

# Kung fu trademark hustle

Mayer Brown JSM's **Kenny Wong** asks if there is light at the end of the tunnel concerning trademark squatting cases in China

**China's first-to-file trademark registration system has become a minefield for trademark owners and a gold mine for opportunistic squatters. Trademark squatting is not illegal in China and whether it is morally condemnable is controversial<sup>1</sup>.**

Trademark squatting has attracted heightened attention after Hermès and Chivas Regal reportedly lost their long-drawn trademark battle against Chinese squatters. However, these 'defeats' are only the tip of the iceberg. Often, when the mark is squatted on core goods or services, true owners have been forced to quickly give in and pay the squatters to recover the mark. The price ranges from a few thousand to millions of US dollars. Negotiations are getting tougher with squatters becoming greedier when assisted by Chinese lawyers or trademark agents who may share the proceeds.

Back in the 1980s and 90s, it was relatively easier to succeed against squatters. True owners would oppose on various grounds that often include the catch-all provision that the application harms "socialist morality or practices or has other adverse effects"<sup>2</sup>. If the mark was already registered, and well-known, the true owner could apply for cancellation<sup>3</sup>. At that time, authorities interpreted those provisions liberally to establish adverse effect (bad faith) and the fame of the mark.

Yet, with the introduction of China's own determination and recognition of "well-known" marks<sup>4</sup>, it became exceedingly difficult, particularly for overseas owners, to prove the requisite fame of the mark. Further, habitual squatting applications no longer seemed enough to substantiate "adverse effect".

Until recently, the challenge process through opposition at the People's Republic of China Trademark Office ("TMO"), review of the TMO's unfavourable decision with the Trademark Review and Adjudication Board ("TRAB"), and appeals to the courts against TRAB and the lower court, took around eight years or more. More frustratingly, the squatters could choose to sit tight and not incur any cost in the process. Often, they did not defend but leave it to the

true owner to fight with the TMO, TRAB and the courts. Although the PRC government has now expedited the process, most owners understandably still do not wish to incur the time and cost of litigation while risking an uncertain outcome and the loss of prospective business opportunities in China, especially if there are risks of infringing the squatter mark. Often, instead of court litigation, shrewd squatters lodge quick administrative and customs enforcement actions at relatively low costs to pressurise true owners into surrendering. There have been many instances where squatters used customs action to detain the goods of true owners that are manufactured in and exported from China. When tens of thousands or even millions of dollars of goods may be detained, owners have no alternative but to give in.

While squatters seem to have the upper hand, there may be light at the end of the tunnel. The PRC TMO has compiled a blacklist of individual squatters who have applied for numerous third party marks and when oppositions are filed, these will be processed expeditiously. Recent PRC TMO decisions suggest that this has in fact been implemented and that TMO is interpreting "adverse effect" more liberally again to discourage bad faith applications and the "disruption to the trademark system and market competition". While this development is encouraging, it is unclear if the blacklist includes corporate squatters as well, who are on the list and the criteria for including them. It would help tremendously if:-

- The blacklist can be more transparent and can either be publicised or searchable to allow true owners to simplify the preparation of their oppositions. Currently this is a costly, time-consuming and tedious exercise considering the amount of evidence to be adduced to support the mark being "well-known" and the squatter acting in "bad faith";
- TMO can specify what sort of bad faith evidence it would accept and how "adverse effect" may be proven; and
- Where an applicant does not answer an opposition which alleges bad faith squatting

with the requisite evidence, TMO can make an expedited and summary decision in favour of the opponent.

At the court level, the Supreme Court<sup>5</sup> opines that if it can be shown that a trademark owner has no actual intention to use a registered mark and uses the registration only to extort infringement compensation, no damages may be awarded although an injunction may still be imposed. Further, if a registered mark has not been used for three years, a court may not support a claim for damages. To give this the desired effect, the court should advise what constitutes sufficient use and impose effective penalties to deter the use of fabricated evidence. The same also applies to non-use cancellation to ensure the integrity and quality of the use evidence squatters may adduce.

Clearly there are many ways the present trademark law and practice in China can be improved to reduce abuse to both the registration and enforcement systems without drastically changing its first-to-file principle. These improvements shall help to restore the integrity of the trademark regime and transform China into a respectable IP economy by 2020<sup>6</sup>.

## Footnotes

1. See link to a PRC television programme (in Chinese) September 18 & 19, 2012 – *The Joy and Sorrow of a Trademark Squatter* – <http://www.cjxtv.com/video/pages/39925.shtml>.
2. Article 10(8), PRC Trademark Law (2nd Revision).
3. Article 13, PRC Trademark Law (2nd Revision).
4. In August 1996, the PRC Interim Provisions for the Establishment and Administration of Well-Known Marks were issued. Also see Article 14, PRC Trademark Law (2nd Revision) and Opinion on Certain Issues Concerning the Protection of Well-Known Marks in Civil Disputes in the PRC, May 2009.
5. Opinion of the PRC Supreme People's Court Concerning the Adjudication of Intellectual Property Cases under the Current Economic Environment, April 2009.
6. See Outline of the PRC National Intellectual Property Strategy 2008.

*Kenny Wong has received over 70 recognitions as one of Hong Kong's leading IP practitioners.*