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TRADEMARK TROLLS IN CHINA:  
REASONS AND SOLUTIONS  
OF THE SERIOUS MARKET DISTURBING PROBLEM

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*Abstract*

*In recent years, trademark trolls have become a serious problem that disturbs the Chinese market. Though trademark trolls are concomitant with the trademark registration system, their overspreading in China is due to particular social and legal factors: the proactive trademark protection policies which value trademark certificates over the goodwill of trademarks that have developed over time; damages, in recent years, to trademark infringements which have increased drastically in an unjustified manner; and, trademark infringement dispute settlement procedures before administrative and e-commerce platforms that are inequitably favorable to trademark holders. The Chinese legislature and courts, cognizant of the seriousness of the problem, have started to take measures against trademark trolls. The 2013 Chinese Trademark Law permits prior legitimate users of a trademark to continue its use within the initial scope even if the trademark has been registered later by a third party. Further, the 2018 Chinese E-Commerce Law doubled the amount of damages granted to the victim in cases of bad faith complaints on e-commerce platforms. The Chinese courts have qualified the existence of trademark trolls as an abuse of rights or unfair competition, an understanding which may give rise to liability against trademark troll entities. In addition, a declaratory judgement of non-infringement is available if the victim simply needs to get rid of the uncertainty or risk in the face of threats from trademark trolls. Finally, the victim can also file an opposition or invalidation action in cases of trademark squatting by trademark troll entities.*

I. INTRODUCTION

Trademark rights can be acquired either through use or through registration.<sup>1</sup> In common law jurisdictions, such as the United States, trademark rights are recognized on the basis of using a trademark by an individual or enterprise in commerce. The scope of the rights depends on the commercialized products or services and the geographical area covered by the use of the trademark.<sup>2</sup> Where two trademarks are used in the same area, prior use prevails in cases of conflicting trademark use. The advantage of the trademark use system is that the legal rights correspond to and are justified by the legitimate interests of the trademark user's goodwill. The disadvantage of such a system is that conflicts may often arise when the same or similar kinds of products from different users of the same or similar trademarks meet each other in a new commercial zone. In most countries of the

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<sup>1</sup> WORLD INTELL. PROP. ORG. (WIPO), WIPO INTELLECTUAL PROPERTY HANDBOOK 77 (Geneva, 2nd ed. 2004), <https://www.wipo.int/about-ip/en/iprm/>.

<sup>2</sup> MARY LAFRANCE, UNDERSTANDING TRADEMARK LAW 32–42 (LexisNexis, 2nd ed. 2009).

world, trademark rights come from registration. Any individual or enterprise can file an application to the trademark office for the registration of a sign which was chosen on designated goods or services. This application will be examined and published for registration if the conditions of registration are satisfied. This system includes the following advantages: the examination procedure can prevent, to a large extent, conflicting trademark applications; while the publication procedure permits enterprises in the same industry to avoid filing or using conflicting trademarks. The disadvantage is that, as use is not a condition for trademark registration, a trademark currently used but not registered by company A (hereinafter referred to as “Company A”) may be registered as a trademark by company B (hereinafter referred to as “Company B”). As a result, Company A must stop its use and possibly even pay damages to Company B as unregistered trademarks are, in general, not protected in the trademark registration system. This may happen whether Company B registers the trademark in good or bad faith. Good faith registration means that Company B was not aware of the trademark use by Company A when it filed the trademark registration. However, bad faith registration means that Company B has applied for the trademark registration despite being aware of the trademark use by Company A. This is called trademark squatting or trademark piracy.<sup>3</sup> If a trademark squatter sues the prior trademark user in order to obtain a profit, they are considered a trademark troll.<sup>4</sup> A simple trademark registration grants the power to not only prohibit others from using a trademark, but also to receive damages. Some trademark trolls recognize this as a business: they invest in the registration of a large number of trademarks, and then keep watch on the market for the opportunity to sue others and gain profits.

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<sup>3</sup> WIPO, *supra* note 1, at 90; Shujie Feng, *Why the Deficiency in Fighting Trademark Piracy in China?*, 2 EUR. INTELL. PROP. REV. 2 (2014).

<sup>4</sup> “A trademark troll generally is defined as an entity that uses trademark law, without actually using a mark in commerce, to extract licensing fees from others who are using the trademark. The trademark trolls essentially attempt to “hold up” those who are using the trademark.” Mike Mireles, *Trademark Trolls: A Problem in the United States*, 18 CHAP. L. REV. 815 (2014-2015); Brian L. Frye, *IP as Metaphor*, 18 CHAP. L. REV. 735 (2015); David H. Bernstein & Andrew Gilden, *No Trolls Barred: Trademark Injunctions After Ebay*, 99 TRADEMARK REP. 1037, 1064-65 (2009); Leah Chan Grinvald, *Shaming Trademark Bullies*, 2011 WIS. L. REV. 625, 628-29 (2011).

China's trademark registration system dates back to 1982, when it first adopted its modern trademark law.<sup>5</sup> Unfortunately, some entities have abused the system by taking advantage of the weaknesses of the trademark registration system. Over the years, this has led to the serious problem of trademark squatting, and subsequently the presence of trademark trolls.<sup>6</sup> On one hand, the Chinese Government celebrates the skyrocketing amount of trademark applications and registrations because such large numbers are considered to signify a high level of intellectual property (hereinafter referred to as "IP") protection and economic prosperity.<sup>7</sup> On the other hand, it is clear that this perspective does not make sense in view of the economic bubbles in the trademark applications. In fact, trademark squatting accounts for a non-negligible percentage of the statistics. For example, a Chinese trading company incorporated on 2 May 2018 filed 5,060 trademarks on 27 June and 5,753 trademarks on 27 July 2018. Here, it can be seen that trademark trolls behave like a business in the sense that they make important investments when it comes to trademark filing: 5,060 trademark filings represent an official tax of 222,047 USD and 5,753 filings for an official tax of 252,457 USD.<sup>8</sup>

Trademark trolls in China function primarily in two ways. The first is by filing a lawsuit for trademark infringement requesting high

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<sup>5</sup> The Chinese *Trademark Law* (商标法) was adopted on 23 August 1982 and revised on 22 February 1993, 27 October 2001, and 30 August 2013.

