The Year in Review

Central/East Asia and China

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This Article reviews some of the most significant international legal developments made in Central Asia, East Asia, and China in 2019.

I. Trademark Law Development in China

In the year 2019 Chinese trademark law showed remarkable progress, specifically in legislative efforts, enforcement to curtail bad faith trademark filings in all stages of trademark registration, and by discouraging infringement through increased damages. Another important development involved a change in the Supreme People’s Court’s (SPC) position on the “OEM” use of a trademark—namely, the use of a trademark merely for manufacturing in and exporting from China those goods to be sold in other jurisdictions. In particular, the SPC’s position changed on whether there was trademark infringement if the trademark used for OEM is not registered in China by the party commissioning or conducting the OEM use, but is identical or similar to a trademark in China that is owned and registered by a third party. Such a change of the SPC’s positions suggests that U.S. companies should consider obtaining trademark registration in China for their sourcing activities in order to mitigate potential infringement risks.

A. Amendments of PRC Trademark Law and Ancillary Regulations

1. The PRC Trademark Law

The amended PRC Trademark Law came into effect on November 1, 2019.

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1. This section is authored by Jingbing Li and Yanling Zheng, partners of ZY Partners.
3. See id.
The relevant amended provisions clamp down on bad faith filings in all stages of trademark registration and enforcement and are widely considered to be great strides in Chinese IP protection in recent years. First, use requirements may be imposed on suspected bad faith filings and, pursuant to article 4, the China Trademark Office (CTMO) may directly reject “bad-faith trademark applications that are not intended for trademark use” at the initial filing examination stage. This action will save the cost and time involved in filing either an opposition or an invalidation at a later stage for legitimate IP owners.

Second, trademark agents are more heavily regulated than before. According to article 19, trademark agents who know or have reason to know that a trademark filing violates articles 4, 15, and 32 of the PRC Trademark Law shall not accept the relevant entrustment. Trademark agents’ violation of article 19 may trigger an administrative penalty and may even face criminal liability under serious circumstances. The administrative penalty mainly includes a warning, fine, or prohibition from practice in trademark prosecution matters before the China National Intellectual Property Administration.

Third, the amended article 68, not only allows the administrative authorities to impose warnings, fines for bad faith filers, or both, but also grants the courts the power to impose a penalty against bad faith filers if they lodge trademark lawsuits maliciously.

Further, another noteworthy aspect of the amended law lies in the increased penalty for infringement of trademark rights. According to article 63, if the infringement is deemed malicious and serious, the maximum damages that may be awarded has been raised from three times to five times the actual loss caused by infringement, the unlawful profits obtained from infringement, or the reasonable royalty fees. And the maximum statutory compensatory damages have been raised from three million RMB, to five million RMB.

By request of the rightful holder, infringing goods must be...
destroyed or banned from the market even after removal of the infringing signs.14

2. Provisions on Regulating Applications for Trademark Registration (the Regulations)15

The Regulations were issued on October 17, 2019, by the China State Administration for Market Regulation (SAMR), which is the administration supervising China National Intellectual Property Administration (CNIPA) responsible for the enforcement of market regulating laws.16 The Regulations, which became effective on December 1, 2019, are an ancillary regulation to the amended Trademark Law.17

To begin, the Regulations provide a specified list of abnormal filing behaviors to illustrate violations of the Principle of Good Faith under article 7 of the PRC Trademark Law.18

Second, the Regulations list numerous factors to be considered by the trademark registration authorities regarding how to identify bad faith filings with no intent to use under article 4 of the PRC Trademark Law. Such factors mainly include: the number of marks filed by the applicant and its related entities, any trademark trading activities by the applicant and its related entities, the business status of the applicant, previous administrative or judicial decisions in which the applicant has been convicted as a bad-faith applicant or infringer, and the extent to which the applicant’s marks are identical with or similar to another party’s prior trademark, trade name, or celebrity’s name or other business symbol.19

Third, the Regulations detail the administrative penalties against misbehaviors by bad faith filers and trademark agents. For bad faith filers, the local Administration for Market Regulation at or above the county level could impose penalties such as warnings and fines up to 30,000 RMB (about $4,200).20 For trademark agents who have assisted in bad faith filings, the fines imposed can be up to 100,000 RMB (about $14,200).21 In particular, such administrative penalty records will be open to the public in the enterprise credit systems.22

14. Id.
16. Id.
17. Id. at art. 1, 19.
18. Id. at art. 3.
19. Id. at art. 8.
20. Id. at art. 12.
21. Id. at art. 13.
22. Id. at art. 14.
3. Some Practical Issues —Retroactivity, Defensive Filing and Advisory Letter

The application of retroactivity regarding these laws is a shared concern of U.S. companies. The non-retroactivity principle is the usual principle applied throughout the several rounds of amendments of the PRC Trademark Law. The critical date for determining whether to apply the new law or the old law is the registration date. Generally speaking, if the mark was filed before the new law takes effect but gets registered after that, the new law will apply in the potential administrative action. Nevertheless, the majority of the current changes of the trademark laws actually just codify the rules and practices adopted by the CNIPA, including the CTMO and the former Trademark Review and Adjudication Board. Thus, U.S. companies can be more optimistic about the outcome of their efforts against bad faith filings, as the new laws will encourage the CNIPA and the courts to be stricter with bad faith filings than before. Further, the severe penalties provided in law against bad faith filers and bad faith trademark agents will carry great deterrent effects in the long run.

