

# CHINA'S SYSTEM OF TRADEMARK ADMINISTRATION

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With the continued evolution of human civilization and a commodity-based economy, the protection of intellectual property rights has become an issue of global concern. Governments throughout the world are attaching increased importance to intellectual property protection due to its critical role in facilitating the promotion of scientific and technological advances, cultural prosperity, and economic development. International negotiations launched around the protection of intellectual property rights, and in particular the conclusion of the TRIPS Agreement of GATT, have enhanced the protection of intellectual property rights worldwide. Although China developed its system of intellectual property protection later than other countries, the system has rapidly developed to the point where it not only copes with domestic needs, but also complies with international standards.

Since its founding, the government of the People's Republic of China has attached great importance to the construction of a legal system of trademarks. In 1950, the then Government Administration Council promulgated the Provisional Regulations on Trademark Registration. In 1963, the State Council issued the Regulations Governing Trademarks.

Since the 1980s, a comparatively comprehensive and sophisticated legal system of intellectual property rights has developed in response to the continued commitment to reform and the development of a commodity-based economy. In 1982, the State promulgated the Trademark Law of the People's Republic of China (Trademark Law). The State then promulgated the Patent Law, Copyright Law, Regulations on Computer Software Protection, Law Against Unfair Competition and other laws and regulations concerning intellectual property rights. It should be noted that in order to better meet the needs of the developing market economy, the Trademark Law was amended after the examination and adoption of the 30th Session of the Stand-

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ing Committee of the Seventh National People's Congress, on February 22, 1993. The amended Trademark Law enables service marks to be protected through the same registration system used for trademarks. At the same time, the Standing Committee of the National People's Congress adopted the Supplementary Provisions Concerning the Punishment of Crimes of Counterfeiting Registered Trademarks, which provides stronger measures to punish the crime of counterfeiting registered trademarks. In order to effectively implement the decisions made by the Standing Committee of the National People's Congress, the State Council made further revision of the Implementing Regulations under the Trademark Law, which was published for implementation on March 28, 1993. The amendment of the trademark legislation and promulgation of the supplementary provisions has made China's trademark protection much more comprehensive and consistent with international practice.

What follows is a discussion of the protection of the exclusive rights to use registered trademarks and the administrative measures against trademark infringement that are provided for in the current Trademark Law.

#### PROTECTION OF THE EXCLUSIVE RIGHTS TO USE REGISTERED TRADEMARKS

According to the Trademark Law, the exclusive right to use a trademark can only be acquired through registration of the mark. The protection of the exclusive rights to use registered trademarks (hereinafter referred to as "exclusive trademark rights") is the purpose of the Trademark Law and the core of the Chinese legal system of trademarks.

##### A. Characteristics of the Protection of Exclusive Trademark Rights

1. *Close Relationship Between the Protection of Exclusive Trademark Rights and the Protection of Consumers' Rights and Interests.* According to Chinese civil law, if a general property right is infringed, it will damage only the interests of the property owner, not the interests of a third party or the public. Therefore, if the property owner makes no request for damages resulting from the property violation, the legal system will not prosecute the violation on its own initiative. This so-called principle in the civil law is known as "no complaint, no trial."

Conversely, when a trademark is infringed, not only is the

trademark owner injured, but also the broad mass of consumers. In the case of trademark infringement, even if the owner or trademark registrant is negligent and fails to make a timely request to stop the infringement, the enforcement organs of the State shall take strong measures to punish the infringing act in order to safeguard the legal rights and interests of consumers. Hence, in protecting exclusive trademark rights, the safeguarding of consumers' rights and interests is a top priority.

2. *Significant Differences in the Protection of Exclusive Trademark Rights and the Protection of General Civil Property Rights.* Under the Trademark Law an infringer faces not only civil punishment, but also administrative and criminal punishment. This differs greatly from the handling of a general civil property infringement case.