<sup>6</sup> Liang Zhiwen (梁志文), *Fansi Zhishi Chanquan Qingqiuquan Lilun—Zhishi Chanquan Yaoxie Celüe yu Zhishi Chanquan Qingqiuquan de Xianzhi* (反思知识产权请求权理论—知识产权要挟策略与知识产权请求权的限制) [*Reflection on the Requesting Rights of Intellectual Property—Intellectual Property Trolls and the Limitation to Intellectual Property Rights*], 4 QINGHUA FAXUE (清华法学) [TSINGHUA U. L. J.] 124, 126 (2008); Cui Guobin (崔国斌), *Shangbiao Xiechi yu Zhuce Shangbiaoquan de Xianzhi* (商标挟持与注册商标权的限制) [*Trademark Trolls and the Limitation to Trademark Rights*], 4 ZHISHI CHANQUAN (知识产权) [INTELL. PROP.] 10, 38 (2015).

<sup>7</sup> In 2017, there were in total 5,748 million trademark applications in China (an increase of 55.72% as compared to the number of 2016), among which 5,539 million were filed by Chinese entities (accounting for 96.36%); During the period of 2013-2017, there were 15,846 million Chinese trademark applications (58.2% of the global trademark applications) and 9,354 million registered Chinese trademarks (55% of the global registered trademarks); China has been ranked No.1 in term of number of registered trademarks in the world for 16 years. Guojia Shangbiaojü (国家商标局) [Trademark Office], *Zhongguo Shangbiao Pinpai Zhanlüe Niandu Fazhan Baogao (2017)* (中国商标品牌战略年度发展报告(2017)) [2017 Annual Development Report on China Trademark Strategy], <http://sbj.saic.gov.cn/sbtj/201805/W020180513829986812509.pdf>.

<sup>8</sup> *Liangtian Shenqing Wan Jian Shangbiao, Pinqiong Zaici Xianzhi Xiangxiang* (两天申请万件商标, 贫穷再次限制想象) [*More Than 10,000 Trademarks Were Applied Within Two Days; Poverty Limits Our Imagination Again*], IPCODE ZHICHANKU (Aug 8, 2018), [https://mp.weixin.qq.com/s/PTc10aFBj4Jtr6u\\_twQd3g](https://mp.weixin.qq.com/s/PTc10aFBj4Jtr6u_twQd3g) [hereinafter *10,000 Trademarks Within Two Days*].

damages. In a 2014 example, the Japanese clothing company Uniqlo was sued together with its distributors in more than 40 cases before courts of different regions by two related companies who possessed more than 2,600 registered trademarks. The complainants had registered a logo that Uniqlo had been using on tags. The second way for trademark trolls to function is to negotiate the granting of a license or assignment to use the mark they registered for a high price in the face of litigation threats or complaints involving administrative authorities or e-commerce platforms.<sup>9</sup> Though damages cannot be obtained in these procedures since administrations or e-commerce platforms lack the competency to decide on damages, administrations can order the cessation of infringing activities and platforms can request the withdrawal of products or even close the online stores. Trademark troll operators use this as a tool to further their extortion. These are just two examples, but there are even more creative ways trademark trolls conduct transactions. In one Chinese province, a trademark squatter obtained the status of exclusive distributor for a famous foreign automobile company. As this automobile company could not settle the problem of the trademark squatting, the registered trademarks presented serious obstacles to the business of the company.<sup>10</sup> Other examples concern companies listed as candidates in stock market. Such companies are frequently threatened by trademark infringement lawsuits since the existence of an IP infringement lawsuit would cause the candidate to become unqualified for listing. In such circumstances, the candidate company often pays a high amount of money in order to get rid of the lawsuit.<sup>11</sup>

The current research has described trademark troll cases of recent years and analyzed the applicability of the theory on abuse of right in trademark troll cases and the theoretical possibility of limiting

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<sup>9</sup> *Shangbiao Shouquan Le! Tousu Wangdian Qinquan, Shexian Qiaozha Lesuo Bei Daibu?* (商标授权了! 投诉网店侵权, 涉嫌敲诈勒索被逮捕?) [Trademark Authorized! Arrested for Racketeering Because of Complaints about Online-Store Tort?], IPRLEARN (Sep 6, 2018), <https://mp.weixin.qq.com/s/PpcN9fTJzCctFxNdkG63Q> [hereinafter *Arrested for Racketeering*].

<sup>10</sup> Yang Jingan (杨静安), “*Shangbiao Zhanglang” Hai Neng Zou Duoyuan?* (“商标蟑螂”还能走多远?) [How Far Can Trademark Trolls Still Go?], 12 ZHONGHUA SHANGBIAO (中华商标) [CHINA TRADEMARK] 24 (2015).

<sup>11</sup> Chinese Police arrested a group who used patents for extortion against IPO applicants. *Arrested for Racketeering*, *supra* note 9.

trademark rights with the condition of trademark use.<sup>12</sup> However, deep analysis of the social, political and legal reasons of trademark troll in China is absent; how to use existing legal regimes to deter trademark troll remains an issue to be explored. For the second aspect, the very recent practice of Chinese courts has supplied rich and interesting materials for this research. In this article, we will analyze the social, political legal contexts that have boosted the growth of trademark trolls and then evaluate the different solutions to the trademark troll problem. With regard to social and legal contexts, we will examine the China specific factors that have appeared along with the constantly increasing level of trademark protection. Among the different solutions to the problem of trademark trolls, some are common to all trademark registration systems, such as opposition and invalidation procedures that permit the victim of trademark trolls to challenge the trademark right; and others that have been newly developed in China, such as rights based on prior trademark use or the qualification of trademark trolls as unfair competition or abuse of rights.

## II. SOCIAL AND LEGAL REASONS FOR OVERSPREADING TRADEMARK TROLLS

When the judges of the Court of Justice of the European Union explained in the *Interflora* case that a trademark possesses an investment function, they were referring to the investment of efforts by the trademark owner in supplying goods or services in order to develop the goodwill and reputation of the trademark, from which the trademark owner may benefit in the future.<sup>13</sup> Likely, in this reasoning way, the Court did not consider the existence of trademark trolls. In

