

Bad Faith Trade Mark Registrations in China

Prior trade mark registrations, also called ‘bad-faith registrations’, are a significant problem that many European companies encounter in China. This process commonly involves a Chinese company first registering the trade mark of a foreign company in China with the express intention of selling it back to the foreign company at an inflated price. Finding out that a Chinese company has registered a bad faith trade mark is one of the biggest complaints of European Small and Medium Enterprises (SMEs) trying to enter the Chinese market. These prior registrations can limit the foreign company's freedom to operate by restricting its ability to enter the China market or even to source goods from China.

As an example, a Scandinavian SME used a Chinese factory to make its goods for export. The Chinese supplier registered the Scandinavian company's trade mark in China and engaged China's customs to intercept export goods bearing the trade mark, thereby disrupting the Scandinavian company's business.

This case demonstrates that a sound knowledge of the instruments available to protect your company's intellectual property is of utmost importance, and that it is worth remembering some of the key reasons for spending money on registering trade marks:

- To protect products and ideas;
- To protect and harness brands and reputation;
- To justify research and development costs;
- To make sure new rights belong to you;
- To prevent other companies from utilizing your inventions and designs;
- To keep competitors at a distance;
- To create market space for future development;
- To create a strong defence in case of conflicts / infringement;
- To record unique technology and designs for investors;
- To create a platform for licensing and co-operation agreements;
- To create a qualified knowledge base for decisions about registering rights internationally.



What is a trade mark?

A trade mark is a sign that serves the purpose of identifying the goods or services of a producer, thus allowing the consumers to distinguish goods or services of one producer from those of another. The sign may be composed of words, devices, letters, numerals, three-dimensional signs (shapes), combinations of colours or any combinations of the above.

China follows the ‘first to file’ rule, meaning that the company that first files a trade mark application in China owns the rights over this trade mark. Many European SMEs come to do business in China, only to find out that their mark has already been granted to a Chinese company. So when entering the Chinese market do not fail to register your trade mark!

Trade marks trading

It is important to note that it is legal for the owner of a registered trade mark to sell it. In fact, in China there is an officially approved internet-based platform for selling trade marks, a so-called 'trade mark supermarket' (<http://www.gbicom.cn/>).

What happens if a European company finds its trade mark on the 'trade mark supermarket' website in China? Selling a trade mark is legal, but what about selling one that has been 'hijacked' from its owner – bought or registered in 'bad faith'?

Under the Trademark Law of China, if any of the trade marks on the mentioned website are found to be sold in violation of the law, action can be taken to have those trade marks cancelled. Obtaining evidence will provide grounds for invalidating bad faith trade marks.

Trade mark laws usually include clauses providing different means to defend oneself against the selling of trade marks registered in bad faith. A very basic rule of the trade mark law in many countries is its use. In China a registered trade mark must be used within 3 years of being registered in China. One can assume that a significant portion of 'hijacked trade marks' are revoked in China because they are not used for three consecutive years. Furthermore, well-known trade marks may be given protection even if they have not been registered in other countries but the criteria for attaining such status are very strict.

In the case of 'trade mark supermarkets', defending a trade mark in the end always depends on the very specific case/trade mark in question. The third party buying a trade mark from such a 'supermarket' should carefully check its legal background; otherwise they might buy a trade mark that cannot be used. The seller of these trade marks should also carefully verify the legal situation of the trade marks sold, as he/she might face high compensation claims.

In China a trade mark (except well-known trade marks) practically has no protection if it is not registered, and it is difficult to object to an already registered trade mark because it is a formal, legal process. Nevertheless, companies should at least try to defend their rights against such 'hijacked trade marks' in China instead of simply accepting the infringement. A specialised lawyer should analyse each case to determine whether its merits are strong enough to justify defence. It will also be necessary to collect evidence specific to each case and compile a dossier detailing the information gathered on each trade mark, including details of the member's trade mark such as its current registration status, whether it is registered in China, the extent to which the member's trade mark is used in China (if it is used on goods or products manufactured or sold there), and any information on the registration of the offending trade mark.

Bad faith registration - some examples

In 2009 there was a major trade mark infringement case in China where an EU company was sued for RMB 40 million (about EUR 4.5 million) compensation. The EU company had been using the same trade mark name worldwide which it tried to register in China in 2003, but found that a Shenzhen based company already owned this trade mark. An application for cancellation of the Chinese trade mark based on non-use failed because the Shenzhen company had used the trade mark and had stores in Shenzhen with similar products. So the EU company had to take the decision to rebrand – meaning that it abandoned use of the brand on its products worldwide, and introduced a totally new trade mark. The cost to register is often cited as a reason for not registering IPR in China or for not registering in additional trade mark classes. However, in our experience, far from saving money, such a strategy has time and again proven to be more costly.

The issue is not limited to European companies but is also an issue domestically. For example, Harbin 'Zheng Yang He' Soy Sauce saved RMB 1,000 on official fees plus some additional trade mark agent fees by not registering its trade mark, only to lose RMB 500,000 to buy it back later.

Take-away message: Steps to take to protect yourself

It is important to register broadly in China - in other words, don't just consider the immediate class for the product to be sold, but consider whether the same trade mark could be used on related items or on packaging, advertising or even merchandising. Furthermore, Chinese consumers are likely to find a Chinese name for foreign trade marks so it is a good idea to also register a Chinese version.

In the case of 'trade mark hijacking', it may be beneficial to:

1. Seek the advice of a lawyer who will be able to assess each trade mark and the strength of the case for each. Alternatively, consider retaining one lawyer to then manage the collective trade marks. Nevertheless, a request for revocation at the Trade mark Office level must be filed with the Trade mark Review and Adjudication Board (TRAB), and can also be handled by a registered trade mark agent.
2. Consider buying back the trade mark using a Chinese law firm to negotiate on your behalf. Some of our experts have suggested that using a Chinese lawyer may allow you to buy it back at lower cost than by going directly to the seller yourself.
3. Take steps to register any key trade marks and logos as soon as possible, and seek the advice of a lawyer or trade mark agent to ensure adequate protection in related or other relevant classes.
4. Consider registering key trade marks in Chinese to (a) pre-empt unwanted Chinese registrations and (b) to prepare the way for sales in China.
5. Understand that different rights cover different aspects of IPR and that each has its limitations (e.g. design patents have a relatively narrow focus), so try to use a layered approach in developing an IP strategy.

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The *China IPR SME Helpdesk* supports small and medium sized enterprises (SMEs) from European Union (EU) member states to protect and enforce their Intellectual Property Rights (IPR) in or relating to China, Hong Kong, Macao and Taiwan, through the provision of **free information and services**. The Helpdesk provides jargon-free, first-line, confidential advice on intellectual property and related issues, along with training events, materials and online resources. Individual SMEs and SME intermediaries can submit their IPR queries via email (question@china-iprhelpdesk.eu) and gain access to a panel of experts, in order to receive **free and confidential first-line advice** within **3 working days**.

The China IPR SME Helpdesk is co-funded by the European Union.

To learn more about the China IPR SME Helpdesk and any aspect of intellectual property rights in China, please visit our online portal at <http://www.ipr-hub.eu/>.