With heightened public awareness of trademarks, the number of grounds on which to pursue trademark protection and the sanctions for infringement have increased. Trademark infringement may be either direct or indirect and either intentional or negligent. The forms of specific infringements are much more multifarious and involve the following: the use of trademarks completely identical with those of registrants, the use of trademarks similar to those of registrants, damage to the reputation of a registered trademark by unfair means, or participation in trademark infringement and counterfeiting activities by providing assistance and facilities. Trademark infringement will bring direct economic loss to trademark owners and consumers, hamper the normal order of production and livelihood, and damage the system of honesty, trust, and fair competition. It will also retard the healthy development of a commodity-based economy, the social harmfulness of which is far more severe than that of a general civil infringement or dispute. In trademark infringement cases, a civil means alone is not strong enough to realize the goals of protecting exclusive trademark rights and safeguarding consumers' rights and interests.

3. *Comparative Complication of Determining Liability and Damages in Trademark Infringement.* Since trademarks are attached to goods and circulated in the market with goods, they move through many stages from the manufacturer to the consumer. If trademark infringement is found, complicated investigations have to be carried out to identify the stage at which the infringement occurred. In many cases, this involves manufacturers, businessmen, printers of

trademark representations, and others who provided facilities for the infringing acts. The accused in trademark infringement cases are either intentional infringers or negligent infringers who have participated in the trademark infringement as outsiders. Therefore, it is often difficult to clearly distinguish the liabilities of the litigants in investigating and handling trademark infringement cases. Furthermore, when a trademark right is infringed, the reputation of the trademark has been damaged on the market. It is impossible to make a precise calculation of the extent to which the reputation of the trademark has been damaged, and in particular to make a determination of the amount of economic compensation due to the infringer. At present, in order to provide forceful protection of the rights and interests of trademark owners, some countries have stipulated that the court may award an amount of two to three times the actual loss of the infringer if intentional infringement is proven. Such provisions illustrate that there are striking differences between the protection of exclusive trademark rights and general property rights.

#### B. Trademark Infringement and its Identification

Trademark infringement takes place when an action violates the exclusive rights of other parties to use registered trademarks. According to Article 38 of the Trademark Law, any of the following acts shall be an infringement of trademark exclusive rights:

(1) To use a trademark that is identical with, or similar to, a registered trademark in respect to the same or similar goods without the authorization of the proprietor of the registered trademark.<sup>1</sup>

(2) To sell goods known to bear a counterfeit registered trademark.

This type of trademark infringement covers the following situations:

- intentionally dealing in goods that bear a counterfeit registered trademark of another person;
- failing to discontinue use of a counterfeit registered trademark once it is discovered in the course of business that the trademark is counterfeit;
- feigning ignorance of the fact that one sells goods bearing a

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1. If a trademark is identical with, or similar to, a registered trademark for goods that are not the same or similar, it is, in general, permitted and shall not constitute a trademark infringement.

counterfeit registered trademark, where according to common sense and information the seller should know that the trademark is counterfeit.

The second revision in 1988 of the Implementing Regulations under the Trademark Law regarded "dealing in goods that have been involved in an infringement of the exclusive right of another person to use a registered trademark" as trademark infringement, which meant that any organization or individual who had, either intentionally or negligently, dealt in the goods that bore a counterfeit registered trademark of another person would be punished. This apparently was not effective in identifying those liable for infringement and occasionally appeared to punish the innocent. The second amendment in 1993 of the Trademark Law changed the law to punish only those who intentionally or deliberately deal in goods that bear a counterfeit registered trademark of another person. This change made China's law more just and practical than the previous provisions.

(3) To make or sell counterfeit representations of a registered trademark.

Trademark representations refer to goods or substances decorated with trademark devices. In most cases, trademarks are only one part of trademark representations. Other parts of trademark representations include decorations, enterprise names, addresses, etc.

(4) To otherwise cause prejudice to the exclusive right of another person to use a registered trademark.

