only conditions recognized under the law. To clarify this and to best protect trademark holders, it is recommended that the Article be amended to indicate that the listed conditions are examples of what will be considered bad faith, but do not comprise an exhaustive list.

XII. Proposed Article 36: Procedure for Correcting Mistakes

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<th>Article 36 [procedure for correction of mistakes]</th>
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Where the trademark applicant or registrant finds out any obvious mistake in the trademark application documents or trademark registration documents, he may apply for correction of the mistake.

The Trademark Office shall, within the limits of its functions and powers, make correction of the mistake, and shall notify the party concerned.

The correction of mistake mentioned in the first paragraph shall not involve any substantive contents in the trademark application documents or trademark registration documents.

Comment 1: The last paragraph indicates that the mistake mentioned shall not involve any “substantive contents” in the trademark application/registration documents. We suggest listing what content are regarded as “substantive” to make it clear and to avoid confusion.
XIII. Proposed Article 39: Registration Adjustments

Article 39 If a change needs to be made in the applicant, or name, address or any other application registration matters concerning the registrant of a trademark registration application or a registered trademark, an application to make the change shall be filed.

Where the name or address of the registrant of a trademark shall be changed, the registrant of a trademark shall change correspondingly all its registered trademarks. Where it fails to change all its registered trademarks, the Trademark Office shall demand it to correct it in designated period, and where no change is made within designated period, it shall be deemed as give up the change application, and the Trademark Office shall notify the applicant.

Comment 1: The applicant should be given a second chance, such as by paying an extension fee, if s/he fails to correct within the period prescribed by the Trademark Office.

XIV. Proposed Article 40: Assignments

Article 40 [assignment]

Where the application to register a trademark is assigned, or a registered trademark is assigned, the assignor shall file an application with the Trademark Office. The assignee shall guarantee the quality of the goods in respect of the assigned trademark.

The assignment of a registered trademark shall be published after it has been approved, and a new trademark certificate [assignee] shall be issued. The assignee shall enjoy the exclusive right to use the assigned trademark from the time of registration.

When assigning a registered trademark, the registrant shall assign all his identical or similar trademarks or the similar goods. If he fails to assign all his trademarks, the Trademark Office shall inform him to rectify during the time period, and where he fails to rectify during the time period, he shall be deemed to have abandoned the application for the trademark. The Trademark Office shall notify him accordingly.
If the assignment of a registered trademark is likely to mislead, or cause confusion or other unfair competition, the assignment shall not be approved by the Trademark Office who shall inform the applicant together with reasons for refusal.

Comment 1: The old provisions required that “The Assignee shall guarantee the quality of the commodities on which the registered trademark is to be used”. The same provision has remained in the amendment.

Comment 2: It is unclear how quality of goods should play a role in the assignment of trademarks. It could mean that the assignee must assure its use of the mark with high quality goods. In that case, trademarks of well-known lower end goods would be allowed to be assigned to another party. On a strict literal interpretation, the assignee would be required to guarantee a better quality of the goods and would then have to take the necessary steps to improve the quality of the goods and thus destroying its own market in the process. If it fails to do so the trademark assignment would be open to attack in law even if the assignee on paper guarantees the quality of the product.

Comment 3: An alternative, preferred, interpretation would mean that the quality of the goods must be maintained. This however is also somewhat difficult to comprehend in a situation where, for example, one purchases a manufacturing business (together with the trademarks) and that business only initially manufactured niche higher-end goods. If the new owner decides to mass market the goods, thus lowering the quality of the goods and price, one would probably be in breach of this provision, based on the “maintaining standards” interpretation.

Therefore, we suggest that the provision relating to quality should be deleted or clarified.

Comment 4: The introduction of the requirement to assign identical or similar trademarks that are used on similar or identical goods is contrary to developments elsewhere in the world. As assignments of trademarks are commercial decisions it should best be left in the hands of assignor and assignee. It should not be up to the Registrar to play custodian of commercial decisions. These provisions should be deleted.

