

## China's New Rules to Curb Bad Faith TM Filing

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On October 11, 2019, the State Administration for Market Regulation (SAMR) announced *The Rules for Regulating Trademark Registration Applying Conducts* ("the Rules"), effective as of December 1, 2019. The Rules are made after the fourth revision of the Trademark Law, effective as of November 1, 2019, and designed mainly to curb abnormal trademark applications, including bad faith filings and warehousing of trademarks, through more specific measures, which are unprecedentedly strict against the squatters and warehousing filers.

Primarily based on Articles 4, 13, 15, and 32 of the fourth Trademark Law, the SAMR more explicitly defines the scenarios of bad faith filing, lack of intention to use, and violation of the principle of honesty and further clarifies the penalties against the bad faith filers and the trademark agencies who knowingly assist the bad faith filers.

### ● Measures against the bad faith filers

The SAMR empowers the China National IP Administration (CNIPA), formerly the Chinese Trademark Office (CTMO) and the Trademark Review & Adjudication Board (TRAB), to directly reject or invalidate the bad faith applications. In other words, if the CNIPA deems an application filed in bad faith or warehousing without intention to use, rejection and invalidation shall be applicable directly.

More importantly, the filer will be punished by the local administration for market regulation in the form of warning, fine, and/or interview about rectification. In addition, credit penalty shall become available. Although the possible monetary fine under the Rules is only CNY30K in maximum, the potential credit penalty can be more deterrent.

In the IP area, before the Rules, only patent infringers can be punished in terms of credit. The patent infringers' bad credit shall be published in the national credit system, which will make the infringers unable to get bank loans, take airplanes or hi-speed trains, or book decent hotels.

The SAMR has listed in the Rules the six specific elements for the CNIPA to judge bad faith filing, namely,

- 1) The number of applications, designated classes, actual transaction of the trademarks of an applicant or the natural persons, legal persons, and other organizations related to the applicant;
- 2) An applicant's industry and business situation;
- 3) An applicant was once ruled in an administrative decision or judicial judgement that the applicant registered a trademark in bad faith or infringed another party's registered trademark;
- 4) An applied-for trademark is identical with or similar to another party's trademark with certain fame;
- 5) An applied-for trademark is identical with or similar to a famous personal or corporate name, an enterprise name abbreviation, or another business sign etc.; or
- 6) Any other element that the trademark registration organ regards as necessary for consideration.

The sixth element is an all-inclusive one designed to accommodate new elements which have not yet been thought of. New elements might be specified through future rules separately. Certainly, the list is also a good guidance for the victims of bad faith filing to collect evidence.

The fourth element is another concern that the filers should be aware of as the flexibility of the term "certain fame" is unpredictably big. Imitating or copying such a trademark with certain fame can be deemed bad faith filing. The concept of bad faith we believe has been unnecessarily broadened. We hope this will not bother the legitimate trademark owners who file a similar or identical mark by accident, not to imitate or copy others' brands on purpose.

#### ● **Measures against a trademark agency who knowingly assists a bad faith filer**

Where an agency is found knowingly assisting a bad faith filer in violating Articles 4, 15 and 32 of the Trademark Law, the local administration for market regulation may warn the agency, require the agency for rectification within a prescribed period of time, or impose a fine as much as CNY100K, whereas the

agency's directly responsible manager and other directly responsible persons shall be warned and fined in the amount between CNY5K and CNY50K.

Furthermore, the SAMR requires the trademark agency association to perfect and strengthen its self-disciplinary regulation and punish the members violating the regulations and announce the punishment. Under the China Trademark Association (CTA), a trademark agency sub-association were founded years ago, but the sub-association has not been empowered to set trademark agent examination or punish its members. If the sub-association is so empowered, it is possible that the trademark agent bar will be resumed and all trademark agents and agencies need to join. Many tasks will be waiting for the sub-association.

In serious cases, criminal liability shall be legally sought and the CNIPA may stop accepting the agency's cases, which can put a trademark agency out of business, though not certain for how long.

### ● Risk of assignment

According to Rule 9, assignment of a trademark shall not influence the trademark registration organ's decision on whether or not the trademark violates Rule 3. That is, if a company acquires a trademark, which is later found by the CNIPA filed in bad faith, the acquired trademark can be rejected, invalidated or disapproved of registration, which will put the assignee at risk. As such, the assignee should be more careful to acquire a trademark or even require the assignor to guarantee the legitimacy of the registration and refund the acquisition fee, if the trademark is later effectively deemed by the authorities concerned as filed in bad faith.

### ● Trends and consequences

The Rules demonstrate China's determination to curb bad faith trademark filing and eventually improve the business environment, though the CNIPA needs some more time to further specify the details and announce typical cases to implement the Rules and guide future examination.

Although the fourth Trademark Law and the Rules will come into effect on November 1 and December 1, 2019 respectively, the CNIPA has already begun

to take action. As a result, the amount of new applications in the first half of 2019 has decreased by 4.1 percent (-4.1%), after many consecutive years of dramatic increase.

In the foreseeable future, the amount of bad faith applications as well as the total amount of new applications will drop substantially and the trademark industry will shrink. The Chinese trademark “boom” will fade. Consequently, there will be shrinking need of so many trademark examiners, service providers, agencies and agents. The fittest survives.