This provision includes trademark infringement beyond the above-mentioned cases of infringement. According to the Implementing Regulations under the Trademark Law, the following actions are covered:

- Dealing in goods that one knows, or should know, have been involved in an infringement of the exclusive right of another person to use a registered trademark;
- Using any word or device that is identical with, or similar to, the registered trademark of another person, on the same or similar goods, which misleads the public; and
- Intentionally providing any person with facilities such as storage, transportation, post service and concealment which aid in the infringement of the exclusive right of another person to use a registered trademark. It shall, for example, include such cases in which one has intentionally provided the infringer with vouchers, account numbers, plates of trade-

marks, molds, etc. If the person who provides such facilities does so without knowledge of the infringement, his act of providing the trademark infringer with the above-mentioned facilities shall not be regarded as a trademark infringement.

In practice, such trademark infringement that is “to cause, in other respects, prejudice to the exclusive right of another person to use a registered trademark” cannot be restricted to the above-mentioned three forms, but it may cover other forms which are much more complicated. For example, in advertising, publications, arts and literary works, registered trademarks are used as designations of goods, or the reputation of registered trademarks are depreciated, or the goods of another person which bear a registered trademark are adulterated. As for these kinds of trademark infringement, no explicit provisions are made in the Trademark Law and its Implementing Regulations. Therefore, in handling trademark infringement cases, the determination of trademark infringement shall be made according to the relevant facts and the extent to which an act has damaged the reputation of the trademark and the rights and interests of the consumers.

In determining whether or not an action constitutes trademark infringement, neither the fault of the offender nor the existence of damages are determinative factors. Even if one person innocently uses a trademark in conflict with the registered trademark of another person, and it has caused no harmful results, the sole fact of the use of the registered trademarks of another person constitutes trademark infringement. However, in handling the infringement, the extent of subjective bad faith and the resulting harmful consequences may be taken into account.

Furthermore, the basis of the action shall be such words, devices, and combinations thereof as registered and approved by the Trademark Office but shall not be any non-registered trademark reproductions, even if such reproductions are used by the registrants. Allowing non-registered trademark reproductions to be used as the basis for finding infringement, instead of only the trademark as registered, contravenes the original intention of legislation protecting exclusive trademark rights.

Also, in determining trademark infringement, the quality of the goods of the defendant cannot be a relevant consideration. Even if the quality of the goods of the accused party is better than that of the trademark registrant, it shall constitute a trademark infringement as

long as the former uses, without authorization, the latter's registered trademark. Although the said act may neither cause direct damage to the rights and interests of consumers, nor influence the reputation of the registered trademark, it has occupied part of the registrant's market. Thus, it harms not only the interests of the registrant, but also fair competition in the market.

Lastly, in determining trademark infringement, whether or not a registration symbol is marked on the goods or the packages thereof by the owner of the registered trademark cannot be a determinative factor. The Trademark Law provides that the owner of a registered trademark shall mark a registration indication in the course of using his registered trademark. But, there are no provisions made in the Trademark Law and its Implementing Regulations relating to the consequences of failing to attach a registration symbol. Even if a comprehensive provision is made in the future in this regard, the punishment to be imposed on the registrant shall, according to international practice, only be restricted to the barring of the trademark registrant's possible request for the compensation of damages.

#### ADMINISTRATIVE MEASURES FOR TRADEMARK INFRINGING ACTS

According to the legal provisions of most countries in the world, trademark infringement is handled and judged by judicial organs. But according to the Chinese Trademark Law and its implementing regulations, in the case of trademark infringement or counterfeiting, the infringer may either request action from the administrative authority for industry and commerce (administrative authority) at or above the county level or institute legal proceedings directly with the People's Court.

##### A. Case Source and Jurisdiction

According to the Chinese Trademark Law, the local administrative authorities may investigate and handle trademark cases and impose administrative punishment for infringement. As trademark infringement is different from general property infringement, trademark cases do not follow the principle of "no complaint, no trial." Therefore, the trademark administrative authorities may handle cases lodged by the owners of registered trademarks, cases reported by third parties, or cases investigated on their own initiative. Some cases are also transferred to the administrative authority by the judiciary or other concerned governmental departments.

