

# Legal Commentary

February 1, 2020

## Intellectual Property Law

### 2019 Highlights: China's Fight Against Bad Faith Trademarks

Authors: Yan WANG | Vivian HE | Xiaomeng DONG | Xiao DONG

Strengthening the crackdown on bad faith trademarks was a focus of China's trademark law and practice in 2019. In this article, we review the main highlights of the past year in China's combatting bad faith trademark registrations from the perspective of laws and regulations, trademark data, and typical cases.

#### New laws and regulations promulgated to combat bad faith trademark registrations

##### I. Fourth amendment of the Trademark Law (implementation date: November 1, 2019)

Regulation of bad faith applications, hoarding of registrations, and other acts are the key content of this amendment of the *Trademark Law of the People's Republic of China* (the "Trademark Law"). Specifically, the following provisions are added to the Trademark Law to strengthen the crackdown on bad faith applications for trademark registration:

- Increase regulation of applicants' bad faith applications.** Bad faith applications for trademark registration for a purpose other than use shall be rejected. (Trademark Law, Art. 4)
- Regulate bad faith conduct of trademark agencies.** Article 19 of the Trademark Law increases the duty of care of trademark agencies. For example, trademark agencies must examine whether client trademark registration applications violate Article 4 of the Trademark Law. Article 18 further adds provisions specifying punishment for bad faith applications for trademark registration and bad faith lawsuits by trademark agencies.
- Increase compensation for bad faith infringement of the exclusive right to a trademark.** For example, Article 64 of the Trademark Law increases statutory compensation for bad faith infringement of the exclusive right to a trademark from RMB 3 million to RMB 5 million, and increases punitive damages from not more than three times to not more than five times.

## II. Several Provisions on Regulating Trademark Application and Registration Activities (State Administration for Market Regulation, effective December 1, 2019)

*Several Provisions on Regulating Trademark Application and Registration Activities* (the “rules”) were promulgated to implement provisions of the Trademark Law and further detail and regulate bad faith applications for trademark registration. The rules focus on the following:

1. **List considerations when examining a bad faith application for trademark registration.** For example, the rules detail factors that can be comprehensively considered when determining whether a trademark application for registration is “a bad faith application for trade registration for a purpose other than use”, including the quantity of trademarks to be registered in the application, categories of designated goods on which the trademarks are to be used, information on trademark transactions, the industry and operating conditions of the applicant, whether the trademark registration being applied for is identical with or similar to the trademark of another which has a certain reputation, the name of a famous person, the trade name in an enterprise name, or the abbreviation of an enterprise name, among others.
2. **Refine punishment measures for bad faith applications for trademark registration and unlawful agency conduct.** For example, in accordance with the Trademark Law, the rules set a fine of three times the illegal income but not more than RMB 30,000 for applicants who apply for trademark registrations in bad faith, and a fine of up to RMB 100,000 against trademark agencies that assist in bad faith applications. If the circumstances are serious, the intellectual property administrative department may decide to stop accepting the trademark agency business of the trademark agency. Other measures for bad faith registration applications are also stipulated, including publishing the punishment information through the National Enterprise Credit Information Publicity System, rectification interviews with the agency’s person in charge, and trademark agency industry organizations adopting self-regulatory measures. Many other measures have been adopted to form a long-term mechanism to severely crack down on bad faith applications for trademark registration.

### Primary statistics on combating bad faith trademark registrations

The following data is taken from the State Intellectual Property Office and the Beijing Intellectual Property Court, which can help us understand the state of combating bad faith trademark registrations in 2019 from both administrative and judicial perspectives.