XV. Proposed Article 42: Trademark Licensing and Recordal

**Article 42** A trademark registrant may, by concluding a trademark licensing contract, authorize another party to use the trademark.
The licensor shall supervise the quality of the commodities on which the licensee uses the licensor’s registered trademark to guarantee the quality of the commodities on which the registered trademark is to be used.

The one licensed to use the registered trademark of another person must indicate the name of the licensee and the commodities on which that registered trademark is used.

Where a registered trademark is licensed to another person, the licensor shall record the license in the Trademark Office. The Trademark Office shall issue a corresponding public notice. With the recordal, the license can be used.

Comment 1: Under this Article the law makes it the burden of the licensor to record a license. This provision is welcome as it effectively grants *locus standi* to a licensee.

Comment 2: At the same time, the Trademark Office should keep to a minimum any new regulations which may impede the flow of commercial activities.
XVI. Proposed Article 52: Illegal Behavior Concerning Registered Trademarks

Article 52 [illegal behavior concerning registered trademark]

Article 52 In the event of any of the following acts concerning the use of a registered trademark, the Trademark period or shall revoke
1) if the registered trademark is
2) if the registrant’s name, address or any other registered matters concerning the trademark is
3) if the registered trademark is as the common name of the commodity or service it designates to
4) if the registered trademark, without valid reason, has not been used for three consecutive years.
5) the registered trademark has become the common name of the commodity or service it designates to

For the activities listed in 4), 5), any other person could apply for the cancellation of the registration. The relevant administrative department for industry and commerce where the activities have been conducted shall

Comment 1: Article 52 should be amended as follows:

(5) where the registered trademark has become the generic name of the designate goods or services as indicated by the primary significance of the mark to the relevant public.

This will clarify when a mark becomes generic.
XVIII. Proposed Article 65: Remedies in Infringement Disputes

Article 65 [remedy for infringement disputes]

Article 65 In the event of any of the acts, listed in Article 62 of this Law, infringing upon the right to a registered trademark; the administrative department for industry and commerce at provincial level may bring a suit before a people’s court, either may they request the administrative department for industry and commerce shall have the right to investigate into and according to local regulations and local rules; if a crime is suspected to be constituted, the case shall be according to law.

Comment 1: Art. 65 regarding the transfer of suspected criminal cases to the police PSB (the Public Security Bureaux or “PSB”) remains unchanged. We do not recommend changing this provision, but we do suggest the TMO and legislature give closer consideration to the obstacles that limit the number of transfers of cases by AICs to the PSBs each year.

Comment 2: We appreciate that criminal transfers to the police present complicated and sensitive issues, but there still clearly a need for greater cooperation among AICs and police in criminal investigation work.

Comment 3: Given the close connection between administrative and criminal enforcement, we suggest the National People’s Congress be encouraged to review the possibility of amending the Criminal Code in parallel to the Trademark Law, in part to facilitate a higher level of transfers of cases from AICs to the police, and in part to render criminal enforcement simpler and more cost-effective, overall.

Comment 4: It is also suggested that the powers of AICs to conduct investigations and to seek support therein from police, other administrative bodies as well as judicial authorities. Since the number of criminal transfers in 2008 was so low—less than 200—deeper consideration should be given to amending Art. 65 to help promote a greater number of transfers.
XIX. Proposed Article 66: Investigations

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Article 66 [ex officio]

On the basis of available evidence or reported facts concerning illegal acts, the administrative authority for industry and commerce above county level shall, in the investigation and treatment of the infringement of exclusive right to use a registered trademark, have the right to exercise the following functions and powers:

(1) to inquire of the interested parties about the matters concerning the infringement of the exclusive right to use a registered trademark;

(2) to examine or reproduce the interested party’s such contracts, receipts, account books and any other evidence that might be as connected with the infringing act;

(3) to make on-the-spot investigations of the place where any interested party is suspected to be involved in the infringement of other people’s exclusive right to use a registered trademark; and

(4) to check up articles relating to the infringing act, and seal or detain the articles which are suspect of upon other people’s exclusive right to use a registered trademark, or properties which are used to infringing act.