According to Rule 42 of the Implementing Regulations, where the exclusive right to use a registered trademark has been infringed, any person may lodge a complaint with or report the case of infringement to an administrative authority at or above the county level in the infringer's location or the place where the infringing act was done. The infringer's location refers to the place where the infringing act was done, that is, the place where the trademark representations were illegally printed and goods bearing the infringing trademark were manufactured and marketed. The place where the infringing act was done and the infringer's location are two different concepts. The place where the infringing act was done may be either the infringer's location, the infringe's location, or any other place.

Trademark infringement cases may involve infringing acts in several locations, in which case there are several administrative authorities that each have jurisdiction. In such a case, the infringe may select one suitable jurisdictional organ for the actions. Generally speaking, it is appropriate to select the administrative authority for the main place where the infringement was committed, as this better facilitates the execution of the decision. In some cases, all of the administrative authorities that are concerned with the trademark infringement case and have jurisdiction will jointly handle the case. When this happens, one authority acts as the coordinating organ, while the other authorities function as assistants. The decision would then be in the name of the coordinating administrative authority. This facilitates not only the timely handling of the case, but also the execution of the decision and the insurance of fairer and more reasonable handling of the case. If disputes occur in the jurisdiction among the administrative authorities that have jurisdiction in such cases, a report must be submitted to their common and direct higher level administrative authority for a designation of one or several administrative authorities to act in the case.

#### B. Case Filing and Investigation

Where trademark infringement has been committed, if the administrative authority holds, after examination, that there is a need to impose an administrative punishment, it shall place the case on file according to the prescribed procedures and make further investigations.

If a trademark infringement case or any other trademark cause of action is to be filed, it must comply with the following conditions:

- (1) an act has taken place that is contrary to the provisions of the

Trademark Law, its Implementing Regulations and/or other regulations governing trademarks;

(2) there is a need to impose administrative punishment against the illegal act;

(3) the administrative authority has jurisdiction over the matter;

(4) the case has not been instituted with and accepted by the court.

If the above conditions are not met, or if the matter can be settled through advice and/or education, it shall not be filed as a case.

With regard to trademark infringement cases filed with the administrative authority, the said authority shall make serious investigations and check all the relevant facts. The officials engaged in handling the case may exercise the following functions and powers in their investigation of trademark infringement:

(1) inquire of the interested parties about the case;

(2) locate such articles/goods as relate to the infringing act, and order to seal the same where necessary;

(3) investigate acts involved in the infringement; and

(4) examine or reproduce such contracts, account books, or other commercial data relevant to the infringement.

When officials exercise the functions and powers mentioned above, the interested parties must give such officials assistance. Of course, said officials shall follow the prescribed procedures in exercising their functions such as the presentation of their official identification cards, explanation of the relevant matters to the people to be investigated, and approval and issuance of instructions by the leader of the authority when seizing and sealing the goods and articles involved therein.

If the owner of a registered trademark or any other interested person requests the seizure and sealing of the goods prior to the determination of whether or not it is a case of trademark infringement, the requesting party must provide an economic guarantee in order to avoid economic loss to the accused if the alleged infringement is not proven.

#### MEASURES TO BE TAKEN

Once trademark infringement is confirmed, the administrative authority may take the following measures:

(1) order the sale of the goods at issue to be stopped immediately;

(2) seize and destroy the representations of the trademark in question;

(3) order the infringing trademark to be removed from the remaining goods;

(4) seize such molds, plates, and other tools directly and exclusively used in the trademark infringement; and

(5) destroy the infringing articles if the above four measures would be ineffective.

Where an infringement of the exclusive right to use a registered trademark is not serious enough to constitute a crime, the administrative authority may, depending on the case, impose a fine not exceeding fifty percent of the amount of the infringer's illegal business or five times the profit earned in the infringement. Where an organization was the infringer, the administrative authority may, depending on the case, impose a fine not exceeding 10,000 yuan on the person within the organization directly responsible for the infringement.