#### I. Trademark statistics of the State Intellectual Property Office<sup>1</sup>

According to data disclosed by the State Intellectual Property Office in 2019, the number of trademark registration applications in China was 7.837 million. The number of registered trademarks was 6.406 million. In terms of trademarks, the crackdown on bad faith trademark registrations was the focus and highlight of the work of the State Intellectual Property Office in 2019. According to publicized

---

<sup>1</sup> Data source: Press conference of the main work statistics and related information of the State Intellectual Property Office in 2019, <http://www.sipo.gov.cn/twzb/2019nzygtjsjjyqkxwfbh/index.htm>

data<sup>2</sup>, since the first half of 2019, the Trademark Office has continued to increase its efforts to monitor and crack down on cybersquatting in bad faith and hoarding of trademarks during the examination, opposition, and review stages. In the second quarter of 2019, 24,145 abnormal applications for trademarks were rejected. Since April 1, 2019<sup>3</sup>, the Trademark Office has rejected 24,145 abnormal applications for trademarks for three consecutive months, accounting for approximately 1.2% of the same period of examinations and approximately 4.2% of the same period of rejections. Among bad faith registrations (including both bad faith and hoarding characteristics), there were 8,656 cases of bad faith registrations, accounting for approximately 36%; and 15,489 cases of hoarding, accounting for approximately 64%.

From the trend, it is apparent the number of rejections of bad faith applications for trademark registration has declined slightly each month, and the number of rejections of hoarding trademark registration applications showed a rapid decline. These declines **indicate that the previous resolute actions against abnormal trademark applications, represented by a large number of rejections, have had a positive impact on subsequent trademark registration applications.**

## II. Statistics of Beijing Intellectual Property Court

Nationwide administrative cases involving patents, trademarks, and other intellectual property authorizations and confirmations are concentrated in the Beijing Intellectual Property Court. The Beijing Intellectual Property Court has operated for five years since its establishment on August 31, 2014. In the field of combating bad faith trademarks, the Beijing Intellectual Property Court has frequently imposed severe measures. The main features of the cases of the Beijing Intellectual Property Court are as follows (Data source: China Intellectual Property News and IPHOUSE Data Report)<sup>4</sup>:

1. **Trademark cases account for the largest proportion of cases.** In the past five years, the breakdown of the court's caseload was as follows: trademark cases accounted for 58%, copyright cases accounted for 25%, patent cases accounted for 13%, and other cases including unfair competition, franchising, technology contracts, etc. accounted for 4%.
2. **In trademark cases involving bad faith, the court determined bad faith in more than half of the cases.** There were 242 trademark civil cases in 2018, of which ten involved bad faith registrations. Bad faith was found in six of the ten cases. There were 8,697 trademark administrative cases, with a withdrawal rate of 26.03%, and approximately 311 involved bad faith, among which bad faith was found in 166 cases and not in 145 cases.

## Typical cases of combating bad faith trademark registrations

<sup>2</sup> Data source: Analysis of Trademark Registration in the First Half of 2019, [http://sbj.cnipa.gov.cn/sbtj/201910/t20191021\\_307503.html](http://sbj.cnipa.gov.cn/sbtj/201910/t20191021_307503.html)

<sup>3</sup> Same as 2

<sup>4</sup> The data was last updated on November 6, 2019 (the fifth anniversary of the establishment of the Beijing Intellectual Property Court)

## I. Trademark infringement and unfair competition dispute<sup>5</sup>

**Significance of the case:** The court did not support the infringement claims based on the bad faith trademark registration applications. The infringer was ordered to pay compensation of more than RMB 8 million, reflecting that Chinese courts impose severe punishment for bad faith trademark registrations.

- Trial court and judgment date: People’s Court of Haizhu District of Guangzhou City, Guangdong Province, May 23, 2019
- **Judgment Summary:** The three trademarks at-issue are used on wooden flooring and other designated goods. The Plaintiff’s trademark is used on furniture and other designated goods, the trademarks overlap with each other in terms of sales channels and consumer groups. The Defendant registered or was transferred the three trademarks at-issue and licensed another company to use the trademark with subjective intent. The Defendant **did not terminate use of the three trademarks at-issue and licensed another company to use the trademark after the Trademark Review and Adjudication Board ruled that the trademarks at-issue were invalid. These acts were clearly both intentional infringement and in bad faith.** In addition, The Defendant promoted the infringing products through its WeChat public account and exhibitions. Based on this, the court found that the Defendant had clear intent in the above infringement.