When the administrative authority for industry and commerce exercises such functions and powers as enumerated in the preceding paragraph, the interested parties shall give assistance thereto. Where anyone refuse or obstruct the administrative authority for industry and commerce’s performance of its office, the administrative authority for industry and commerce may impose a fine.

The administrative authority for industry and commerce is entitled to suspend the investigation pending concrete circumstances that are likely to impact on the result of the case.

Comment 1: Art. 66 gives the AICs the power to suspend investigations into cases “based on the concrete situation that may impact the result of handling the case.” We do not
understand the need for this provision, as the current law and relevant SAIC notices appear adequate.

XX. Proposed Article 68: Civil Compensation

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<th>Article 68 [civil compensation]</th>
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**Article 68**

The amount of compensation for infringing upon the right to exclusive use of a trademark shall be the proceeds obtained from the infringement referred to in the preceding paragraph, or the losses suffered by the infringed due to the infringement during the period of infringement, or the losses suffered by the infringed during the period during which the infringement expenses paid by the infringed to stop the infringing acts.

If it is difficult to determine the proceeds obtained from the infringement referred to in the preceding paragraph, or the losses suffered by the infringed due to the infringement, the people’s court shall determine a compensation of circumstances

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*Comment 1*: As the economy of China continues to grow, the statutory damages should be raised to reflect the economic reality, and to be more consistent with recently damages awarded by the various people’s courts in recent intellectual property cases. Therefore, it is recommended that the maximum statutory damages be raised to RMB 10 million.

*Comment 2*: Art. 68 would require the trademark owner to provide evidence of its use of its mark over the course of the preceding three years. Under a recent interpretation by the SPC, parties that fail to use their marks may be denied compensation and only awarded injunctions and/or perhaps legal expenses. Thus, we suspect the intention of Art. 68 is ostensibly to ensure that courts are provided adequate evidence to implement the new prohibition on damages for infringements of trademark registrations that have not been used.

*Comment 3*: We believe the SPC’s interpretation is overly broad, and suggest the Trademark Office and NPC review its contents, and use the Trademark Law to regulate this area, rather than leaving it to the SPC.
Comment 4: We appreciate that, under current law, a trademark owner has the right to recover compensation calculated by the infringer’s profits, and that this may seem overly generous in some cases. We believe however that such cases are not that common, and that courts already retain sufficient discretionary power in calculating damages to help avoid such problems. We therefore believe it preferable that the current provisions on damages in the SPC’s recent interpretation be invalidated.

Comment 5: But assuming a decision is made to retain the limitation on damages for plaintiffs that have not used their marks in the last three years, we suggest the future law clarify that such limits are not applicable in cases where infringers have acted in bad faith or where the plaintiff has a reasonable explanation for not using its mark in the PRC.

XXI. Other Topics and Supplementary Information

1. Acquired Distinctiveness

It is recommended the future law permit TMO examiners to give applicants a chance to provide evidence of acquired distinctiveness during the examination process, thereby accelerating registration for trademarks that are deserving of such protection and reducing the administrative burdens on the TRAB.

2. Registration Date

Under Arts. 32 and 37, the date of registration of an application starts on the date the opposition period expires. It is proposed that this be changed to confirm to international practice and the current law as it affects Madrid extensions to China, i.e., so that the registration date is retroactive to the filing date.

This proposed change could introduce a number of benefits, while offering only limited disadvantages.

The advantage would principally include earlier registration and greater deterrence against bad faith pirates.