The administrative authority may, at the request of the infringe, order the infringer to compensate the infringe for the damages suffered. Where any interested party is dissatisfied therewith, he may institute legal proceedings with the People's Court.

As for the above-mentioned measures of punishment, the administrative authority may enforce them either separately or compoundly. The administrative authority shall notify the interested parties of its decision by means of a Notification of Decision.

In handling trademark infringement cases, the administrative authority shall pay particular attention to the following:

(1) Attention shall be paid to distinguish intentional infringement from negligent infringement and to identify the extent to which harm is caused, in order to devise as exact a punishment as possible. Intentional infringement means that the accused intentionally used a trademark identical with, or similar to, a registered trademark in respect of the same or similar goods, or that he actively provided assistance to others when he knew it was an infringement of the exclusive right of another person to use a registered trademark. Negligent infringement takes place when the accused has used a trademark identical with, or similar to, a registered trademark, but he does not know the same trademark has been registered in the name of another person. For intentional trademark infringement, a severe and heavy punishment shall generally be imposed. Such punishment may entail halting the sale of the goods and removing the infringing trademark representations on the goods, destroying the infringing articles, or

imposing a fine. With negligent infringement, it is usually appropriate to stop the infringing act and remove the infringing trademarks on the goods instead of imposing a more severe punishment.

(2) Where the infringe claims compensation for damages, an order shall be made for compensation in order to safeguard the lawful interests of the infringe. The amount of compensation shall be either the profit that the infringer has earned from the infringement, or the damages that the infringed party has suffered as a result of the infringement. The infringe has the right to select either of these methods to calculate the amount of compensation. If the second method is selected for the compensation of damages, the infringe shall provide the relevant evidence of his damages.

The compensation ordered to be made for economic damages suffered by the infringe is, strictly speaking, an administrative remedy but not an administrative punishment. Where compensation for damages is ordered, the administrative authority prepares a Decision on the Compensation for Damages.

(3) Where an administrative fine is to be imposed against an infringement, the amount of illegal business and the profit earned from the infringement shall be determined according to law. The profit earned from the infringement means the profit that the infringer has earned from his infringement of the exclusive right of another party to use a registered trademark during the period of infringement (which shall be earnings during the relevant period minus costs). In calculating the profit earned from the infringement, attention shall be paid to two points: first, the profit shall include only the profit earned from the infringing articles and not from articles that are not involved in the infringement; second, the profit shall include only the profit earned during the period of the infringement and shall exclude that earned beyond the period of infringement.

The amount of illegal business shall be determined by different methods of calculation for the manufacturer and the dealer. For the manufacturer, the amount of illegal business is all the earnings gained from the sale of the infringing products. For the dealer, the amount of illegal business is the total revenue from the sale if all of the goods have been sold; if none of the goods have been sold, the value of the goods and articles is the amount of illegal business; if part of the goods have been sold, the sum of the earnings of the sale of the sold goods and the expenditure for purchase of the remaining goods is the amount of illegal business.

### APPEAL AND RECONSIDERATION

Both of the interested parties in a trademark infringement case, the infringer and the infringe, shall automatically perform the decision made by the administrative authority if they are both satisfied with it. Where an interested party is dissatisfied with the decision, he may, within fifteen days of receipt of the notification of the decision, apply to the administrative authority at the higher level for reconsideration of the decision. The authority at the higher level shall, within two months from receipt of the application for reconsideration, make a decision on it.

Where any interested party is dissatisfied with the decision on reconsideration he may, within fifteen days from receipt of the notification of the decision, institute legal proceedings with the people's court. If there has been no application filed for reconsideration, no legal proceedings have been instituted or no performance made on the decision at the expiration of the specified period, the first-instance authority or reconsideration authority shall request the people's court for compulsory execution thereof.