

Creating an effective strategy for trade mark squatting

Anna Mae Koo and **Ann Xu** of **Vivien Chan & Co** evaluate the different ways to handle trade mark squatters, including asserting bad faith and relying on the well-known status of the mark

Trade mark squatting is one key legal challenge encountered by international brand owners in the Chinese market. Companies that do not yet have a presence in China often find their trade marks taken by other parties, and their limited use in China makes it extremely difficult to oppose or invalidate a squatter's trade marks under the current legal regime. Further, given that China adopts a sub-class system where goods or services in one class are further divided into sub-classes and those falling under different sub-classes are by default considered to be dissimilar, even if brand owners have registration over their core goods and services in China, they often find other companies registering the exact same mark for related goods or services.

Squatters are usually professionals who earn profit by searching for brands on the Internet or trade mark gazette in foreign jurisdictions, registering those that have not been registered in China and selling them back to foreign brand owners. To disrupt the brand owner's business in China as a leverage to sell their mark at a higher price, the squatter may even record the mark with customs to legitimise seizing foreign brand owner's products at the border, file malicious complaints with online platforms to disrupt e-commerce sales, or even initiate administrative actions and litigation based on trade mark infringement against the foreign brand owner.

Brand owners are, however, not totally without recourse. Depending on the conduct of the squatter, different strategies may be adopted to take back and safeguard your name in China.

Defeating squatters' applications/registrations

"Establishing well-known status is not an easy task. Brand owners have to prove that they have extensively used and promoted their mark and thus accumulated fame and reputation among relevant consumers in China"

Opposition/invalidation based on bad faith

In order to defeat the squatter's illegitimate trade mark application/ registration, the starting point is usually to oppose or invalidate the mark. Chinese Trademark Law provides that a mark should be rejected if it has been used and attained a certain degree of fame in China, and there is evidence to show that the mark was squatted via illicit means. While it is difficult to meet the requirement of fame under Chinese Trademark Law, we see that the authorities are more willing to interpret the existing provisions to combat trade mark squatting.

Bad faith under Chinese trade mark law

We can see that the authorities are now more willing to reject or invalidate a mark under the following circumstances in practice, interpreting various provisions of the law to suit the following scenarios:

- where the applicant does not hold the specific licence required for the relevant industry (e.g. insurance, tobacco, medical instruments), thereby implying

that the applicant has no intention of using the mark;

- where the applicant has applied for many marks in various classes which are far beyond its business scope;
- where the mark is similar to names of celebrities or famous organisations and the relevant public has established a stable link between the mark and the brand owner;
- where there is a prior business relationship between the brand owner and the squatter e.g. agency or contractual relationship; or
- where the trade mark violates the opponent's prior right, including copyright, design, company trade name, merchandising right of character as well as personal name right.

Tips on evidence collection

In order to establish bad faith and the abovementioned circumstances, apart from checking the squatter's application record in the CTMO database, brand owners may also find support in local judgments and decisions. Brand owners may also check the squatter's website and social media



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accounts to see if there has been any misrepresentation that the squatter is associated with the true brand owner. It would be helpful to check if the mark or the applicant is active on trade mark trading platforms, and have such a record notarised as evidence of malicious intention or lack of intention to use the mark.

Further, it is worth noting that, as squatters become more and more experienced, they tend to distribute their squatting activities to different entities so that each entity only holds a small number of squatted marks which may not fulfil the requirement for bad faith. In such circumstances, brand owners are advised to carry out investigations into the affiliates, legal representatives or shareholders of the



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squatter to gain a full picture of its squatting activities.

Squatting of Chinese marks may cause a bigger headache for brand owners. Chinese consumers are well aware of foreign brands and refer to such brands by their Chinese name, even if the brand owner is reluctant or slow to adopt or use an official Chinese name. If such brand names are squatted, brand owners have to establish an exclusive relationship between their brand and the Chinese mark in order to show bad faith. According to our experience, useful evidence in establishing such an exclusive relationship would include media reports referring to the brand owner in the Chinese name, and promotional materials

of the brand owner with both the English and Chinese names.

Litigation relying on well-known status

While it takes time for the authorities to adjudicate disputes on registration of trade marks, and it may take more than five years to conclude a case if the squatter exhausts all appeal venues, including two instances and the re-trial procedure, brand owners whose mark has a strong reputation in China do not need to wait until the squatter's mark is invalidated, but can file a litigation to stop the squatter's use of its registration outright.

According to Article 13 of the Trademark Law, a mark that is a copy, imitation or translation of another's well-known trade mark should be refused registration and prohibited from use. The SPC stipulates that the courts should prohibit use of registered trade marks which violate Article 13. This would put the well-known mark owner in a position to claim damages against the squatter and stop the squatter's activities immediately. Facing potential high damages, the squatter may be dissuaded from continuing its business or developing its business with the squatted mark.