Due to rampant trademark squatting in practice, the legitimate trademark owners sometimes will file defensive applications to prevent trademark squatters from filling gaps in their registrations in China—regardless of whether they intend to actually use such defensive marks in the near future. Along with retroactive application of the PRC Trademark Law, another significant concern among U.S. companies is whether defensive filings by legitimate trademark owners will continue to be allowed under article 4 of the PRC Trademark which emphasizes the intended use when filing a trademark application. The Beijing High People’s Court, which normally conducts final judicial review over the CNIPA’s trademark administrative decisions, addressed this issue in its Guidelines for the Trial of Trademark

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24. Id. at art. 6.


27. See id.; PRC Trademark Law art. 4.
Right Granting and Verification Cases (the Guidelines). According to article 7.1 of the Guidelines, article 4 of the PRC Trademark Law is supposed to regulate bad faith filings targeting other brands and public resources and large-scale trademark hoarding without justifiable reasons.

Use requirements may be imposed on suspected “bad-faith” filings, but not on all trademark applications, thus defensive marks filed by bona fide parties will not be affected under the current law and practice.

According to the Q & A on the Regulations published by the SAMR on October 22, 2019, the CNIPA may consider the advisory letters against unregistered bad faith filings. Additionally, the CNIPA may refuse the relevant applications at the stage of examination if the CNIPA determines that article 4 of the PRC Trademark Law has been violated. Under the new trademark laws, filing advisory letters before the CNIPA, requesting that the CNIPA reject the bad faith filing directly, and requiring that the CNIPA conduct a stricter examination of the bad faith filer’s subsequent filings may turn out to be a useful and cost-effective approach to stop trademark squatting.

B. State of Law vis-à-vis Sourcing/OEM Manufacturing

Following the SPC’s previous opinions in the *Pretul* case and the *Dongfeng* case, the OEM use of a trademark does not constitute trademark infringement even if the trademark used for sourcing was identical or similar to a trademark registration owned by a third party in China. But the SPC’s attitude has changed drastically in its recent judgment on an OEM-related trademark infringement case involving *Honda Motor Co., Ltd. vs. Chongqing Hensim Xin Tai Trading Co., Ltd., and Chongqing Hensim Group Co., Ltd.* (the

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29. Id. at art. 7.1.

30. See id.


32. Id.

33. See id.


HONDAKIT case). In this case, the SPC held that OEM activities in China commissioned by the trademark holder of the mark “HONDAKIT” in Myanmar constituted infringement upon Honda Motor Co., Ltd.'s trademark right to their Chinese registered trademark “HONDA.” First, the SPC determined that the OEM use of a trademark by the manufacturer may constitute trademark use as long as such a mark is likely to function as a source identifier, regardless of whether the mark is labeled or used in some other way during the Chinese manufacturer’s OEM activities. Second, the “relevant public” in this case shall not only include the end consumers of the alleged infringing products but also the business operators of such products. In particular, this includes those in the process of transporting the alleged products who have the chance to access such products. Third, as international e-commerce and overseas travel become more and more common, goods manufactured in China to be sold to other jurisdictions could also cause trademark confusion among Chinese consumers. This is due to goods either being sold back to China or being misrecognized by Chinese consumers travelling abroad. Finally, the SPC concluded that because there is a likelihood of trademark confusion in this case, the OEM activities unauthorized by the trademark registrant in China should be deemed trademark infringement, regardless of whether such activities have been authorized by the trademark registrant of another jurisdiction.

The SPC illustrated the following two policy considerations in the HONDAKIT case. First, the SPC indicated that as the mode of economic development in China is changing from “quantity-oriented” to “quality-oriented,” the view on OEM activities should not remain the same but should be adjusted in consideration of the current situation of domestic and international economic development. Second, the SPC emphasized the significance of keeping the uniformity of the application of law and pointed out that it is inappropriate to classify the OEM use of a trademark as an exception of trademark infringement.

Regarding non-use cancellation actions, in the case of Montfort Services Sdn. Bhd. v. TRAB and USA PRO IP Ltd. (the USAPRO case), the SPC confirmed that the OEM use of a trademark is valid and thus can defend a mark against non-use cancellation action.

