

## Understanding Bad Faith Trademark Registrations and Countermeasures in China

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Although most foreign companies understand the need to protect their trademarks in China such as their company name, brand, and logo to prevent trademark squatting and fraud prior to market entry, many still neglect to register in time and risk loss of control to outsiders through **bad faith trademark registrations**.

If your company discovers that outsiders have already applied for or registered your trademarks in China, it is important to understand the available countermeasures to either stop or limit the potential damage to **company revenue, reputation, and brand in China**.

Given China's **First-to-file System**, this can be a challenge as protecting and enforcing any trademark rights in China can only be done with a registered trademark in China.

### Trademark Law of the PRC

After sustained criticism by many foreign companies and governments on inadequate trademark protection and enforcement in China, the revised **Trademark Law of the PRC** took effect on **1 November 2019**.

The China National Intellectual Property Administration (CNIPA) under the State Administration for Market Regulation (SAMR) oversees trademark registrations in China.

The Trademark Law defines the principles, requirements, and procedures for **protecting the exclusive rights** and reputation of trademarks in China while **safeguarding the interests** of consumers, manufacturers, and business operators.

The wordings and related sanctions against “**bad faith**” **trademark registrations** are much stricter than before such as:

- **Article 4:** “Any application for trademark registration that is *malicious* and is not filed for the purpose of use shall be rejected.”.
- **Article 7:** “Application for registration and use of trademarks shall comply with the principles of *honesty* and *trustworthiness*.”.
- **Article 19:** “Trademark agencies shall comply with the principles of *honesty and trustworthiness*...”.
- **Article 44:** “Where... the registration is obtained by *fraudulent* means... the registered trademark shall be invalidated by the trademark bureau.
- **Article 47:** “...where the *malice* of the trademark registrant causes others to suffer losses, the trademark registrant shall make compensation.”.
- **Article 68:** “Whoever *maliciously* applies for trademark registration shall be subject to a warning, a fine or any other administrative punishments, as the case may be;”.

### **First-to-File System**

Whereas trademark law in countries like Denmark and the USA follow the “first-to-use” system, other countries like Germany and China use the “first-to-file” system.

This means that whoever applies first and gets an identical or similar trademark registered for the same or related goods and services will obtain the **exclusive rights** for its use in China no matter if they are the rightful owner or not. Only registered trademarks in China are protected against infringement in China.

This system enables **trademark squatters** with no intent to use to enforce their granted rights and sell their registered trademarks back to the rightful trademark holders at an inflated price and for **fraudsters** to use and exploit the foreign company name or brand on their own (related or unrelated) products.

A registered trademark in China is **valid for ten years** but can be renewed for successive ten-year periods without limitations.

### **Trademark Classification**

China follows the International Classification of Goods and Services (Nice Agreement) which consists of **34 product classes and 11 service classes**.

China also divides the 45 trademark classes into its own sub-classes with one or more product/service items that in general are treated as identical or similar by the Chinese trademark examiners.

It is therefore important to register your trademark in as many relevant trademark classes and related sub-classes as possible to prevent others from potentially undermining the company trademark in China.

### **Pre-emptive Right**

Within **six months** from the filing date of a trademark application in a foreign country for the first time, it is possible to **Claim Priority** for a filed trademark application in China for the same trademark and identical items during which any filed trademark applications for the same by outsiders shall be rejected.

The same applies from the date where the trademark is first used on products displayed at an international exhibition organized or recognized by the Chinese government.

### **Trademark Agency Duties**

If the trademark agency is or should be aware that the trademark to be registered is based on “bad faith” with no intent to use, or the agent registers a trademark in its own name without authorization, or the applicant is aware of the trademark due to a business or contractual relationship, or it harms the existing prior rights of others, the trademark agency shall reject the assignment.

If the trademark agency violates any of these principles, it shall be ordered to make corrections within a specified period, and be subject to a warning, a fine or any other administrative punishments. Where the case constitutes a criminal offence, criminal liability shall be pursued.

In serious cases, the acts of the trademark agency shall be recorded by SAMR, the acceptance of any filed trademark applications may be suspended by CNIPA, and it shall be punished by the trademark agency industry association.

### **Available Countermeasures**

Although the “first-to-file” system enables trademark squatters and fraudsters to apply for and register the trademarks of others, the revised Trademark Law does outlaw “bad faith” registrations and give the rightful trademark owners the means to counter these. However, this can be both costly and time consuming.

### **Trademark Opposition**

If a filed trademark application has been preliminarily validated by CNIPA, it will first be published in the weekly Trademark Gazette after which it is possible to file a **Trademark Opposition** within the following **three months**.

After the Trademark Opposition has been filed, it is possible to submit supplementary evidence to CNIPA within **three months** from the filing date.