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<sup>12</sup> See Wang Jing (王静) & Cao Wenjia (曹闻佳), *Yi Fei Shiyong Wei Mudi Zhuce Shangbiao Bing Jinxing Eyi Susong de Sifa Guizhi* (以非使用为目的注册商标并进行恶意诉讼的司法规制) [*The Judicial Regulation of Bad Faith Trademark Infringement Actions on the Basis of Trademark Registered without Intent of Use*], 11 ZHONGHUA SHANGBIAO (中华商标) [CHINA TRADEMARK] 61, 61-65 (2016); Feng Xiaozheng (奉晓政), *Zhishi Chanquan Eyi Susong de Shibie Yu Guizhi* (知识产权恶意诉讼的识别与规制) [*The Qualification and Regulation of Intellectual Property Trolls*], 3 GUANGXI MINZU DAXUE XUEBAO (ZHEXUE YU SHEHUI KEXUE BAN) (广西民族大学学报(哲学与社会科学版)) [J. GUANGXI U. NAT'LITY (PHIL. & SOC. SCI.)] 130, 130-134 (2016); Li Xiaoqi (李晓秋), *Lun Shangbiao Xiechi Xingwei de Sifa Kongzhi* (论商标挟持行为的司法控制) [*The Judicial Control of Trademark Trolls*], 4 XIANDAI FAXUE (现代法学) [MOD. L. SCI.] 81, 81-93 (2017); Li Mingde (李明德), "Zhishi Chanquan Lanyong" Shi Yige Mohu Mingti ("知识产权滥用"是一个模糊命题) [*Abuse of Intellectual Property is an Ambiguous Issue*], 10 DIANJI ZHISHI CHANQUAN (电子知识产权) [ELECTRONIC INTELL. PROP.] 33, 33-36 (2017).

<sup>13</sup> Case C-323/09, *Interflora, Inc. v. Marks & Spencer* 2011 E.C.R. I-08625.

reality, trademark trolls have become a kind of investment business, though it is an accusable one from moral perspective. How did a legal instrument for the protection of goodwill become an illegitimate, yet legal, tool for profit? There must be social and legal reasons. The proactive policies of the Chinese government for the protection of IP have significantly sensitized the Chinese public to the importance of IP protection, but they have also conveyed a superficial understanding of trademark rights: the inappropriate increase of damages for IP infringement has simply made trademark infringement lawsuits profitable, and the *notice and take down* system for the dispute settlement of trademark infringement involving an e-commerce platform is unduly favorable to trademark holders. All these elements have furthered the development and rise of trademark trolls in China. We try to analyze how each of these factors has come into being and been developed in the Chinese society. Such analysis will help to comprehend how IP has been introduced and understood in the Chinese society, which has been under constant reform in the context of globalization. Furthermore, such analysis is also important for the finding of solutions to the trademark trolls.

#### A. *Trademark Rights: from Goodwill to Certificates*

In the 1980s, China opened the door to international trade and investment and, in the 1990s, began the departure from the planned economy towards the development of the market economy.<sup>14</sup> The Chinese Trademark Law was adopted in 1982, and with its implementation, trademark protection in the market economy was applied to international trade. The opportunity for investment was brand new to the Chinese public, and competition arose between state-owned enterprises, foreign enterprises and private enterprises. The large gap in perspective between Chinese societies and Western societies regarding the concept of respect for intellectual property rights (hereinafter referred to as “IPR”) caused serious conflicts in international exchanges. Three major Sino-American disputes on IP

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<sup>14</sup> Zhonggong Zhongyang Guanyu Jianli Shehui Zhuyi Shichang Jingji Tizhi Ruogan Wenti de Jueding (中共中央关于建立社会主义市场经济体制若干问题的决定) [The Decision of the Central Committee of the Chinese Communist Party on Several Issues on the Construction of Socialist Market Economy Regime] (promulgated by the Cent. Committee of the Chinese Communist Party, Nov. 14, 1993) (Chinalawinfo).



protection from the 1990s are typical examples of such conflict.<sup>15</sup> For the implementation of the agreements signed between US and China at the end of these disputes and the belief that the improvement of IP protection was for the long-term interest of the Chinese society, China made great efforts in the fight against trademark counterfeiting. In particular, the Chinese government conducted raid campaigns that confiscated and destroyed countless counterfeited goods, while applying administrative measures and enforcing court judgments that ordered infringers to cease the infringing activities and pay damages. During that period, trademark infringement was centered on trademarks which were genuinely exploited in the supply of goods in the Chinese market. The constant critiques from Western countries on China's trademark counterfeiting problem, in combination with the Chinese government's propagation of trademark enforcement campaigns and attempts to raise public awareness about respect for IPR, ultimately made it apparent to all that trademark infringers were "the bad and the ugly", deserving of punishment.

However, currently, reinforcement of IP protection is viewed quite differently in China. The government now encourages trademark filings, and higher numbers of trademark filings is seen as a sign of commercial success. Unfortunately, as shown by research data that compared the GDP and trademark application numbers of China, United States and Japan in 2018 (Table 1),<sup>16</sup> there are large bubbles in the number of trademark applications in China:

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<sup>15</sup> The American *Omnibus Trade Act* of 1974 conferred the power to US Trade Representative (USTR) to sanction countries that are estimated not providing adequate IP protection for the American nationals. Under the threat of such sanction, China and the US made three negotiations on the protection of IP in the 1990s which gave result to three agreements between the two countries: the Memorandum of Understanding on the Protection of Intellectual property of 17th January 1992, the Agreement regarding Intellectual Property Rights of 26th February 1995 and the Memorandum of Understanding on the Protection of Intellectual Property of 17th June 1996 to which are enclosed a Report on the Implementation Measures Taken by China under the 1995 Agreement and a report on other measures. See Li Mingde (李明德), "Tebie 301 Tiaokuan" yu Zhongmei Zhishi Chanquan Zhengduan ("特别301条款"与中美知识产权争端) [Special 301 and Sino-American Intellectual Property Disputes] 24-26 (2000).

<sup>16</sup> Li Xiaoqiu (李晓秋), *supra* note 12.

TABLE 1 THE COMPARISON OF TRADEMARK APPLICATIONS AND GDP OF CHINA, THE US AND JAPAN IN 2018

Country	Trademark Applications	GDP (unit: 100 million USD)	Number of Trademark Applications per 100 Billion GDP
China	7,371,000	131,186.9	554,084
US	468,926	201,999.6	23,214
Japan	184,483	50,631.3	36,437

Furthermore, the reinforcement of trademark protection has led to a series of measures which place excessive value on trademark registration. One example can be seen where shopping malls request trademark certificates or license agreements to open stores, and e-commerce platforms also do so to operate online stores. The message conveyed to the public is that only registered trademark owners have the right to do business, and any goodwill that has been cultivated under an unregistered trademark is of no value. In actuality, trademark registration is optional for companies, and they may also choose to use unregistered trademarks in conducting their business. Finally, the determination of trademark infringement, under the criteria of likelihood of confusion, depends solely on comparison of a sign used by a defendant and the sign indicated on the trademark registration certificate, as well as the comparison of goods on the certificate and the goods commercialized by the defendant. All these make it easy to believe that the trademark registration certificate itself as a trademark right. As a result, goodwill as a basis of trademark rights has been forgotten.<sup>17</sup>

Meanwhile, the general impression of the Chinese public and authorities on trademark infringement has not changed: trademark infringement is the use of a trademark without the consent of the trademark owner. In addition, infringers continue to be seen as “the bad and the ugly”, who are always ordered to cease infringing business and pay damages to trademark certificate owners. However, in the transition from goodwill-based trademark rights to registration-based trademark rights, the *victims* of trademark infringement have changed.

