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China Cracks Down Trademark Squatters' Bad Faith Lawsuits

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China has taken effective steps to curb bad-faith trademark filing and made some progress, particularly through the newly amended Trademark Law in 2019. The trend of bad-faith filing has been curbed to a certain extent, and hopefully, the situation can be further improved.

After the bad-faith trademarks mature into registration, many of the squatters sell the registered trademarks on some platforms or even directly contact the legitimate owners for sale. Some squatters even more aggressively enforce their squatted trademarks against the legitimate owners or other businesses through administrative or judicial complaints in spite of their own unjustifiable trademarks.

The bothered legitimate owners and business were sometimes blackmailed and reached confidential settlement with the squatters, but some fought back and won some landmark cases in recent years. The Supreme People's Court (SPC) has demonstrated its attitude to curb bad-faith lawsuits through a guiding case and a typical case. We hope to introduce the legal basis and the two cases in support of the fight against the squatters through this article.

● **The legal basis against bad-faith lawsuits**

Although there are no specific provisions to regulate the relevant parties' conducts in trademark lawsuits, the principles of good faith and fairness shall be applicable to prevent bad-faith lawsuits according to Article 7 of the Trademark Law, Article 4 of the General Principles of the Civil Law and Article 2 of the Anti-Unfair Competition Law as listed below.

- ✧ Article 7 of the **Trademark Law**: The principle of good faith shall be upheld in the application for trademark registration and in the use of trademarks.
- ✧ Article 4 of the **General Principles of The Civil Law**: In civil activities, the principles of voluntariness, fairness, making compensation for equal value, honesty and credibility shall be observed.
- ✧ Article 2 of the **Anti-Unfair Competition Law**: Businesses shall, in their production and distribution activities, adhere to the principles of free will, equality, fairness, and good faith, and abide by law and business ethics.

- **The SPC's attitude**

The SPC officially announced its attitude toward bad-faith lawsuits or abuse of lawsuits through the two cases it re-examined in 2014 and 2018. One is the **guiding** case relating to the trademark “歌力思” (the Chinese transliteration of ELLASSAY), which is binding and shall be followed by all courts throughout China. The other is the typical case relating to the trademark “UL (stylized)”, which can be important reference for all courts, though not binding.

Case 1: Shenzhen Ellassay Fashion Co., Ltd. (“Shenzhen Ellassay”) and Hangzhou Intime Retail Co., Ltd. vs Suiyong Wang, #(2014) Min Ti Zi No. 24, re-examined and judged on August 14, 2014 and announced as a guiding case on March 6, 2017 by the SPC

Shenzhen Ellassay and its affiliated enterprises used the Chinese-character trademark and trade name 歌力思 as early as 1996 and registered the same trademark #1348583 in class 25 in 1999, valid through 2029 after renewals. Through long and extensive use, the trademark and trade name became famous and was listed in the TOP 500 Most Valuable Brands of China in 2008. Shenzhen Ellassay also used the Chinese-character trademark on bag products in class 18, though without registration in the class, together with its Latin-character trademark ELLASSAY #4225104 registered in class 18.

Suiyong Wang, a natural person who filed the same Chinese-character trademark 歌力思 #7925873 in class 18 in 2009 and obtained registration in 2011, sued Shenzhen Ellassay for infringement of his trademark registered in

class 18. The first-instance court ruled in favor of the plaintiff Suiyong Wang, awarded a damage of CNY100K and ordered Shenzhen Ellassay to stop the infringing use in class 18, which was upheld by the second-instance court. The dissatisfied two parties both requested the SPC for re-examination.

The SPC overturned the earlier judgments by ruling that Shenzhen Ellassay's use does not constitute trademark infringement, rejected Suiyong Wang's petitions and ordered him to bear the official fees, mainly for the following reasons.

1. Shenzhen Ellassay owns the prior rights to the trademark as well as the trade name, and can make legitimate use thereof;
2. Shenzhen Ellassay's use will not cause confusion among the relevant public; and
3. As Suiyong Wang had bad faith in registering the trademark, his conducts obviously have violated the principle of good faith. Accordingly, his bad-faith lawsuit has constituted abuse of suing power and shall not be protected by law.



This guiding case clearly demonstrates the SPC's strong attitude to crack down bad-faith lawsuits and curb bad-faith trademark filing. As a matter of course, the registrant is entitled to sue the unauthorized user(s) and the courts usually award damage and order the unauthorized user(s) to stop infringement. If the case had been so routinely decided, it should have been unfair to the victim Shenzhen Ellassay and the good-faith business should have suffered.

We can see that the SPC has innovatively protected the legitimate owners and earlier users who had actually extended their product lines from the class 25 goods to the class 18 goods, which have seemingly infringed Suiyong Wang's registered trademark in class 18. However, as Suiyong Wang registered the trademark in class 18 in bad faith, the SPC rejected his petitions. This re-examination ruling is an important signal that trademark squatters will face greater difficulty in profiting from bad-faith trademark filing. What is more, if the squatters file lawsuits on the basis of their squatted trademarks, they can hardly gain damage or may even suffer loss.

