



Chofn International IP

#1001, 10th Floor, AZIA Center, Building 4,
No.16 Lize Road, Fengtai District, Beijing
100073, P.R. China
Tel: +86-10-6213 9699
Fax: +86-10-6213 1230
Email: trademark@chofn.cn; mail@chofn.cn

DENHAM Defeats Malicious Litigation in China

Ms. Haiyu Li, Partner and Lawyer of Chofn IP

In recent years, certain new trends have emerged in trademark squatting cases in China. Squatters not only preemptively register trademarks on identical or related goods, but also attempt to sue the legitimate trademark holders and claim damage. A recent second-instance judgment made by the Shanghai Intellectual Property Court once again demonstrates that the registered trademark, lawful in form, cannot serve as a shield for abusing litigation rights against the principle of good faith.

Case Summary

"DENHAM" is a denim brand from the Netherlands, owned by DENHAM GROUP B.V. (hereinafter referred to as "DENHAM"). As early as in 2008, DENHAM registered trademarks such as "DENHAM THE JEANMAKER" in Classes 18, 25, and 35 in China.

LINHAI TUOSHAN TRADING CO., LTD. (hereinafter referred to as "TUOSHAN") filed an application in 2014 to register the "DENHAM" trademark in Class 9 (hereinafter referred to as "Disputed Trademark"), covering such goods as sunglasses and eyeglasses. From 2016 through 2020, DENHAM successively requested for invalidations, non-use cancellation and non-use cancellation appeal against the Disputed Trademark, but failed to clear it off.

In 2022, TUOSHAN filed a civil lawsuit against DENHAM's Chinese subsidiary for selling sunglasses through online channels, claiming a damage of CNY240K ($\approx$ USD36K). DENHAM's Chinese subsidiary argued that TUOSHAN had engaged in malicious squatting and litigation, and filed a counterclaim seeking CNY1.1 million ($\approx$ USD163K) in damages. The first-instance court dismissed all of TUOSHAN's claims and ordered it to compensate DENHAM's Chinese subsidiary CNY20K ($\approx$ USD3K) for reasonable defense costs. The second-instance court upheld the original judgment.

Although DENHAM's new request for invalidation against the Disputed Trademark was still pending during the first-instance proceedings, the court found that TUOSHAN had maliciously squatted the "DENHAM" trademark and abused its litigation rights based on the following findings:

1. **Recognition of the Prior Trademark:** Before the filing date of the Disputed Trademark, "DENHAM" had acquired a certain degree of recognition on clothing goods;

2. **Related Goods and Same-Industry Competition:** Eyeglasses and clothing both belong to the fashion category, with significant overlap in sales channels and consumer groups. As a competitor in the same industry, TUOSHAN should have been aware of the existence of DENHAM's prior trademark, but still squatted the trademark in related goods;
3. **Objective Conduct of Free-Riding on Goodwill:** TUOSHAN promoted that its brand originated from Europe, appropriated DENHAM's brand story, and used photos of DENHAM's store in Hamburg, Germany, deliberately creating an association with DENHAM. This directly exposed its subjective intent to "free-ride"; and
4. **Other Malicious Application Records:** In addition to the Disputed Trademark, TUOSHAN also attempted to register DENHAM's original scissor graphic trademark and the "DENHAM THE JEANMAKER" trademark containing "JEAN," the main product of DENHAM.

Practical Implications

The "DENHAM" case provides useful strategic guidance for trademark holders regarding trademark management and response to malicious litigation.

1. **Trademark management should focus on "goods relatedness" defense.** Rights holders should register trademarks in related categories in advance to prevent others from squatting trademarks in derivative categories such as accessories and eyeglasses.
2. **Make good use of counterclaims to regulate malicious litigation.** Even if a party formally holds a registered trademark, if the trademark was obtained through improper means, the court may find an abuse of rights and dismiss the infringement claim. The accused infringer may file a counterclaim in the same lawsuit seeking compensation from the party abusing litigation rights for reasonable legal cost, but claims for damages such as loss of goodwill shall be pursued in a separate action.
3. **Administrative and civil proceedings may proceed in parallel.** The court, even while the Disputed Trademark remained a valid registration, made a logically coherent finding on the legitimacy of the civil litigation, which in turn prompted the trademark holder to obtain a favorable outcome in the invalidation administrative proceedings.