

Latest China Enforcement Trends & Must-Have Strategies 2022

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Although the global pandemic has significantly impacted businesses around the world, it has expedited the development of the e-commerce market and facilitated the digital transformation of brands. Accompanying such a development is the escalation of infringement activities in the internet environment. In addition, while the Chinese authorities strive to combat trademark squatting, squatters have learnt their lessons and developed new tactics to stay under the radar. This article will navigate you through the latest enforcement trends in China and share our insights.

Soaring Infringements on Social Media Platforms

In China, the distinction between social media platforms and e-commerce platforms is blurry. Chinese social media platforms have always been equipped with e-commerce features, allowing customers to make purchases directly from their platforms. Sales through livestreaming on these platforms, popular since COVID-19, is also becoming commonplace, with annual sales

exceeding US\$200 billion annually. With that, there are new forms of infringement taking place, including brand impersonations (i.e. the creation and operation of a social media account pretending to be a third-party brand and using it to conduct infringing activities) and the promotion and sale of infringing goods via livestreaming.

To tackle brand impersonating accounts, brand owners may base their complaints on trademark registrations in China. For those who have yet to secure registrations, we have also successfully taken down impersonating accounts on WeChat by relying on prior copyright of house marks. China offers a copyright recordal system, which allows brand owners to voluntarily record copyrighted works. Certificates are issued in around 2-4 months, which serve as prima facie evidence of existence of copyright in online complaints and enforcement actions.

For infringement taking place on livestreams, a common enforcement difficulty is that the infringing videos are not available after livestreaming. Our in-

house investigators can assist in monitoring infringing social media accounts and arranging for timestamping of the infringing livestreams and test purchases to preserve the evidence for future enforcement actions. To prevent malicious complaints, most platforms may require examination reports detailing why the said products are counterfeits, which often increases legal costs. If different online stores are promoting counterfeits from the same distributors, a cost-effective approach will be to first file administrative complaints with local Administrations for Market Regulation (AMR) against the distributors. We may then rely on the favourable decisions to demand the platforms to take down social media contents concerning the infringing products without having to incur costs to purchase the counterfeits and prepare examination reports.

Parallel Imports – A Recurring Concern

Following the rapid expansion of e-commerce platforms, parallel imports have come back to haunt brand owners. Parallel import refers to the import of branded goods into a market without the consent of the trademark owner in that market. Unlike the PRC Patent Law which expressly provides that parallel import is permissible, the PRC Trademark Law and the PRC Anti-Unfair Competition Law do not expressly regulate parallel imports. Based on previous judgments handed down by the PRC Courts, one may conclude that China adopts the international exhaustion principle, meaning that trademark owners cannot prohibit others who have purchased from them from reselling the products. That said, the PRC Courts do impose certain restrictions. For instance, we successfully assisted brand owners in tackling parallel-imported products with the product identification / tracking

devices (e.g. barcodes) removed or destroyed by arguing trademark infringement. In *Fendi Co., Ltd. v. Pioneer Capital Outlets (Kunshan) Commercial Development Co., Ltd.* (2021), the Shanghai High People's Court handed down its retrial judgment which discusses the scope of fair use when promoting parallel-imported products. While importers may use the brand owners' marks when promoting the parallel-imported products to indicate the origin, such use must be only to the extent that it is necessary and reasonable. The use of Fendi's house mark on storefronts, brochures, shopping bags, and WeChat public accounts, etc. was found to have misled the public that the defendant was related to Fendi, which fall outside the scope of fair use and constituted trademark infringement and unfair competition.

We summarise below a list of factors that brand owners may look for when seeking to take actions against parallel importers: -

- (1) whether the parallel-imported products are genuine;
- (2) whether the parallel importers or the parallel-imported products have obtained necessary licenses or permits for sale and distribution of the products in China;
- (3) whether the product identification / tracking devices have been removed or destroyed;
- (4) whether the quality of parallel-imported products is substandard;
- (5) any unauthorised alterations to the products or the product packaging;
- (6) whether the manner of use of the trademark falls outside the scope of fair use and may mislead consumers into believing that the parallel importer is authorised or otherwise related to the trademark owner; or
- (7) any other activities which may cause consumer confusion or impair the

source identification of the trademarks.

New Manoeuvres By Squatters to Circumvent the CNIPA's Rules

While the Chinese authorities has stepped up its game in combatting trademark squatting, squatters have also developed different strategies to stay under the radar. Firstly, we have come across a squatter syndicate dissecting one of our client's logo into four parts and filing applications for the same so as to circumvent the rules on determining similarity of marks. Upon registration, they may combine the marks, which as a whole is identical to our client's logo, to facilitate their infringement activities. We successfully persuaded the CNIPA to take into account all the related trademark filings and confirm similarity of marks.

Secondly, many squatters incorporate companies in Hong Kong and other jurisdictions to create false impressions that they are foreign companies. Some even adopt company names incorporating names of other brands seeking to legitimise their applications. While company records may not be freely open to the public in those jurisdictions, such records are generally accessible upon payment of a minimal fee. We regularly assist our clients in conducting background searches to identify the directors/shareholders of these seemingly legitimate companies. Actions against offending company names can be filed simultaneously to stop any unauthorised use of brand names as company names, and successful decisions may serve as evidence of bad faith in opposition / invalidation proceedings.

Thirdly, it is common for squatters to assign the marks from one entity to another to

keep the number of bad faith filings owned by each entity to the minimum. Good news to brand owners is that the CNIPA will consider the bad faith filing activities of the assignor and the related entities when determining bad faith. Also, in our recent favourable cases, we observe that a high number of bad faith filings is no longer a prerequisite to establish bad faith.

In light of the new tactics deployed by squatters, thorough analysis of their filing history and in-depth investigations to bring to light the related entities and individuals are now imperative when devising strategies against them. Brand owners should also review modus for trademark monitoring to ensure it is effective to capture all possible variations of the monitored marks.

Malicious Online Complaints by Aggressive Squatters

With the introduction of the E-Commerce Law effective from 2019, e-commerce platforms are obliged to provide online complaint mechanisms for IP right owners against infringing listings. However, this has now been exploited by squatters, who lodge malicious complaints against legitimate brand owners based on their bad faith registrations seeking to disrupt brand owners' business and demanding a large sum of money for settlement and/or assignment of trademarks.

When facing malicious complaints, it is crucial to review (1) the relevance of complaint's prior registrations and (2) assess the possibility of removing the prior registrations. While the former may seem obvious, we have come across cases where online platforms broadly construe the scope of the registered goods and accept the complaints, although the parties' good should be considered

dissimilar according to the official classification. It is worth noting that most handling officers have not received proper legal training. They may not be familiar with the laws and may be easily misled by complainants' arguments. If the complainant does own valid conflicting registration, we will have to invalidate such prior registrations using the bad faith argument. While non-use cancellation action is an option if the complainants' marks have been registered for more than three years, most malicious complainants are sophisticated and may have fabricated use evidence to resist any potential non-use challenges. Brand owners should also file their own applications to block any potential re-filings by the complainants. Upon successful removal of the complainants' prior registrations, we may negotiate with online platforms to reinstate the product listings.

Brand owners who suffer significant losses may also consider commencing unfair competition lawsuits against malicious complainants. The Courts recognise that malicious complaints constitute unfair competition and may order complainants to cease making further complaints, pay monetary compensations and/or rectify the adverse impact caused. While remedies are available, our advice to brand owners remains to be early registrations of house marks in both foreign language and Chinese equivalent. Prevention is always better than cure.