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Trademark Squatters Get Smarter in China A Look at Their Latest Tactics

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Trademark squatting has long been the foremost concern for foreign companies wishing to enter the Chinese market, and the new Chinese Trademark Law effective from November 2019 has stepped up to combat trademark squatting.

The "first-to-file" trademark system of China grants protection to parties who file the trademark application first and requires no proof of use in order to register. Trademark squatters take advantage of the system and register foreign brands as trademarks in China in the hope of riding on the reputation of the brands or profiting by selling the trademarks back to the rightful owners.

I. ESCALATING NUMBER OF FILINGS IN DIFFERENT CLASSES AND SUB-CLASSES

Recently, we see squatters escalating their trademark squatting activities after noticing that the rightful owner is taking action against them. Once the rightful owner files an opposition, the squatter applies for the rightful owner's marks in many more related classes and sub-classes, in some cases, even 100 marks and even in all classes. The squatters appear to be aware that the rightful owner needs to spend much time and costs in opposing trademarks and use escalating filings as a tactic to pressurize rightful owners to settle with them.

China operates a rigid class and sub-class system in which goods or services in one class are divided into sub-classes,

items classified under different classes and sub-classes are in most cases considered to be dissimilar. Under this rigid sub-class system, even if the rightful owners have secured registration for their goods and services of interest in China, they often find other parties registering the same marks for related goods or services in other classes and sub-classes and have difficulty stopping such registration.

In order to prevent registrations by third parties in different classes and sub-classes, rightful owners need to broaden the classes and scope of specification to cover the classes and sub-classes of related goods or services. It is advisable to think ahead and register your trademarks to cover (i) your core goods or services; (ii) goods or services that you might offer as your business expands; and (iii) goods or services that

you might wish to prevent third parties from registering. When filing an opposition, the opponent also needs to reconsider its trademark coverage to defend itself from escalating squatting activities.

II. USE OF MULTIPLE ENTITIES AND FOREIGN SHADOW COMPANIES

Professional trademark squatters recruit relatives and employees and set up companies to hold trademarks and support their free-riding activities in China. This is in response to trademark authorities inferring applicants' bad faith from the large number of marks they hold.

The rightful owner should conduct extensive background search against the applicant to uncover affiliated companies. We should show the total number of bad faith filings of all affiliated companies to emphasize the severity of bad faith. We can also utilize the publicly available decision database to check if the applicant and its affiliated companies have previously been found to register trademarks in bad faith, which is a strong indication of their bad faith.

Additionally, sophisticated squatters even set up shadow companies incorporating the name of famous brands in foreign jurisdictions and use them to hold trademarks in China. We have seen shadow companies in various jurisdictions including Hong Kong, UK and Italy. Such companies on its face gives legitimacy to the squatter's trademark filings. The rightful owners need to take action against such shadow companies in the jurisdiction which the company is incorporated, and adduce evidence showing that the company no longer exists and has changed its name.

For shadow companies in Hong Kong, if the shadow company has been incorporated for less than 12 months, rightful owners may consider lodging complaints with the Hong Kong Companies Registry to compel the company to change its name on the ground that the name of the company is the same or similar to that of the rightful owner's prior incorporated company in Hong Kong. Alternatively, the rightful owner can initiate civil proceedings on the grounds

of passing off and/or trademark infringement for an injunction to restrain the shadow company from using its current company name. In most cases, we will be able to obtain judgment in default as shadow companies seldom contest the proceedings for they generally have no legitimate defence. Upon obtaining the court judgement, we may request the Companies Registry to direct the shadow company to change its name and use such evidence to support the action in China.

III. FILING MALICIOUS COMPLAINTS AND LITIGATIONS AGAINST RIGHTFUL OWNERS

Trademark squatters can be aggressive. In order to disrupt the rightful owners' business as a leverage to sell their marks at a higher price, we have seen trademark squatters filing malicious complaints against the rightful owners' product listings on e-commerce platforms, such as Taobao and JD.com. Given the complexity of the nature of such complaints, it may be more efficient to liaise directly with the intellectual property platform staff to persuade them to allow the rightful owner's listings.

To shift from a defensive to offensive position when faced with malicious complaints, the rightful owner may also file an unfair competition case against the squatter. In a case before the Yuhang District Court in Zhejiang Province involving Bayer Consumer Care, the Court held that the malicious trademark registration of the squatter and its malicious complaints against the rightful owner's listings of Coppertone products in e-commerce platform amounted to unfair competition.

Some squatters would even go so far as to file litigation against rightful owners based on trade mark infringement. It is important to file administrative actions (opposition, invalidation and non-use cancellations) against the squatters' marks once it is possible to do so. This challenges the basis of the squatter's claim against the rightful owner. We may request the court handling the infringement action against the rightful owner to suspend the case pending invalidation and non-use cancellation, especially in cases where the decision on the squatter's mark is to be issued soon.