

Cancelling registered trademarks in China for non-use

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Summary

Under article 44(4) of the 2001 PRC Trademark Law, if a registered trademark has not been used for three consecutive years any party may file a non-use cancellation application with the China Trademark Office.

For foreign brand owners this is both a shield and a sword. It can offer a way to clear the path if your brands have been hijacked in China. At the same time, an action for non-use poses a potential threat to defensive registrations and other legitimate place-holding registrations for overseas brands you may want to roll out in the Chinese market in the future.

In this briefing, we look at what brand owners can do to remove abusive filings and to defend themselves against an application to cancel their trademarks.

When does the three-year period start?

From the registration date.

Is the registration permanently vulnerable to cancellation action if the trademark has not been used for any period of three consecutive years?

No. The relevant period is the three-year period immediately before the cancellation action is filed.

Therefore, if the owner did not use the trademark for three years after registration but re-started genuine use in year four, the registered trademark will not be cancelled if the cancellation action is brought in year five (or at any time after genuine use re-starts).

What constitutes genuine use?

Under the implementing regulations for the Trademark Law, 'use' of a trademark is defined (for all purposes under the Trademark Law) as 'to use the trademark on goods, packaging or containers of goods and the transactional documents related to goods, or use the trademark in advertising, exhibition and other commercial activities'.

The Supreme People's Court (SPC) has given guidance on the application of article 44(4) in a formal opinion in April 2010.

The SPC stated that:

- the relevant use is 'actual use' of the trademark;
- 'actual use' is to be determined in accordance with the legislative spirit of the Trademark Law;
- mere assignment or licence is not sufficient;

- mere publication of trademark registration information or the mere announcement of exclusive ownership of the registered trademark is not sufficient; and
- when the trademark owner fails to actually use or stops using the registered trademark due to objective factors such as force majeure, policy restrictions and bankruptcy liquidation, or the trademark owner has a real intention to use the trademark and makes necessary preparations to use the mark but has not yet used the registered trademark due to other objective factors, it shall be deemed that the trademark owner has justified reasons.

Under the SPC guidance, Chinese courts now apply a substance-based approach rather than a formal test.

To defend a non-use cancellation application, trademark owners need to produce evidence that shows 'public, genuine and lawful' use of the trademark in commerce. Under this approach, indirect evidence of use must be corroborated by direct evidence. Consequently, evidence such as safety inspection reports, delivery notes and product packaging, without corroboration by direct evidence, is not enough to convince a court that there has been 'use' within the meaning of the Trademark Law.

A trademark owner is now required to produce evidence of use in commerce that indicates the source of the goods so that the relevant members of the public are able to distinguish the market entities that provide the products and services.

The table below lists different sets of evidence produced by various trademark owners in recent non-use cancellation cases and the court's ruling on each set of evidence. Under China's civil law system, a court's decisions on a particular set of facts are not binding on other decisions by courts at the same level, or inferior courts. Therefore, this summary is for illustration and reference only.

Can the trademark be partially cancelled for non-use?

Yes. If the grounds for cancellation are only sustained for some of the goods and services (ie sub-classes in the Chinese system) for which the mark is registered, the mark will be cancelled in part.

If the owner demonstrates use for some but not all of the sub-classes for which its mark is registered, the mark should therefore be cancelled only for those sub-classes for which the owner has not produced sufficient evidence of use.

Does the use have to be in the exact form registered?

In its April 2010 opinion, the SPC stated that use of the trademark in a 'slightly different' form from the one in which it is registered is also regarded as use provided there has been no substantial alteration to the distinctive features of the trademark.

Therefore, use of a plain word mark might potentially be enough to preserve the validity of a stylised version of the same mark (and vice versa) depending on the degree of stylisation. However, a precise rule is missing in the case law and the SPC guidance, so this could not be relied on as a rule of thumb.

Does use by authorised third parties count?

The SPC opinion states that use of the registered trademark by an authorised third party is considered use within the meaning of the Trademark Law. Use of the mark by a licensee or any other party that the owner has authorised counts.

