Bad Faith Trade Mark Registrations and How to Deal with It: a Chinese example

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Prior trade mark registrations, also called ‘bad-faith registrations’, are a significant problem that many European companies encounter when going international.

This process commonly involves a local company first registering the trade mark of a foreign company in its country with the express intention of selling it back to the same foreign company at an inflated price. Finding out that a company abroad has registered a bad faith trade mark is one of the biggest complaints of EU SMEs trying to enter other markets. These prior registrations can limit a company's freedom to operate by restricting its ability to enter other markets or even to source goods from abroad.

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 a company’s intellectual property is of utmost importance, and that it is worth remembering some of the key reasons for spending money on registering trademarks:

- 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 the original creator;
- To prevent other companies from utilizing 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 trademark 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.

The ‘first to file’ rule is generally followed, meaning that the company that first files a trade mark application in a country owns the rights over this trade mark.

Many European SMEs come to do business abroad, only to find out that their mark has already been granted to another company. This is a very common situation, for instance, in the Chinese and South East Asian markets.

So when entering specific markets it is important not to fail to register 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. For example, in China there is an officially approved internet-based platform for selling trademarks, a so-called 'trade mark supermarket' (http://www.gbicom.cn/).So what could happen if a European company finds its trademark on the 'trademark supermarket' website in China?

In other words, while selling a trademark is legal, selling one that has been 'hijacked' from its owner – bought or registered in 'bad faith' is not allowed and subject to an enforcement action by the original owner to have this trademark cancelled.

Obtaining evidence will provide grounds for invalidating bad faith trademarks and trademark laws worldwide 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. A registered trademark must be used within 3 years of being registered, for example. Furthermore, well-known trademarks may be given protection even if they have not been registered in other countries but normally the criteria for attaining such status are very strict.

However, defending a trademark in the end always depends on the very specific case/trademark in question. On a general basis, the third party buying a trade mark should carefully check its legal background; otherwise it might buy a trade mark that cannot be used. The seller of these trademarks should also carefully verify the legal situation of the trademarks sold, as he/she might face high compensation claims.

A trademark (with the exception of well-known trade marks) practically has no protection if it is not registered, and it is difficult to object to an already registered trademark because it is a formal, legal process.

Nevertheless, entrepreneurs should at least try to defend their rights against such 'hijacked trade marks' 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 somewhere, the extent to which the member's trademark is used in other markets (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 – a Chinese example

In 2009 there was a famous major trademark infringement case in China where an EU company was sued for RMB 40 million (about EUR 4.5 million at the time) compensation.

The EU company had been using the same trademark name worldwide which it tried to register in China in 2003, but found that a Shenzhen based company already owned this trademark.

An application for cancellation of the Chinese trademark based on non-use failed because the Shenzhen company had used the trademark 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 trademark.

The cost to register is often cited as a reason for not registering IPR abroad or for not registering in additional trademark classes. However, 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 trademark 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 a trademark abroad

It is important to register a trademark on a larger extent when compared to the original class of products and services abroad - in other words, it is necessary to include not only the immediate class for the product to be sold, but to consider whether the same trade mark could be used on related items or on packaging, advertising or even merchandising. Furthermore, consumers are likely to find a foreign name for a foreign trade marks so it is a good idea to also register a local language versions.

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 trademarks. Nevertheless, a request for revocation must be filed when possible and it can also be handled by a registered trade mark agent;
2. Consider buying back the trademark using a local law firm to negotiate on the entrepreneur’s behalf. Some experts suggest that using a local lawyer may allow to buy the trademark rights back at lower cost than by going directly to the seller;
3. Take steps to register any key trademarks 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 local language to (a) pre-empt unwanted local registrations and (b) to prepare the way for sales in the respective foreign country;
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.