The SPC reiterated its strong attitude in another later announced typical case below.

Case 2: Uniqlo Trading Co., Ltd. (“Uniqlo”) vs Guangzhou Compass Exhibition Service Co., Ltd. (“Compass”) and Guangzhou Zhongwei Enterprise Management Consulting Service Co., Ltd. (“Zhongwei”), #(2018) Min Zai No. 396, re-examined and judged on December 28, 2018 and announced as one of the “Top 10 IPR Cases of 2018” on April 17, 2019 by the SPC

Uniqlo used its registered trademark on clothing and the promotion for the clothing. Compass and Zhongwei applied for a total of more than 2,600 trademarks, some of which are very similar to others' well-known trademarks, with the trademark “UL (stylized)” included. Compass and Zhongwei put their trademarks on sale online. In addition, Compass and Zhongwei contacted Uniqlo to sell the trademark “UL (stylized)” at the price as high as CNY8 million, about USD1.1 million, but was unsuccessful. Compass and Zhongwei then filed 42 lawsuits against Uniqlo in Beijing, Shanghai, Guangdong and Zhejiang, based on almost the same facts and activities. This is one of the 42 lawsuits. The details of the relevant parties’ trademarks are listed in the chart below.

Owners	Compass and Zhongwei (1 st -instance plaintiffs)	Uniqlo (1 st -instance defendant)
Marks		
#.	10619071	G1133303
Class 25 goods	Clothing, football boots, footwear, children’s clothing, hats, socks, belts for clothing, wedding dress, ties	Gloves (clothing)
App. date	March 14, 2012	August 13, 2012

The first-instance court ruled that Uniqlo’s use constituted trademark infringement and ordered Uniqlo to stop infringement, but Uniqlo did not need to pay damage to Compass and Zhongwei since Compass and Zhongwei did not use the trademark. The second-instance court upheld the first-instance court’s judgement. Uniqlo was dissatisfied and requested the SPC for re-examination.

The SPC overturned the earlier judgments by ruling that Compass and Zhongwei abused their right to file lawsuits. Accordingly, the SPC rejected their petitions and ordered Compass and Zhongwei to pay the official fees, mainly for the following two reasons.

1. Compass and Zhongwei had obvious bad faith as they squatted many trademarks and made profits from sales to the legitimate owners at high price and filed many lawsuits against the legitimate owners after their unsuccessful sales; and
2. Compass and Zhongwei use judicial resources to seek illegal interests, which obviously violates the principle of good faith and shall not be protected by law.

- **Lessons from the cases**

Although the legitimate owners and users finally beat the bad-faith squatters in the two cases, the long process is time- and resource-consuming. We should learn at least the following important lessons:

- 1. Register trademarks wider and earlier**

More and more applicants have come to realize China's first-to-file principle and would file their trademarks as early as possible. However, some applicants designate the scope of protection narrowly and fail to cover the associated goods or services, which might put them into an embarrassing situation when they want to expand the scope in business or the squatters take advantage of the opportunity. For example, in Case 1, if Shenzhen Ellassay had registered its Chinese-character trademark in class 18 at the beginning, it could have prevented the squatting and lawsuits and avoided the big trouble. An earlier and wider registration is far more cost-efficient than a passive lawsuit.

- 2. Watch the trademark register and duly file oppositions**

Although the China National IP Administration (CNIPA) conducts both absolute and relative examination of new trademark applications, the examiners cannot absolutely filter all the later-filed confusingly similar or identical trademarks on similar or identical goods or services. It is thus highly advisable for the legitimate owners and users to watch the Chinese trademark register and duly file oppositions, which is particularly important to prevent the squatters' trademarks from registration. If an opposition is not duly filed, a squatted trademark can then mature into registration and the CNIPA shall issue a registration certificate, which will naturally enable the squatter and the authorities concerned and courts to enforce the

registered trademark against “infringement”.

In both the aforesaid cases, the squatters at least succeeded in stopping the “infringement” on the basis of their registered trademarks in the first and second instances. Although it is possible to request for invalidation and/or non-use cancellation, the victims will be put into a less favorable situation and their business might be interrupted.

3. Fight back! Do not easily make concession!

Obviously, trademark squatting is rampant in China mainly because it is profitable. When the squatters can hoard the resources or pirate others’ trademarks and later successfully blackmail the legitimate owners and users, namely the victims, who would easily make concession, the squatters will be encouraged to squat or hoard more marks and make bigger profit, which gives rise a “trademark rush” in China.

However, if the victims and authorities join efforts to cut the profit or even make the squatters suffer heavy loss in economy and credit, the trend can be curbed more effectively. The new Chinese Trademark Law amended in 2019 has created a much better environment to crack down trademark hoarding and squatting. The CNIPA and the courts make increasing decisions against the squatters.

Moreover, according to Article 68.4 of the new Chinese Trademark Law, where a trademark lawsuit is filed in bad faith, the people’s court shall impose punishment in accordance with the law. This provision can further deter the squatters who want to abuse their right to file trademark lawsuits on the basis of their squatted trademarks. We hope to see the courts’ new cases where this provision is implemented.