<sup>17</sup> Li Chen (李琛), *Shangbiaoquan Jiuji yu Fuhao Quandi* (商标权救济与符号圈地) [*Remedy for Trademark Rights and Sign Reserving*], 1 HENAN SHEHUI KEXUE (河南社会科学) [HENAN SOCIAL SCIENCE] 33, 65-68 (2016).

They are no longer only enterprises who have exploited their trademark in China and subsequently suffered significant business loss—now they are also those who have nothing but a trademark certificate without a real and effective business. It is clear that those with malicious intent have discovered the loophole in the Chinese trademark registration system and taken advantage of it to do accusable business. This kind of business has become even more attractive in recent years since, for the sake of IPR protection, Chinese courts have been more proactively increasing the amount of damages for trademark infringement under public policies.

*B. Unjustified Increase of Damages for Trademark Infringement*

The existence and development of trademark trolling depends essentially on the profitability of trademark infringement lawsuits for trademark owners.<sup>18</sup> For a long time, the amount of damages for IP infringement that could be obtained from Chinese courts has been criticized as insufficient by foreign companies, and later also by Chinese companies.<sup>19</sup> This pushback from IPR holders has called upon the Chinese legislature, government and courts to make changes. Actions have been taken, including increasing the statutory damages in law and adopting policies that urge Chinese courts to use their discretionary power to increase the amount of damages in their judgements. However, critics find these changes questionable, as the criteria to decide the amount of damages increased are unclear. For example, in the 2013 *Castel* case before the courts in Zhejiang (a developed region to the south of Shanghai)<sup>20</sup>, the total damages awarded for trademark infringement were 33.7 million CNY (about 5.3 million USD<sup>21</sup>) in the first instance. This was maintained at the

<sup>18</sup> Li Xiaoqiu (李晓秋), *supra* note 12.

<sup>19</sup> According to statistics from Supreme People's Court, 80% of IP litigations were between Chinese entities in 2017. Li Han (李晗), *2017 Nian Renmin Fayuan Xin Shou Zhishi Chanquan Anjian 23 Wan Jian, Shewai Anjian Zhan 2 Cheng* (2017年人民法院新收知识产权案件23万件, 涉外案件占2成) [*In 2017, Chinese Courts Received 230,000 New Cases of Intellectual Property Rights, with Foreign Cases Accounting for 20%*], ZHONGGUO QINGNIAN NET (Apr. 19, 2018), [http://news.youth.cn/gn/201804/t20180419\\_11602608.htm](http://news.youth.cn/gn/201804/t20180419_11602608.htm).

<sup>20</sup> Kasi Daile Xiongdi Jianhua Gufen Youxian Gongsi, Li Dao Zhi Deng Qin Hai Shangbiaoquan Jiufen Shenqing Zaishen Minshi PanJue Shu (卡思黛乐兄弟简化股份有限公司、李道之等侵害商标权纠纷申请再审民事判决书) [*Cuestella Brothers Simplified Co., Ltd. v. Li Daozhi et al.*] (Sup. People's Ct. 2014).

<sup>21</sup> All following calculations on conversion between CNY/USD are made based on the exchange rates around May 2019.

second instance, but then decreased to 500,000 CNY (about 78 000 USD) by the Supreme People's Court (hereinafter referred to as "SPC") in its rehearsal. In the 2016 *New Balance* case before courts in Guangzhou,<sup>22</sup> the damages for trademark infringement were 98 million CNY (about 15.3 million USD) in the first instance, but decreased to 5 million CNY (about 780,000 USD) in the second instance. In the 2017 *Qianggu* case before the Beijing courts, the damages for trademark infringement were 10 million CNY (about 1.56 million USD) in the first instance, but then decreased to 6 million CNY (about 940,000 USD) in the second instance.<sup>23</sup> In order to understand why the damages awarded fluctuate, it is necessary to first understand the legal rules and the judicial practices regarding determination of damages for trademark infringement.

The Chinese Trademark Law provides for three methods to determine damages for trademark infringement.<sup>24</sup> First, the damages shall be equal to the actual loss of the trademark owner arising from the infringement; if the actual loss cannot be determined, then the damages shall be the profit made by the infringer due to the trademark infringement; if the profit cannot be determined, then the damages shall be determined with reference to the royalty in the market. This method is known as the "loss-profit-royalties damages" method.<sup>25</sup>

<sup>22</sup> Zhou Lelun Su Xinbailun Maoyi (Zhongguo) Youxian Gongsi, Guangzhou Shi Shengshichangyun Shangmao Liansuo Youxian Gongsi (周乐伦诉新百伦贸易(中国)有限公司, 广州市盛世长运商贸连锁有限公司) [Zhou Lelun v. New Balance Commerce (China) Co., Ltd. & Guangzhou Shengshichangyun Commerce Chain Co., Ltd.] (Guangdong High People's Ct. 2015).

<sup>23</sup> According to the 2017 Rankings made by Tsinghua University's National Entrepreneurship Research Center and National Business Daily on listed Chinese companies, Tencent is the most valuable Chinese Brand with a value of 621,371 million CNY and Alibaba is the top third with a value of 560,652 million CNY. *Top 10 Chinese-listed companies with biggest brand value*, SOHU NET (Apr. 19, 2017), [https://www.sohu.com/a/134909119\\_468643](https://www.sohu.com/a/134909119_468643).

<sup>24</sup> Shangbiao Fa (商标法) [Trademark Law] (promulgated by Standing Comm. Nat'l People's Cong., Aug. 8, 1982, effective Mar. 1, 1983) (2013) art. 56, 63 (Chinalawinfo).