……From this, it can be judged that the Defendant **is aware of the Plaintiff’s corporate name and still chose the trademark at-issue as its name** and registered the company name in the same service industry, which objectively makes the relevant public mistakenly believe that it is related to the Plaintiff, **subjectively expressing its intention to “attach” to a well-known enterprise.** Therefore, this court supports the Plaintiff’s claim that the Defendant’s use of the corporate name constitutes unfair competition.

The Defendant **refused to provide its financial books and materials to the court without justifiable circumstances under the explicit order of this court. As a result, the profits from infringement could not be determined, so the Defendant should bear the burden of obstruction of evidence.** At the same time, the Defendant **continued the various infringements under the ruling of the Trademark Review and Adjudication Board declaring the three trademarks at-issue invalid. The nature of the infringement is serious and the infringement is obvious. It should be severely punished by law.** This court focuses on these two factors and considered the other factors mentioned above and determines that the amount of compensation for economic losses in this case is **RMB 8 million**……

## II. Trademark infringement dispute<sup>6</sup>

**Significance of the case:** The Plaintiff’s application for trademark registration was for improper purposes, and the Plaintiff filed a lawsuit after the registration was approved, among other acts.

<sup>5</sup> (2018) Yue 0105 Min Chu No. 8055

<sup>6</sup> (2018) Hu 0115 Min Chu No. 46794

These acts were found to violate the principle of good faith and the court did not support the Plaintiff's claims.

- Trial court and judgment date: People's Court of Pudong New Area of Shanghai, June 27, 2019
- **Judgment Summary:** In this case, the infringing product marketed by Company A is a technology-intensive product. The customers who directly use the product are other high-tech companies in the integrated circuit and semiconductor industries, not end consumers. Therefore, the scope of influence of Company A and its products are mainly in this industry. The Plaintiff is a one-person company established by a natural person, and does not have technical capabilities in the industry. Its legal representative also acknowledged that he did not know the industry before registering the trademark.

**However, the Plaintiff applied to register the trademark at-issue in the month of its establishment and three months after the trademark was approved for registration, it began to send cease and desist letters to multiple distributors of Company A and complaints to the regulatory authorities, and even sent cease and desist letters to investors of Company A. The products at-issue were high-tech products that the Plaintiff did not understand. It can be seen that the Plaintiff's application for registration of the trademark at-issue deliberately targeted Company A.** After the Plaintiff was established in Hong Kong, it did not conduct any business in Hong Kong. Only when the trademark at-issue was registered for nearly one year and Company A filed an application for invalidation of the trademark for nine months, it reached a deal with a third party about small storage devices such as USB flash drives. Such use does not conform to the usual practice of using trademarks in commercial activities; meanwhile, the content of the website promoting the products claimed by the Plaintiff is also obviously unreasonable. Based on this, it can be determined that the Plaintiff did not have the intent to use the trademark when applying for registration of the trademark, nor did it actually use the trademark.

Taking the above facts into consideration, **the Court determined that the Plaintiff's application for registration of the trademark was for improper purposes. The Plaintiff's application for registration of the trademark, the issuance of cease and desist letters in bulk, administrative complaints, and the filing of the lawsuit after the registration were approved clearly violated the principle of good faith and its related claims should not be protected and supported by law.**

In retrospect, the 2019 highlight for trademarks in China was undoubtedly the fight against bad faith registrations. China's crackdown on bad faith trademarks has achieved fruitful results, from both legal and policy perspectives. Bad faith trademark registrations deviate from the true intent of trademark registration, preempt opportunities for real trademark owners to register their marks, and also cause adverse social impacts. The crackdown on bad faith trademarks is not only the true intent of the Trademark Law, but also the natural demand of society for a fair and just value system. As the rule of law in China continues to advance, there will be no more refuges for bad faith trademark registrations.

## ***Important Announcement***

This Legal Commentary has been prepared for clients and professional associates of Han Kun Law Offices. Whilst every effort has been made to ensure accuracy, no responsibility can be accepted for errors and omissions, however caused. The information contained in this publication should not be relied on as legal advice and should not be regarded as a substitute for detailed advice in individual cases.

If you have any questions regarding this publication, please contact:

### **Yan WANG**

Tel: +86 21 6080 0200

Email: [yan.wang@hankunlaw.com](mailto:yan.wang@hankunlaw.com)