However, mere transfer or licence of the registered trademark, release of the trademark registration information or declaration of the exclusive right to use the registered trademark without actual use will not be regarded as use of the trademark in commerce.

What if products are being manufactured in China for export markets only?

There is conflicting case law from different courts on the question of whether pure OEM activities in China amount to trade mark infringement.

In a recent decision in the case of *Shanghai Shenda Sound Electronics Co Limited v Jiulide Electronics (Shanghai) Limited (2009)*, the Shanghai Higher People's Court held that OEM activities that involve the affixing of trade marks that are not owned by the manufacturer did not amount to trade mark infringement. The defendant in this case was making amplifiers for shipment to its US parent and had affixed to the goods a trade mark that was owned by its US parent in the US.

This decision conflicts with earlier decisions, although this is partly explained by its specific facts. The proposed revisions to the Trademark Law may clarify the position, but in the meantime there is doubt whether manufacture of branded goods alone will guard against an action for non-use, without actual domestic sales.

Recent court decisions on cancelling unused trademarks in China

Cases	Evidence produced by the owner	Court decision
<p><i>Huayi</i> (Beijing High Court) 30 November 2005</p>	<p>Non-use cancellation application date: 1 April 2002.</p> <p>Application for safety inspection dated 5 March 2002 and safety inspection report dated 27 March 2002 covering two registered trademarks 'Lihuada' and 'Huayi'.</p> <p>Order for Huayi desk lamps dated 17 January</p>	<p>Evidence insufficient to prove use of the trademark because the evidence produced was all circumstantial evidence and not 'direct evidence which proves actual use</p>
<p><i>Boao Bio Co Ltd</i> (Beijing High Court) 4 August 2008</p>	<p>Non-use cancellation application date: 22 July 2002.</p> <p>Products bearing the disputed trademark and manufacture dates of 16 August 2001 and 18 October 2001, respectively.</p> <p>Sales contract dated 6 August 2001 and corresponding price list, delivery note and</p>	<p>Evidence sufficient to prove use of the trademark.</p>

<p><i>Dianhong Pharmaceutical Group v Kangwang</i></p> <p>Supreme People's Court, upholding Beijing High Court decision</p> <p>25 December 2008</p>	<p>Non-use cancellation application date: 18 October 2002.</p> <p>Two product packages bearing the disputed trademark and manufacture dates of 14 August 2001 and 17 September 2011, respectively.</p> <p>Supply contract dated 5 August 2002 regarding manufacture of product packages and product description bearing the disputed trademark.</p>	<p>Evidence insufficient to prove use of the trademark because the evidence produced did not prove 'public, genuine and lawful use of a trademark in commerce'.</p>
<p><i>James Band Garments Co Ltd</i></p> <p>(Beijing (No. 1) Intermediate People's Court)</p> <p>12 August 2010</p>	<p>Non-use cancellation application date: 15 July 2004.</p> <p>Hang tags bearing the disputed trademark without a date.</p> <p>Printing contract mentioning '007 JAMES BAND' trademark and its Chinese equivalent dated 10 April 2004.</p> <p>Invoice for printing fee dated 1 October 2004.</p> <p>Photos of disputed trademark in shops.</p> <p>Promotional sales invitation from 2001.</p> <p>Order for clothes with hang tags bearing the</p>	<p>Evidence insufficient to prove use of the trademark because Beijing (No. 1) Intermediate People's Court found that the trademark owner was unable to produce evidence to demonstrate that clothes bearing the disputed trademark had entered the market</p>
<p><i>Daqiao Trademark Dispute</i></p> <p>#1240054</p>	<p>Invoice related to products using the disputed trademark.</p> <p>Advertisement published in <i>Huzhou Daily</i>.</p> <p>Invoice for the advertisement fee.</p>	<p>Evidence insufficient to prove use of the trademark because the alleged use constitutes only 'token use' based on the following acts:</p> <p>sales within three years amounted to only RMB1,800;</p> <p>only one advertisement was published during</p>

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