<sup>25</sup> Supreme People's Court further clarified the calculation methods of trademark owners' loss and infringers' profits: the loss of trademark owners arising from infringement can be determined on the basis of sales (quantity) reduced of trademark owner because of infringement or sales (quantity) of infringing products (if the sale reduced of trademark owner cannot be determined) times reasonable unit profit of trademark owner's products, and the profit made by infringers arising from infringement can be determined on the basis of sales (quantity) of infringing products times reasonable unit profit of infringer's products (if the unit profit of infringing product cannot be determined, the unit profit of trademark owner's product should be applied. *See* Zuigao Renmin Fayuan Guanyu Shenli Shangbiao Minshi Jiufen Anjian Shiyong Falü Ruogan Wenti de Jieshi (最高人民法院关于审理商标民事案件适用若干法律问题的解释) [Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in the Civil Cases of Trademark] (promulgated by Sup. People's Ct., Oct. 12, 2002, effective Oct. 16, 2002), art. 13, 14 (Chinalawinfo).

Second, if none of the above can be determined, the court may adjudicate within an upper limit of 50,000 CNY under the 2001 Chinese Trademark Law or 3 million CNY under the current 2013 Trademark Law,<sup>26</sup> taking into account all the factors of the case concerned, including the nature (*i.e.* whether the defendant is in bad faith or not) and the seriousness of the infringement.<sup>27</sup> This type of damages is called statutory damages. Third, in serious cases of bad faith infringement on a trademark, the damages can add up to three times the *loss-profit-royalties damages*.<sup>28</sup> These damages are *punitive damages*, and were introduced into the Chinese Trademark Law in its 2013 revision.<sup>29</sup> It can be observed that, in the 2013 revision of the Chinese Trademark Law, the legislator adopted two measures which led to the possibility of increasing damages to trademark infringement: first, by increasing the upper limit of statutory damages and second, by introducing punitive damages. In addition, government policies have been set forth which encourage the increase of damages to IP infringement.

The Chinese government adopted the Innovation-Driven Development Strategy in 2013, following which SPC promulgated a series of judicial policies for its implementation.<sup>30</sup> The former president of the IP Chamber of the SPC emphasized that, in order to reinforce IP protection, a critical mission is to increase damages for IP infringement in order to “fully and honestly valorize IP in the

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<sup>26</sup> Huijuan Dong and Xiuqin Lin, *Major Changes in the Chinese Trademark Law in the Transitional Period*, 8 QUEEN MARY J. INTEL. PROP. 50 (2018).

<sup>27</sup> Jiao Yan et al., *Jiangdi Weiquan Chengben Tigao Qinquan Daijia—Beijing Gaoyuan Guanyu Jiada Zhishi Chanquan Baohu Lidu de Diaoyan Baogao* (降低维权成本 提高侵权代价——北京高原关于加大知识产权保护力度的调查报告) [*Reducing Enforcement Costs and Increasing Costs of the Infringe—Survey and Study Report of the Beijing People’s High Court on the Reinforcement of Judicial Protection of IP*], RENMIN FAYUAN BAO (人民法院报) [PEOPLE’S CT. J.], Apr. 23, 2015, at 8.

<sup>28</sup> Shangbiao Fa (商标法) [Trademark Law] art. 63.

<sup>29</sup> See Liu Youhua, *Remarks on the proposed Fourth Amendment to the Patent Law of China*, 4 QUEEN MARY J. INTEL. PROP. 485-9, (2017). See also Zhuzuoquan Fa (Xiuding Caoan Songshengao) (著作权法(修订草案送审稿)) [Copyright Law (Revised Draft for Deliberation)] (promulgated by St. Council Legal Office, June 6, 2014) art. 76 (Chinalawinfo). (Punitive damages have been included into the Draft for the Revision of Patent Law and the Draft for the Revision of the Copyright Law Art. 68 of the Project of Law for the Revision of PRC Patent Law published by the Legal Office of the State Council on Dec. 2, 2015).

<sup>30</sup> See Feng Shujie & Ma Xiao, *To Increase Damages of Intellectual Property Infringement in China: A Double-Edged Sword for the Market*, 53 J. WORLD TRADE 57 (2019).

market.”<sup>31</sup> These SPC policies have driven Chinese courts to increase the damages to trademark infringement in two ways. First, where courts determine the profit made by an infringer under the loss-profit-royalties method, the causation between the infringement and the profit or sales attained by the infringer is often over-valued, turning all the profits into the result of using the infringed trademark.<sup>32</sup> However, it is often evident that use of the infringed trademark is just one of the elements that contribute to profit or sales earned by the infringer. Under the policies that encourage increased damages to punish infringers and adequately compensate IPR holders, Chinese courts think it reasonable to allocate all of an infringer’s profit to the trademark holder. Second, in the application of the statutory damages, an important discretionary power may be interpreted from the law, which authorizes the courts to take into account all factors that may be relevant to the circumstances in their estimation of the relevant amount. Notably, the courts can take into account the bad faith of the infringer, which entitles the courts to increase damages for punitive purposes and not for compensatory purposes.<sup>33</sup> For example, in the case *Moncler*,<sup>34</sup> the defendant registered and used a domain name similar to the well-known trademark and trade name “Moncler”, and sold on its website coats imitating the designs of the complainant with the trademark Moncler. The Court recognized the bad faith of the defendant and determined that 3 million CNY should be awarded in damages, which is the upper limit of statutory damages that can be awarded. The ambiguity of the concept of bad faith, which can cover a broad scope of situations, serves as justification for Chinese courts to increase damages in a general manner under the umbrella of reinforcing IP protection.<sup>35</sup> In recent years, statistics have shown that

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<sup>31</sup> Song Xiaoming (宋晓明), *Xin Xingshi Xia Woguo de Zhishi Chanquan Sifa Zhengce* (新形势下我国的知识产权司法政策) [*China’s IP Judicial Policies in the New Circumstances*], 5 *ZHISHI CHANQUAN* (知识产权) [INTELL. PROP.] 3, 3-9 (2015).

<sup>32</sup> That is what happened in the *Castel* case, *New Balance* case and *Qianggu* case.

<sup>33</sup> Feng & Ma, *supra* note 30.

<sup>34</sup> Beijing Nuoyakate Fuzhuang Youxian Gongsi Yu Mengkeleier Gufen Gongsi Qinhai Shangbiaoquan Jiufen Ershen Minshi Panjue Shu (北京诺雅卡特服装有限公司与蒙克雷尔股份公司侵害商标权纠纷二审民事判决书) [*Beijing Nuoyakate Garment Co., Ltd. v. Moncler SpA*] (Beijing High People’s Ct. Oct. 9, 2015).

