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### **Significance of Trademark Use in China**

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China<sup>i</sup> revised its Trademark Law for the third time (“the new Law”) on August 31, 2013 and put the same into effect on May 1, 2014. Under the new Law, trademark use has become more significant. We would briefly introduce the significance from practitioners’ perspective, which we hope can be useful to companies and peers alike.

#### **1. Definition**

The new Law clarified the definition of trademark use in Article 48 “Trademark use in this Law shall refer to the use of trademarks on goods, the packaging or containers of goods and the documents of goods transaction, or the use of trademarks for advertising, exhibition and other commercial activities to identify the sources of goods.” This definition comes from Rule 3 of the Implementing Rules of the previous Trademark Law, but the new Law has an additional phrase “to identify the sources of goods”, to stress the function and purpose of trademark use.

As a result, the trademark authorities and Courts have tent to consider “token of use” as invalid in non-use cancellation. In the past, some trademark registrants noticed the approaching expiration of the three years of non-use cancellation and purposely invested in a small newspaper advertisement or other token of use, to keep the mark in force at the lowest possible cost, without true intention to use the mark “to identify the sources of goods”. In the future, such token of use can hardly convince the authorities or Courts.

Under this Article, valid use includes two types of actions or evidence—1) actual business use, namely “the use of trademarks on goods, the packaging or containers of goods and the documents of goods transaction”, or 2) preparation for use, namely “advertising, exhibition and other commercial activities”. In non-use cancellation case, either type of evidence can suffice to keep a registered mark from the possible vulnerability.

#### **2. Five elements to prove valid use**

Although the Chinese Trademark Law has never explicitly mentioned this, from the authorities' and Courts' practices, evidence for proving valid use should include the following five elements:

- 1) Trademark (identical or basically identical with the mark registered);
- 2) Goods or services (identical with the goods or services registered);
- 3) Location (i.e., mainland China only);
- 4) Date (dependent on different procedures); and
- 5) Users (i.e., owner and/or licensed users).

The evidence should prove the five elements independently or together with other evidence. In different procedures (e.g., opposition, non-use cancellation, appeals), the requirements are different from case to case.

### **3. Necessity to overcome non-use cancellation**

For trademarks registered in China, the registrant is supposed to use the trademark in actual business in public way. In case a third party initiates a three-consecutive-year non-use cancellation, and the registrant failed to file effective use evidence within the required period or does not have justified reason for non-use, the mark concerned shall be cancelled by the Chinese Trademark Office (CTMO). The justified reasons for non-use are very limited, only including the special situations such as *force majeure*, government policy restrictions, bankruptcy liquidation, etc.

In non-use cancellation procedure, the following actions are usually not regarded as trademark use, namely 1) the publication of the registered trademark and the registrant's declaration about its exclusive trademark right, 2) the use in non-commercial area, 3) the use as a gift, 4) assignment or license behavior alone without actual use, and 5) token of use, etc.

If the challenged mark is finally cancelled, although re-filing is possible, it takes around one year and rejection might arise during the course. Therefore, in potential non-use cancellation procedure, it is crucial to collect and keep use evidence in actual business, particularly when the three-year period is approaching the end.

### **4. Basically a necessity to claim damage**

In trademark infringement cases, the amount of damage for infringing the exclusive right to use a trademark shall in sequence be determined according to 1) the actual losses that the registrant has suffered, 2) the profits that the

infringer has earned; or 3) a reasonable amount that would be paid for a licensing royalty for the trademark right.

Thus, the registrant's actual losses are primary to calculate the damages. If the registrant does not use or license others to use the registered mark, actual losses will be difficult to be determined. Although there are still the remaining two alternatives 2) and 3) to calculate the damage, to guide the proper use of trademarks and reduce trademark squatting and hoarding behavior, Article 64 of the new Law directly stopped the remaining two calculating ways and added the actual use as the basis to claim damages. Under Article 64 of the new Law, where damages are claimed but the registrant cannot provide proof of using the trademark over the past three years or proof of other losses due to the infringement, according to the infringer's defense and under the Court's order, the infringer shall bear no liability for any claimed damage. As such, trademark use has basically become a necessity to claim damage.