Establishing and maintaining well-known status

Establishing well-known status is not an easy task. Brand owners have to prove that they have extensively used and promoted their mark and thus accumulated fame and reputation among relevant consumers in China.

Financial statements, sales contracts, invoices and customs declaration forms are common examples of evidence showing use of the mark. Other useful evidence includes company brochures, product catalogues, and invoices for advertisement expenditure. In order to prove fame of the brand and its marks in China, awards and honours, market value assessment reports, industry rankings provided by local trade associations and market survey reports would be helpful.

Defending against aggressive squatters

Squatters may be aggressive – they may file malicious complaints with online platforms to take down your listings and

even initiate administrative actions or litigation against you to stop your use of the mark and seek damages. In such circumstances, brand owners may rely on the defences under Chinese Trademark Law and try to reduce the damage as much as possible.

Defences on liability under Chinese Trademark Law

According to Article 59.3 of the Trademark Law, where an unregistered mark has been used prior to the registered mark's filing date and has achieved a "certain degree of influence" in relation to identical or similar products/services, the registered trade mark owner cannot prohibit continued use of the unregistered mark within its "existing scope", although registered mark owners may request appropriate distinguishing features be applied on the products/services to reduce consumer confusion.

The courts' opinions vary on the threshold of "certain degree of influence". Some judges consider that Article 59.3 does not require proof of strong reputation or wide geographical use, while some others disagree and consider the threshold to be high. Foreign brand owners are reminded to preserve evidence of use in China to rely on this defence.

If, unfortunately, the court finds infringement by the foreign brand owner, the brand owner may still try to rely on the defence of non-use under Article 64 of the Trademark Law. According to Article 64, the alleged infringer shall not be liable for damages if the owner cannot prove its actual use of the mark, or cannot prove other losses suffered as a result of infringement. This is a powerful tool against trade mark squatters, especially professional trade mark traders who usually do not have evidence of use.

Reducing damages

Even if the foreign brand owner is found liable for trade mark infringement, it needs to be aware of the intricacies in calculation of damages in China.

There are three ways to determine damages under Chinese law: first, the plaintiff's loss incurred by the infringement; second, the defendant's gains through infringement; and third, royalties for licensing the mark. If none of the above can be ascertained, the court can use its

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discretion to order statutory damages for a maximum of RMB3 million (approximately USD460,000).

As a squatter would hardly suffer any loss from the brand owner's infringement, it would usually claim that the damages should be based on the brand owner's gains. It should be noted that not all profit of the brand owner should be taken into account in calculating damages. Only the portion which is attributable to use of the mark is relevant.

In the case of *New Balance* [2015], the plaintiff registered New Balance's Chinese marks 百伦 (BAI LUN) and 新百伦 (XIN BAI LUN). The Guangzhou Intermediate People's Court at first instance awarded RMB98 million (approximately USD15 million) to the plaintiff, which was half of New Balance's net profit during the infringement period. On appeal, the Guangdong High People's Court found that New Balance only used the Chinese marks on limited occasions e.g. promotional materials at online stores and representation by the shop assistants, where the Chinese marks were always used together with its own marks N, NB and New Balance. Taking into account a brand evaluation report surveying the reasons why consumers buy NEW BALANCE shoes and to what extent it is attributable to the Chinese mark, the appeal court reduced the damages to RMB5 million (approximately USD770,000) (95% decrease).

Tackling malicious complaints on online platforms

We have seen a recent trend of trade mark squatters filing complaints against foreign brand owners' listings on e-commerce

platforms such as Taobao and JD, creating huge loss to the foreign brand owner's business. While trade mark squatters' actions are usually unjustified, brand owners need to take time to navigate the intellectual property protection platform to re-instate their links. Having a good relationship with the online platforms is helpful in such circumstances. In the recent case of *Coppertone*, the Zhejiang Hangzhou Yuhang District Court was ready to recognise that such a malicious complaint by the squatter targeting Bayer's distributors of Coppertone products on Taobao amounted to unfair competition. The court awarded Bayer damages of RMB700,000 (approximately USD108,000) in the unfair competition action.

We trust that such a decision will deter trade mark squatters from taking such aggressive action. The decision is indeed an encouragement for brand owners to shift from a defensive to offensive position when faced with malicious online complaints.

While combatting trade mark squatting in China remains a persistent war, the authorities have been endeavouring to adjudicate cases to protect the interests of the operating business and its goodwill. The CTMO now even takes the initiative to reject applications where the applicant has applied for many famous marks of various brand owners or where the applicant repeatedly squats the marks of one right holder, and has rejected over 16,000 such abnormal applications outright. Bearing in mind these various strategies, brand owners should feel more comfortable in doing business in China and tackling bad faith squatters.