Sending a **Lawyer's Letter** threatening with legal action may also be used to exert extra pressure on the outsider to withdraw their "bad faith" trademark application.

When CNIPA has received the filed Trademark Opposition, it shall make a ruling within **12 months** from the expiry date of the three-month opposition period. In practice, it takes **12-15 months** before the parties are notified of the ruling.

If the filed Trademark Opposition is rejected, CNIPA will issue a **Trademark Registration Certificate** to the registrant, and it will be published in the weekly Trademark Gazette. If the plaintiff disagrees with the decision, it may file a **Trademark Invalidation** (see below).

If the filed Trademark Opposition is approved, the applicant may apply for a review of the decision within **15 days** from the receipt of the notice, and a ruling shall be made within **12 months**.

If the applicant disagrees with the review decision by CNIPA, it may file a lawsuit with the People's Court within **30 days** from the receipt of the notice.

Through **ongoing monitoring** of preliminarily validated trademarks published in the weekly Trademark Gazette, foreign holders of registered trademarks in China will be able to oppose any attempts of "bad faith" trademark registrations.

### **Trademark Invalidation**

If your trademark has already been registered in China by outsiders, it is still possible to file a **Trademark Invalidation** within **five years** from the trademark registration date while no time limits apply to "bad faith" registrations of "well-known" trademarks.

After the Trademark Invalidation has been filed, it is possible to submit supplementary evidence to CNIPA within **three months** from the filing date.

When CNIPA has received the filed Trademark Invalidation, it shall make a ruling within **nine months**. In practice, it takes **12-18 months** before the parties are notified of the ruling.

If any party disagrees with the decision, it may file a lawsuit with the People's Court within **30 days** from the receipt of the notice.

### **Well-known Trademark**

If a filed trademark application is a copy, imitation, or translation of a "well-known" trademark that is **not registered in China** for use on identical or similar goods or services and is easily misleading to the Chinese public, the application shall be rejected.

If a filed trademark application is a copy, imitation, or translation of a “well-known” trademark that is **registered in China** for use on unidentical or dissimilar goods or services and is misleading to the Chinese public and may harm the interests of the trademark holder, the application shall be rejected.

To determine if a trademark is “well-known” in China, several key factors will be considered such as the extent of the Chinese public’s familiarity, duration of continued use, extent and geographical scope of any promotional campaigns, records on previous designation, and other factors proving its fame.

For new or unknown trademarks that are not registered in China, proving to be “well-known” in China can be a major challenge. The fame of a registered trademark outside of China is irrelevant for the designation.

### **Trademark Objection**

If a trademark applicant is aware of the existence of an unregistered trademark due to a former or current **business or contractual relationship**, the trademark application for the same or similar goods or services shall be rejected if an objection is raised by the affected party.

It is therefore essential to **track and record** any communication with Chinese agents, distributors, suppliers, and others that could be tempted to file a “bad faith” trademark registration in China.

### **Submissible Evidence**

If a trademark holder discovers that a preliminarily validated or already registered trademark by an outsider in China is identical or similar to one of its own registered trademarks in China, it is necessary to gather submissible evidence before any real action can be taken.

However, any evidence such as screenshots, hyperlinks, images and purchased products that illegally use the trademark needs to be collected and notarized by a **Chinese public notary** before it is accepted by the local SAMR and admissible at the People’s Court.

### **Trademark Non-Use Cancellation**

If a registered trademark in China has not been used by the trademark holder for **three years** in a row in China, it is possible for others to apply for a **non-use cancellation** to get it cancelled by CNIPA in which the trademark holder shall provide evidence of its actual use or else lose its exclusive rights.

It normally takes **seven months** before CNIPA makes a ruling on the filed non-use cancellation application. If the trademark holder disagrees with a favourable non-use cancellation decision, a review application shall be filed to CNIPA within **15 days** from the receipt of the notification. It then typically takes **ten months** before CNIPA makes its final review ruling.

If no review application is filed, the trademark will be cancelled and published in the **Trademark Gazette**.

### **Safeguarding Trademarks**

As more foreign companies and brands are entering the Chinese market, local competition is intensifying to win favour with the Chinese consumers.

Any foreign company that considers or plans to sell their products or services in China are strongly advised to register their trademarks as soon as possible prior to market entry or you risk loss of control to outsiders which can harm company revenue, reputation, and brand in China.

Ongoing monitoring of preliminarily verified trademarks in China enables foreign holders of registered trademarks in China to counter any attempts of “bad faith” trademark registrations.

With the revised Trademark Law from 1 November 2019, China has taken important legal and administrative steps to further fight “bad faith” trademark registrations and fraudulent acts through tougher policies, higher penalties, and more severe sanctions.

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