## **5. Proof of well-known status or influential status**

Usually, well-known mark or influential mark enjoys broader and stronger protection. For example, well-known mark enjoys cross-class protection and for the marks filed in bad faith, well-known mark owner is entitled to initiate invalidation without time limit; the owner of prior used mark with certain influence can continue to use the mark in original scope after the identical or similar mark is registered and it can initiate opposition against the identical or similar marks filed in improper means. In trademark dispute or infringement cases, the prior right holder tends to submit large quantity of trademark use to prove the well-known or influential status.

When determining the well-known status or influential status, the pertinent authority will synthetically consider the duration of the trademark use, extent and geographical area of any publicity of the trademark, the degree of notoriety among the relevant public, etc. According to the current practices, to prove the well-known status, the trademark should be continuously used for more than five years, before the application date of the disputed mark or the infringement date. If interrupts exists during the use, well-known or influential status might not be recognized.

## **6. Proof of acquired distinctiveness**

Where the mark concerned is deemed as lacking distinctiveness when used on the designated goods or services, the CTMO will issue a notification of rejection. In the potential appeal against rejection, in addition to arguing for the inherent distinctiveness, it is also possible to claim the distinctiveness acquired through long-term and extensive use.

Nevertheless, according to our experiences, the acquired distinctiveness can hardly be recognized unless large quantity of use evidence occurred in mainland China is filed before the Trademark Review and Adjudication Board (TRAB). Actually, there is no specific stipulation or standard as to how to judge whether the distinctiveness has been acquired through use. Some judges opine that the “reputation requirements” in the acquired distinctiveness should be basically the same as those for a well-known mark, which means such “reputation” should spread across the country.

In addition, through the use, the marketing awareness of the relevant consumers will be established step by step, which will give the mark concerned a “second connotation”. If such “second connotation” is insufficient to fight against the mark’s inherent literal meaning, trademark protection shall not be approved due to the descriptiveness of the inherent meaning on the designated goods or services. In other words, only when the impression on the said “second connotation” is stronger (or at least the same) than that on the initial meaning will the mark concerned have the capacity to indicate the origin of the goods or services.

In practice, to make preparation for proving the acquired distinctiveness, keeping good record of the trademark use evidence occurred in China is always important and useful.

#### **7. Support to prevent similar or identical trade name in the same industry, against unfair competition**

If a third party registers an identical or confusingly similar trade name to run business in the same industry, it is possible for the owner of the registered mark to initiate a civil lawsuit based on trademark infringement and/or unfair competition, in which the prior trade mark use situation might be a significant factor that the judges will take into account.

#### **8. Controversies in OEM use**

As a controversial problem in China, OEM (Origin Equipment Manufacture) attracted much attention of foreign entities in recent years. OEM use is treated differently in infringement cases and non-use cancellation cases.

In infringement case relating to the mark PRETUL & Device, No. 3071808, the Supreme People’s Court (SPC) once adjudicated that the mark use under OEM pattern does not constitute trademark infringement mainly because that the OEM products will not enter into the Chinese market and thus will neither function as a trademark to indicate the origin of the goods or services nor

cause confusion among the relevant consumers. However, pursuant to the case-by-case examination criteria, local Courts sometimes issue rulings with different views, as precedents of even the SPC is not binding on other courts.

In non-use cancellation cases, the mark use under OEM pattern is usually regarded as effective use evidence to defend against non-use cancellation. The primary reasons lie in that 1) the purpose of non-use cancellation is to encourage the use of the mark, rather than to cancel a registered trademark; and 2) since OEM is a positive behavior to use trademark, according to equity principle, such kind of use should be regarded as effective use.

Given that OEM use is recognized or accepted in some administrative or judicial cases, we suggest collecting the relevant evidence in an appropriate way in advance, preferably together with other traditional trademark use evidence, if any.

## **9. Tips on trademark use**

When using a registered trademark, the following tips should be well noted:

- 1) Registration sign ® can only be attached to the registered mark;
- 2) The registrant should restrict the use to the registered scope and a new application shall be filed if the registrant wishes to use the registered mark on other unapproved goods or change the elements or layout of a registered mark;
- 3) The use should be limited to the exclusive trademark period and renewal application shall be duly filed if the registrant intends to extend the valid period.

In general, the new Law has been better designed to encourage legitimate trademark use and prevent illegal use. So long as the users have true business intention without bad faith to use their trademarks or others' trademarks with authorization, they deserve protection and support in China.

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<sup>i</sup> China in this article refers to mainland China only, not including Hong Kong, Macau, or Taiwan, though inseparable territory of China.