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Trademark Pirates Begin to Pay the Price in China

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Trademark pirates have been bothering legitimate trademark owners in China for many years. Owing to China's strict first-to-file principle and little consideration of the earlier use or fame of the legitimate trademark owners, pirates have been profiting from hoarding big numbers of others' brands and setting obstacles for the legitimate owners.

Consequently, trademark piracy became highly profitable and rampant. Some legitimate owners have been forced to suspend business and spend substantial resources and time on initiating oppositions, cancellations, invalidations, even lawsuits, but at very low rates of success. Many others make concessions by paying for royalties or buying back the pirated trademarks.

In recent years, China revised its trademark law, particularly aimed at trademark piracy. In addition, the administrative authorities also released many regulations to prevent pirates from abusing their pirated rights, putting many on the blacklist and punishing a large number of pirates and their representing trademark agencies. The rate of the legitimate owners' success has gone up substantially.

As a result, the trend has begun to change for the better, and it has become increasingly difficult to profit from piracy. What is more, in late 2021 and early 2022, the Chinese courts further progressed by making a few rulings to order the pirates to compensate the legitimate owners' expense on the initiated legal actions. This is a good sign that the pirates have begun to lose money for their acts and that the legitimate owners may possibly recover their expenses.

In this article, I would like to introduce a recent case **represented by Chofn lawyers** where the Chinese courts improved their practices to protect the legitimate owners' lawful rights and interests.

● **Case in brief**

The first-instance court ruled that Shenzhen Teyou Technology Co., LTD.'s ("defendant A") trademark pirating acts have disturbed the market competition

order, harmed the lawful rights and interests of the plaintiff, Shanghai Fanrong Network Technology Co., LTD., and constituted unfair competition.

The other two defendants were a couple of husband and wife who operate defendant A, but were not adjudicated as liable for the infringing company act. Defendant A appealed, but the Intermediate People's Court of Shenzhen sustained the first-instance ruling in its final judgment.

The plaintiff, a cosmetics enterprise, is the licensee of “真珠美学” (Zhen-Zhu-Mei-Xue, literally meaning “true-pearl-aesthetics”, hereinafter referred to as Zhen-Zhu-Mei-Xue) and the “Pearlosophy” series marks in class 3. The earliest registration of the foregoing trademarks dates back to 2009. In addition, the plaintiff also registered the domain name “pearlosophy.com” in 2005. The plaintiff has been using the foregoing marks extensively and also invested heavily in promotion. The foregoing marks have gained certain popularity and influence on beauty makeup and skincare products in mainland China.

Defendant A preemptively applied for registration of the trademarks “Zhen-Zhu-Mei-Xue” and “Pearlosophy” in classes 9 and 35, and registered the domain names “pearlosophy.net” and “pearlosophy.org”. The plaintiff filed oppositions and invalidation against defendant A's said trademarks, and also filed domain name disputes against the two infringing domain names. These procedures cost the plaintiff years and considerable resources.

Defendant A, based on its registration for “Zhen-Zhu-Mei-Xue” on “mobile phone applications, downloadable, etc.” in class 9, filed several complaints with the App Store against the plaintiff's use of the name “Zhen-Zhu-Mei-Xue” in its App, which was operated to promote and sell cosmetics bearing the brands “Zhen-Zhu-Mei-Xue” and “Pearlosophy”.

The plaintiff sued the defendants for unfair competition. At the litigation stage, the plaintiff stressed the defendants' malice and claimed that the defendants' acts of preemptively registering others' trademarks and domain names have constituted unfair competition. The plaintiff petitioned for the defendants' compensation for the plaintiff's losses and expense in taking the legal actions and business damage.

In the first instance, the court accepted the plaintiff's reasoning that according to Article 6.4 of the Anti-Unfair Competition Law, a business operator shall not conduct confusing acts to mislead people that its goods are others' or have a specific connection with others. The plaintiff's trademarks are coined words with strong distinctiveness. Therefore, defendant A maliciously registered the same trademarks in other classes, clearly knowing the plaintiff's prior used and registered trademarks have acquired certain fame.

Although the infringing trademarks mentioned above have been disapproved of registration due to the plaintiff's oppositions and invalidation, the plaintiff spent a lot of manpower and expenses thereon.

In conclusion, defendant A's acts have disturbed the plaintiff's normal business operation and the fair market competition order and have constituted unfair competition. The courts granted damages of CNY 200,000 (around US \$30,000) to cover the plaintiff's expenses on the lawsuit, trademark oppositions and invalidation, and complaint against domain name squatting and ordered defendant A to transfer the squatted domain names to the plaintiff.

● Comments and advice

In the past, the legitimate owners could, if successful, remove pirated trademarks from the register through legal procedures but had to bear the expenses on their own. **Now the owners should pursue more aggressively compensation for their expenses through separate lawsuits, to put the pirates at higher risk of economic loss.**

If the legislators can go further by automatically granting damages to winners of trademark oppositions and invalidations and/or ordering the pirates to transfer the pirated trademarks to the legitimate owners, trademark piracy might be more effectively curbed in China.

The judgment provides a useful reference for other legitimate owners to combat trademark piracy and recover their expenses. To expedite favorable settlement, it is advisable to cite the recent precedents to force the pirates to make an earlier concession. It is also advisable to take joint actions to claim higher damages against pirates that preemptively register many different legitimate owners' brands.