Courts are evolving to tackle bad faith trademark filings in China

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In an era that the significance of intellectual property has been reiterated and elevated to the national strategy level, the Chinese judiciary has been innovatively tackling bad faith trademark filings and reshaping the jurisprudence in this regard.

Reasonable costs incurred in administrative action may be indemnified in civil suit

On 28 May 2019, the Suzhou Intermediate Court rendered a first-instance decision, affirming that Liangshan Shuihu Tire Company's act of using "

FULISITONG
福力思通

" trademark on motorcycle and agrimotor tire constituted trademark infringement over the trademarks "

普利司通

" and "

BRIDGESTONE

" owned by BRIDGESTONE CORPORATION. The Court ordered the infringer to indemnify the brand owner's damages and cover the reasonable costs incurred in opposing and invalidating the accused infringing trademarks filed in bad faith. The judgment has become effective.

Prior to the civil lawsuit, BRIDGESTONE CORPORATION sought to block the registration of the "

FULISITONG
福力思通

" mark filed by Liangshan Shuihu Tire Company through trademark opposition, opposition review and subsequent administrative proceedings. The Beijing High Court affirmed that "

FULISITONG
福力思通

" cannot be granted registration due to its similarity to BRIDGESTONE CORPORATION's cited trademarks "

普利司通

" and "

BRIDGESTONE

".

In the civil proceeding, the Suzhou Intermediate Court found the 3 million damages claimed by BRIDGESTONE CORPORATION well-founded: 1) The infringing trademark has been used for over 10 years; 2) the sales contract Liangshan Shuihu submitted during the trademark opposition review administrative proceeding corroborates the sale of infringing tire yields more than 3 million profits; and 3) Liangshan Shuihu exhibits bad faith in piggybacking the reputation of plaintiff's registered trademarks. The defendant continues to use the infringing trademarks after the TRAB proceeding and trademark administrative proceeding confirmed that "FULISITONG福力思通" constitute similar trademark to the plaintiff's cited trademark. The court, therefore, found the defendant's ensuing act constitutes bad faith infringement, which warrants punitive damages.

Based on the above, the court awarded maximum statutory damages of 3 million and ordered the defendant to cover the plaintiff's reasonable costs (RMB 291,343) incurred in the civil lawsuit and the previous administrative proceedings (opposition and the follow-up administrative proceedings).

Abuse of trademark administrative proceeding constitutes unfair competition

The Minhang District Court of Shanghai rendered on 25 September 2020 a judgment, finding abuse of trademark administrative proceeding constitutes unfair competition.

German company BRITA GmbH registered trademark "BRITA" and its Chinese transliteration "碧然德" respectively in 1993 and 2010, in class 11, for water purification systems. The German company also registered several sub-brands and acquired a certain reputation in the field.

A Chinese company, Shanghai Kangdian Industrial Company (Shanghai Kangdian) registered a trademark DEBRITA in the same class, and filed 21 other applications in other classes, based on which Shanghai Kangdian challenged the registration or use, by BRITA Gmbh, of its own trademarks in various sectors.

It took eight years for BRITA Gmbh to finally obtain the invalidation of the DEBRITA trademarks and put a term to the harassment pursued by Shanghai Kangdian.

BRITA Gmbh and its Chinese subsidiary later jointly initiated a civil proceeding against Shanghai Kangdian before the Minhang District Court.

One of the focal points of the dispute was whether the use of trademark administrative procedures could be considered abusive, malicious and constitute acts of unfair competition.

The Minhang District Court held that the trademark legal system gives business operators the procedural means to protect their own trademark rights. However, business operators must not use such procedures to pursue illegal purposes.

The court cited Article 2 of the Anti-Unfair Competition Law, which defines the term "unfair competition" and refers to the conduct of business operators who harm the lawful rights and interests of other business operators and disrupt the social and economic order. The Court held that the defendant's malicious pre-emptive registration of trademarks and abuse of trademark administrative procedures violated the principle of good faith and business ethics and disrupted the order of market

competition. Therefore, the defendant's behavior constituted acts of unfair competition.

Bad faith filing, not yet a standalone cause of action in civil suit

Is bad faith trademark filing act per se justiciable? Maybe not.

A US company AFTON CHEMICAL, which chose to ignore altogether the administrative litigation route, brought in early 2020 a civil litigation against a trademark squatter before the Beijing IP Court, requesting an injunction to stop the trademark filings and indemnity of damages. In December 2020, the court refused to accept AFTON's complaint based on the reasoning that the bad faith filing per se is not a cause of action in a civil lawsuit. The case was later appealed before the Beijing High Court and pending hearing.

China's Administrative Procedure Law offers a possible route for brand owners to claim monetary damages in administrative litigation.

Article 61.1 of the Administrative Procedure Law provides "Where, in an administrative action that involves administrative licensing, registration, collection or expropriation or a ruling rendered by an administrative authority over a civil dispute, a party applies for concurrent settlement of relevant civil disputes, the people's court may adjudicate the civil dispute in combination with the administrative dispute".

For instance, where a brand owner contends in an administrative proceeding involving the invalidation of a bad faith trademark registration that the trademark infringement dispute between the brand owner and such bad faith filer be concurrently decided by the court, the court shall hear both claims. Unfortunately, it seems that a precedent has failed to materialize in the IP field by far.

Chinese courts are becoming increasingly creative in leveraging monetary means to dissuade bad faith trademark filings. With this in mind, more case laws are expected to emerge and a few might end up being selected as the guiding cases of the Supreme People's Court and become binding over courts at various levels in China. It would therefore be worthwhile for brand owners to do forum shopping and try out new ideas in courts located in more developed areas.