<sup>35</sup> Trademark trolls are not always based on trademark squatting and even when they are based on trademark squatting, one cannot always prove the bad faith of the trademark owner. That is why trademark trolls cannot always be questioned on the basis of bad faith.

statutory damages have been applied in more than 98% of trademark infringement cases before Chinese courts.<sup>36</sup> The main reason for such excessive application of statutory damages is lack of evidence.<sup>37</sup> Another reason is the increasing commercial enforcement of IPR in China,<sup>38</sup> as IPR owners authorize attorneys to bring lawsuits for counterfeiting and attorneys' fees depend largely on the damages obtained in court. Statutory damages are efficient considering the cost of evidence collection and its limited usefulness in evaluating damages, and so claimants favor statutory damages. However, while the amount of 5,000 CNY (approximately 730 USD) as damages for trademark infringement in one lawsuit against one small business may be considered insufficient in and of itself, a claimant that brings multiple suits and wins for each will receive far more than this. For example, if the trademark has not been used in the region concerned, the local consumers would not care about which trademark is used on goods and only want a cheap price for goods. In this case, the lawyer handling the trademark enforcement business may use a template for litigation documents in 40 lawsuits, and thus the total amount of damages for all these suits would be 200,000 CNY (29,200 USD). One can see how the business then becomes quite appealing.

### C. Non-judicial Enforcement Procedures in Favor of Trademark

<sup>36</sup> According to the statistics on 505 trademark infringement cases before the courts in Beijing between 2013 and 2015, statutory damages were applied in 99.59% of the cases. See Wan Di (万迪) & Lu Cong (路聪), *Zhishi Chanquan Sunhai Peichang Zhidu Shishi Xiaoguo Fenxi Ji Wanshan Lujing (Shang) – Yi Beijing Fayuan Panjueshu Wei Cankao Duixiang* (知识产权侵权损害赔偿制度实施效果分析及完善路径(上)——以北京法院判决书为考察对象) [*On the Practice of Indemnity to IP Infringement and Its Improvement (part 1) – A Study Based on Judgments of the Beijing IP Court*], 4 ZHONGHUA SHANGBIAO (中华商标) [CHINA TRADEMARK] 55, 55-61 (2016). Among the 387 trademark infringement cases before the courts in Nanjing (the capital of Jiangsu province, a developed region to the north-west of Shanghai) between 20 December 2009 and 19 October 2015, statutory damages were applied in 98.19% of the cases. See *Nanjing Tielu Yunshu Fayuan Ketizu: Zhishi Chanquan Qinquan Susong Chengben Yu Xiaoli Fenxi – Jiyu Nanjing Fayuan Anjian de Shizheng Yanjiu* (南京铁路运输法院课题组：知识产权侵权诉讼成本与效率分析——基于南京法院案件的实证研究) [*Research Project Team of Nanking Railway Transport Court: The Cost and Efficiency of IP Infringement Litigation: An Empirical Study on the Cases of Courts in Nanking*] CHINA IP MAGAZINE (Apr. 26, 2016), <http://www.chinaipmagazine.com/Topics/InfoShow.asp?37-1523.html>. The study focuses on the 1373 judgments from Dec. 20, 2009 to Oct. 19, 2015. In addition, this means, in about more than 98% of the trademark infringement cases in China, punitive damages are not applicable.

<sup>37</sup> Song Jian (宋健), *Zhishi Chanquan Sunhai Peichang Wenti Tantaoyan – Yi Shizheng Fenxi Wei Shijiao* (知识产权损害赔偿问题探讨——以实证分析为视角) [*Comments on Indemnity to IP Infringement from an Empirical Perspective*], 5 ZHISHI CHANQUAN (知识产权) [INTELL. PROP.] 10 (2016).

<sup>38</sup> Commercial enforcement cases accounted for 81% of the 770 IP infringement cases before Changsha Intermediate Court and for 57% of the 505 trademark infringement case before the courts in Beijing.

### *Holders*

Apart from litigation, trademark trolls can also threaten legal action through non-judicial procedures, which could seriously disrupt the business of the accused infringer. Non-judicial enforcement procedures include the administrative enforcement procedure involving Customs, the E-Commerce Platforms and the Administration for Industry and Commerce (AIC), which has become the State Administration for Market Regulation since April 2018.

In China, trademark holders may file complaints with the AIC for administrative enforcement of their trademark rights regarding the production or sale of infringing products on the market. According to the Chinese Trademark Law, the AIC can investigate all potential infringing activities, copy the business and financial documents of the suspicious infringer, conduct an on-the-spot investigation and seize possible infringing products. It can also decide on the existence of infringement, order the cessation of infringing activities, confiscate and destroy infringing goods and tools used for infringing activities and inflict a fine of up to 250,000 CNY.<sup>39</sup> Trademark holders can also file complaints with Customs for the seizure, confiscation or destruction of infringing import or export products.<sup>40</sup> These two administrations, in their enforcement of trademark rights, only examine the trademark certificate and compare the trademarks and goods concerned and, if they reach the conclusion that the marks are identical or similar and the goods are also identical or similar, they will order the cessation of infringing activities and confiscate infringing goods. They will not consult about the bad faith of the trademark holders and will not suspend the administrative procedures, even if the trademark at issue is subject to an invalidation or cancellation procedure initiated by the other party. In the case of trademark trolls, bad faith trademark holders hold a strong position when negotiating for compensation or royalties with the other party, if the latter wishes to continue its business or deliver the import or export goods in time and according to its contracts.

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<sup>39</sup> Shangbiao Fa (商标法) [Trademark Law] art. 60, 62.

<sup>40</sup> See Zhonghua Renmin Gongheguo Zhishi Chanquan Haiguan Baohu Tiaoli (中华人民共和国知识产权海关保护条例) [Regulation of the People's Republic of China on the Customs' Protection of Intellectual Property Right] (promulgated by the St. Council, Dec. 2, 2003, effective Mar. 1, 2004) (2010) (Chinalawinfo).