37. Id.
38. Id.
39. Id.
40. Id.
41. Id.
43. Id.
44. Id.
The HONDAKIT and USAPRO cases indicated that the SPC intends to unify the adjudication standards on the long-discussed OEM use of a trademark. Chinese court opinions cannot be regarded as binding precedent; and courts may issue differing decisions depending on the different circumstances of each case scenario. But lower courts usually give significant deference to judgments by SPC, which sometimes even sets the tone for a disputed issue for a certain period. Accordingly, if U.S. companies source goods from China, it is advisable to register the relevant trademarks in China in a timely manner in order to mitigate the potential infringement risks—even if the goods may not be directly sold in China.

II. Arrangement Concerning Mutual Assistance in Court-Ordered Interim Measures in Aid of Arbitral Proceedings by the Courts of the Mainland and of the Hong Kong Special Administrative Region

On October 1, 2019, the “Arrangement Concerning Mutual Assistance in Court-Ordered Interim Measures in Aid of Arbitral Proceedings by the Courts of the Mainland and of the Hong Kong Special Administrative Region” (the Arrangement) between the Government of Hong Kong SAR and the SPC came into force.46

The Arrangement was entered into between the Hong Kong SAR government and the SPC on April 2, 2019.47 The SPC published further information regarding the interpretation and application of the Arrangement in the People’s Court Daily on September 26, 2019.48 On the same day, a list of Hong Kong institutions designated in the Arrangement was published, which included the Hong Kong International Arbitration Centre (HKIAC), the China International Economic and Trade Arbitration Commission Hong Kong Arbitration Center, the International Court of Arbitration of the International Chamber of Commerce-Asia Office, the Hong Kong Maritime Arbitration Group; the South China International Arbitration Center (HK), and the eBRAM International Online Dispute Resolution Centre (collectively the Approved Institutions).49

This new Arrangement, which took effect retroactively, permits parties to arbitral proceedings seated in Hong Kong and administered by one of the

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47. Id.
Approved Institution to apply to a court in Mainland China for preservation measures in relation to those proceedings. More specifically, this new Arrangement permits any of the Approved Institutions to apply the arbitral award to a court in Mainland China before the arbitral award is issued. The Arrangement also outlines the procedure that parties to arbitrations administered by Mainland institutions must abide by in order to secure interim relief from the courts in Hong Kong.

Aside from the limited preservative measures available in certain foreign-seated maritime disputes, the Arrangement represents the first time that parties to arbitrations seated outside of Mainland China can seek preservative measures in the Mainland.

Parties to arbitrations seated in Hong Kong and administered by an Approved Institution (as defined in article two of the Arrangement) can apply for interim relief from the Intermediate People’s Court (IPC) pursuant to the Arrangement at the place of the residence of the party against whom the application is made or at the place where the property or evidence is situated. Applications to more than one IPC are not permitted; however, the Arrangement does not expressly preclude a party from seeking interim relief in Hong Kong and Mainland China concurrently.

An application for interim relief in the Mainland can be made at any time prior to the issuance of the award by the arbitral tribunal, including before the arbitration proceedings commence. If the application is made before an Approved Institution has accepted the case, it must be submitted directly to the relevant IPC. If the IPC grants the application, the applicant will have thirty days from the date on which the interim relief is granted to provide that IPC with a letter from the relevant administering institution that confirms that the institution has accepted the case. Failing to do so will result in the IPC revoking the interim relief granted. If an application is made after the institution has accepted the case, it must be submitted to the Approved Institution which can then forward it to the relevant IPC. This is consistent with the existing practice in the Mainland when it comes to applications for interim relief in arbitrations seated in Mainland China.

The Arrangement provides that the types of interim relief available to parties in the Mainland include: property preservation, evidence preservation, and conduct preservation.

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50. Id.
51. Id.
52. See Arrangement, supra note 46.
53. Id. at art. 2–3.
54. Id. at art. 3.
55. Id. at art. 6.
56. Id. at art. 3.
57. Id.
58. See Arrangement, supra note 46, at art. 3.
59. Id. at art. 4.
60. Id. at art. 1.
Applications for interim relief in the Mainland are governed by the laws of the PRC, including the Civil Procedure Law of the PRC, the Arbitration Law of the PRC, and the relevant judicial interpretations. The Civil Procedure Law requires an IPC to decide an application for interim relief made in case of urgency within 48 hours after its receipt and, if the application is granted, the measures shall come into force immediately. Pursuant to article 101 of the Civil Procedure Law, a party that applies for preservation measures prior to the commencement of an arbitration proceeding is required to provide security in support of its application.

Under the Arrangement, parties seeking to secure preservation measures in the Mainland can only turn to the Mainland courts. Accordingly, there remains no express legal basis in Mainland China for the enforcement of interim orders issued outside of the Mainland. This rule can be contrasted with the situation in Hong Kong where, under the Hong Kong Arbitration Ordinance (Cap. 609), parties to arbitrations can both request interim relief from the court or an arbitral tribunal and readily enforce an arbitral tribunal’s interim orders in Hong Kong in the same manner as court orders.

As of December 2019, the HKIAC has received five applications pursuant to the Arrangement, one of which has already been granted by a Mainland court.