The main disadvantage is that bad faith pirates may likewise seek to leverage settlements with legitimate trademark owners prior to the registration of their marks. However, the chances of such problems arising from this proposed change appear low, while the benefits appear to outweigh the disadvantages. It is suggested instead that registration be deemed to occur retroactive to the filing date. This is already the case for filings made through the Madrid Union and the Madrid Protocol, and it is also consistent with practice in many countries.

Under current practice with respect to Madrid extensions, we understand that compensation is only payable by an infringer commencing from the date on which he is put on actual notice of the trademark owner’s application. This same practice could be adopted for all applications to avoid unfair outcomes.
3. **License Recordal**

Art. 42 of the draft retains the requirement that trademark licenses be recorded, and it confirms that recorded licenses are enforceable vis-à-vis third parties. Art. 52 also allows local AICs to impose unspecified fines or orders to rectify.

License recordal can involve significant costs and paperwork, and while trademark owners should be encouraged to record licenses, it should not be made mandatory.

There are obvious benefits to making license recordal mandatory—including deterrence against infringements and the provision to local AICs of greater power to police manufacturers that use trademarks belonging to others. However, prior to 2001, the Trademark Law required license recordal and granted AICs the power to impose fines for non-compliance. To our knowledge, fines were not commonly imposed and the threat of fines did not greatly increase the level of compliance within China.

In light of the above, we believe the benefits of providing fines for non-compliance do not outweigh the burdens of recordal.

Further, we understand China has signed the Singapore Convention, which prohibits mandatory recordal.

Finally, if recordal of licenses remains mandatory under the future law, we recommend that the Trademark Office issue guidelines to clarify just what qualifies as recordable license. Under current law and practice, it is ambiguous whether an OEM supply agreement qualifies as a license subject to recordal. Given the large number of such agreements, the risk of fraud by OEM factories, and the fact such agreements do not bear most of the characteristics of a normal “trademark license”, it is strongly urged that the TMO make clear as soon as possible that such agreements need not be recorded.

4. **Securitization**

Securitization is an increasingly important aspect of the commercialization of Intellectual Property. The United Nations Commission on International Trade (UNCITRAL) has just completed a series of discussions on the securitization of intellectual property assets (Working Group VI [http://www.uncitral.org/uncitral/en/commission/working_groups/6Security_Interests.htm]). The proposed amendments to the Trademark Law are an opportunity for the PRC to adopt and clarify aspects of the discussions as they apply to China.

For example, it is unclear whether security interests in a Chinese trademark registration currently may be registered with the SAIC Trademark Office. Further, whether such registration would definitely give the holder priority in seizing the trademark assets in China based on such registration.
Also to be clarified is what law will govern the determination of the priority of such a registration. The current UNCITRAL Working Group recommendation is a mix of the law of the debtor (which may be foreign) as with respect to a trustee in bankruptcy, but the law of the country of registration otherwise.

At a minimum the current amendments could anticipate the addition of provisions with respect to securitization by providing that regulations governing securitization on an interim basis made be promulgated by the State Council.

5. **Enforcement**

The scope and scale of counterfeiting in China remains huge and is spreading to the Internet. While we do not attach our comments to any specific articles in the draft law, we hope the drafters of the Trademark Law amendments will give specific consideration to the following:

- Lowering the knowledge requirement for contributory liability for infringement to the “should have known” standard, and other infringing acts requirements such as “misleading the public.”
- Clarifying the authority of local AICs to order the take-down of offers for sale of infringing good on the Internet.
- Clarifying the authority of AICs to instruct intermediaries, such as ISPs, ICPs, landlords, shippers, etc., to implement reasonable procedures to help in the detection, prevention, and cessation of infringements. An example of this is the Trademark Authorization System, which is being gradually introduced by the local AICs in various cities to clarify the duties of landlords and vendors in major retail and wholesale markets in managing trademark rights.

XXII. **Conclusion**

We sincerely hope that this submission is useful. We would be pleased to respond to any questions regarding these Comments, or to provide any additional comments or information that may be of assistance.

August 2010