For e-commerce platforms, in recent years, trademark trolls have significantly disturbed the business of online stores. It is claimed that more than 80% of online stores have been victims of trademark trolls in 2016 and 18% of online stores have been subject to more than five complaints.<sup>41</sup> What's more, certain generic or descriptive terms have been registered as trademarks and used as a legal basis for complaints with e-commerce platforms. According to Alibaba statistics, 83 generic or descriptive terms of various industries which were used on the e-commerce platform Tmall had been registered as trademarks by March 2017, and complaints on the basis of these trademarks affected 15,000 online stores and 110,000 products<sup>42</sup>

E-commerce platforms have created and managed IPR dispute settlement procedures which trademark holders can utilize. These internal procedures were conceived with reference to the *notice and take down* procedure that protects the online distribution right of authors.<sup>43</sup> The procedure itself originates from the American Digital Millennium Copyright Act (DMCA) and was introduced into the Chinese Copyright Law in 2000.<sup>44</sup> However, this procedure does not exist in the field of trademark law. The internal trademark dispute settlement procedures of e-commerce platforms share similarities with the *notice and takedown* procedure of copyright law, but the major

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<sup>41</sup> Yan Yang (晏扬), "Eyi Shangbiao" Xingfeng Zuolang Shang le Shei? ("恶意商标" 兴风作浪伤了谁?) *Whom are Harmed by Trademark Trolls?*, ZHONGGUO GONGSHANG SHIBAO (中华工商时报) [CHINA BUSINESS TIMES], Apr. 19, 2017, at 03.

<sup>42</sup> *Id.*

<sup>43</sup> Under the notice-take down procedure, Internet service provider (ISP) should delete or shelter the item at issue upon receipt of complaint from copyright owner and notify the other party; the other party can send a counter-notice by claiming its innocence; upon receipt of the counter-notice, the ISP should restore the deleted or sheltered items; the dispute will then be settled between the two parties and the ISP is out.

<sup>44</sup> See Zuigao Renmin Fayuan Guanyu Shenli Shangbiao Minshi Jiufen Anjian Shiyong Falü Ruogan Wenti de Jieshi (最高人民法院于审理商标民事案件适用法律若干问题的解释) [Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in the Civil Cases of Trademark] (promulgated by Sup. People's Ct., Oct. 12, 2002, effective Oct. 16, 2002) (Chinalawinfo). See also Zuigao Renmin Fayuan Guanyu Shenli Liyong Xinxi Wangluo Qin Hai Renshen Quanyi Minshi Jiufen Anjian Shiyong Falü Ruogan Wenti De Guiding (最高人民法院于审理利用信息网络侵害人身权益民事纠纷案件适用法律若干问题的规定) [Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Cases involving Civil Disputes over Infringements upon Personal Rights and Interests through Information Networks] (promulgated by Sup. People's Ct., Aug. 21, 2014, effective Oct. 10, 2014) (Chinalawinfo). See Xinxi Wangluo Chuanbo Quan Baohu Tiaoli (信息网络传播权保护条例) [Regulation on the Protection of the Right to Communicate Works to the Public over Information Networks] (promulgated by St. Council, Jan. 30, 2013, effective Mar. 1, 2013) (Chinalawinfo).

difference is that while platforms decide on the existence of trademark infringement before deleting or sheltering an item at issue, the internet service provider (ISP) does not decide on copyright infringement.<sup>45</sup> The procedures of Alibaba provide a useful example. Upon receipt of a complaint, the platform will notify the online store and give it three working days to issue a counter-notice.<sup>46</sup> The online store then may provide evidence in defense of itself, by providing the authenticity of the product. Based on the information provided by the parties, Alibaba will decide if there exists trademark infringement. If so, the item at issue (e.g., information or a photo on goods) will be deleted or sheltered by the platform, and the online store will receive a warning the first time such measures are taken. If the online store is found to be selling infringing goods a second time, in addition to the deletion or sheltering of the item at issue, the online store's use of certain functions of the platform (e.g., publishing information about new goods or even use of the platform as a whole) will be limited for seven days. If the infringement occurs a third time, the online store will be closed. In determining trademark infringement, platforms compare the trademarks and goods concerned to discern the likelihood of confusion among consumers. Therefore, providing a trademark certificate is enough to get the online store sanctioned if the store owner cannot provide supportive evidence. Today, the success of an online store requires important investments in advertising and promotion, and thus the punitive measures of a platform will seriously harm the business of the online store. Therefore, many online stores have instead chosen to pay an amount to the complainant in order to have the complaint withdrawn. One trademark holder obtained 900,000 CNY within six months.<sup>47</sup> Conversely, Alibaba put Hangzhou Internet Safeguard Co., Ltd on the blacklist of bad faith

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<sup>45</sup> Feng Shujie (冯术杰), *Wangluo Fuwu Tigong Zhe de Shangbiao Qinquan Zeren Rending - Jianlun Qinquan Zeren Fa Di 36 Tiao Jiqi Shiyong* (网络服务提供者的商标侵权责任认定——兼论《侵权责任法》第36条及其适用) [*Internet Service Providers' Liability for Internet Users' Trademark Infringement - Comments on the Interpretation and application of Article 36 of the Chinese Tort Liability Law*], 5 INTELL. PROP 10 (2015); Shujie Feng, *Should Alibaba be liable for the counterfeiting activities of online stores? On the secondary liability of internet service providers in Chinese trade mark*, 7 QUEEN MARY J. INTELL. PROP. 191 (2017).

<sup>46</sup> Alibaba Group, *Zhishi Chanquan Qinquan Chuli Guize* (知识产权侵权处理规则) [Intellectual Property Infringement Processing Rules], ALI GUIZE (Aug. 21, 2018), <https://rule.1688.com/rule/detail/939.htm?spm=a26go.7662369.0.0.dHGgs3>.

<sup>47</sup> *10,000 Trademarks Within Two Days*, *supra* note 8.

complainants in February 2017, refusing to accept its IPR infringement complaints and filed a lawsuit for unfair competition against it for damages of 1.1 million CNY.<sup>48</sup> This company, as an agent for several brands, has filed complaints against thousands of online stores for trademark infringement, 25% of which were not founded.

### III. SOLUTIONS TO TRADEMARK TROLLS PROBLEM

Scholars estimate that there are various reasons why there is no trademark troll problem in the United States.<sup>49</sup> The main reason is that the United States bases its trademark law on the trademark use system, which requires owners of registered trademarks to provide evidence of use at the time of registration and then regularly after the trademark is registered. As China opted for the trademark registration system, it is not possible to replace it with the trademark use system for the time being. However, there are still measures available to solve the trademark troll problem, although it may never completely be eradicated or deterred. It will be analyzed hereby the solutions common to all trademark registration systems and those rather newly developed in China.

#### A. *Solution Common in a Trademark Registration System*

From a practical perspective, victims of trademark trolls can take different actions that are common in all trademark registration systems. Such actions include opposition and invalidation procedures which allow victims to challenge the rights on trademark registration, and declaratory judgment of non-infringement which can provide legal certainty to the victim's business. In addition, the victim can insist on the application of compensatory damages, but an adjustment of the policy by Chinese courts is needed.

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<sup>48</sup> Alibaba Group, *supra* note 46.

<sup>49</sup> The reasons include: the trademark use requirement, Congress' and ICANN's response to issues concerning domain names, the availability and widespread use of *inter partes* administrative proceedings at the USPTO, Supreme Court precedent addressed to patent trolls applied in trademark cases, litigation and strategic advantages available to patent trolls not present in trademark cases, enforcement of consumer protection laws against patent trolls, shared appellate jurisdiction over trademark cases, and an early appellate case dealing harshly with a trademark trolls. Michael S. Mireles, *Trademark Trolls: A Problem in the United States?*, 18 CHAP. L. REV. 815, 815-867 (2015).

### 1. Opposition or Invalidation of Squatted Trademarks

In most cases, trademark trolls base their operations on the bad faith registration of a trademark that has been used by the victim(s) previously. Therefore, it is possible for the victim to file an opposition or invalidation action against the registered trademark. First, Article 32 of the Chinese Trademark Law prohibits the unfair registration of a trademark which has been used by a third party and enjoys a certain reputation in the market.<sup>50</sup> The level of reputation required for this rule to apply is not high, and the more evident that bad faith is, the lower threshold of reputation is required for the prohibition.<sup>51</sup> This article also prohibits registration of trademarks that infringe the rights of third parties, which can be applied in cases where trademark squatting is conducted upon logos, industrial designs and trade names, etc. Second, the Trademark Law prohibits registration of the trademark of another with whom the registrant has had any kind of business relationship or contact.<sup>52</sup> Third, it is prohibited to register a prior well-known trademark of a third party.<sup>53</sup> It is noteworthy that, though the *bona fide* principle was introduced into the Chinese Trademark Law in its revision in 2013, it is not considered applicable outside of the above scenarios. Moreover, it undermines the efficiency of the measures against trademark squatting. Fourth, in the 2019 revision of the Chinese Trademark Law, the legislator introduced a new rule according to which bad faith trademark applications without intent of use shall be rejected. This added a new legal ground for opposition and invalidation against trademark squatting. Though the term bad faith in this new rule is still too abstract for application by examiners or judges, it can be seen that the Chinese legislator would like to indicate that trademark applications without intent of use could be considered as bad faith applications under certain circumstances. This gives Trademark Office and Chinese courts a new opportunity to develop case law.

It is noteworthy that invalidation actions can only be filed within five years from the registration of the trademark at issue, with the exception of well-known trademarks registered in bad faith.<sup>54</sup> Despite

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<sup>50</sup> Shangbiao Fa (商标法) [Trademark Law] art. 32.

<sup>51</sup> Feng, *supra* note 3.

<sup>52</sup> Shangbiao Fa (商标法) [Trademark Law] art. 15.

<sup>53</sup> *Id.* art. 13.

<sup>54</sup> *Id.* art. 45.

the various legal grounds available for a claimant to bring action on, opposition or invalidation procedures in general last for 12 months or more. As victims of trademark infringement require timely decisions, such a lengthy time period makes it impossible to utilize invalidation actions as a remedy in cases of trademark troll complaints before the AIC, Customs or e-commerce platforms, even though the courts do sometimes suspend trademark infringement proceedings to await results of an invalidation procedure. The *2016 China Trademark Strategy Annual Development Report*, proposes that a fast examination road be available in cases of bad faith trademark squatting. If this mechanism can succeed, invalidation decisions can be made during AIC, Customs, e-commerce platform and judicial procedures.

## 2. Declaratory Judgment of Non-counterfeiting

In the face of the threats and disruption introduced by trademark trolls, the victim can also resort to the declaratory judgement of non-counterfeiting. This specific procedure was first established by judicial practice and later defined by SPC.<sup>55</sup> According to the Judicial Interpretation on Certain Issues relating to Law Application in Cases concerning Patent Infringement of SPC, where the patent holder has sent a cease and desist letter to the alleged infringer, who in return has sent a written reminder to the patent holder requesting it to bring a lawsuit, if the patent holder takes no action and has not withdrawn its warning within one month from its receipt of the reminder or within two months from the expedition of the reminder, the other party can file a lawsuit for a declaratory judgement of non-counterfeiting. While this rule is designed for patent infringement cases, the SPC has confirmed that it is also applicable to infringement cases concerning other types of IPR.<sup>56</sup> If the act of the alleged infringer was found to

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<sup>55</sup> Zuigao Renmin Fayuan Guanyu Suzhou Longbao Shengwu Gongcheng Shiye Gongsi Yu Suzhou Langlifu Baojianpin Youxian Gongsi Qingqiu Queren Buqinfan Zhuanliquan Jiufen An de Pifu (最高人民法院关于苏州龙宝生物工程实业公司与苏州朗力福保健品有限公司请求确认不侵犯专利权纠纷案的批复) [Reply from the Supreme People's Court on the Case of Suzhou Longbao Biological Engineering Industry Co. v. Suzhou Langlifu Health Products Co. Ltd.] (issued by Sup. People's Ct., Jul. 12, 2002) (Chinalawinfo).

<sup>56</sup> Shenqing Zaishenren Beijing Shuzi Tiantang Xinxu Keji Youxian Zeren Gongsi Yu Beishenqingren Nanjing Fenghuo Xingkong Tongxin Fazhan Youxian Gongsi Queren Buqinfan Zhuzuoquan Jiufen Guanxiaquan Yiyi An (申请再审人北京数字天堂信息科技有限公司与被申请人南京烽火星空通信发展有限公司确认不侵犯著作权纠纷管辖权异议案) [Beijing Digital Heaven Information

be non-counterfeiting by a declaratory judgement, such a judgement can prevent administrations or other courts from handling the same facts or passing a different judgement.

In the *Tank* case, the Shanghai Intellectual Property Court clarified that the written reminder requesting the IPR holder to take action is not an indispensable condition for filing a lawsuit for a declaratory judgement on non-counterfeiting.<sup>57</sup> In this case, the company Hehui had been using the trademark TANK in Chinese characters on helmets since 2007, and this trademark enjoyed a level of reputation in the Chinese market. Mr. Wang, a proprietor of a motorcycle store located in the same region where Hehui promoted its business, registered the trademark TANKE & the Chinese characters for “helmets” in 2010. In 2014, Mr. Wang sent a cease and desist letter to Hehui and filed complaints with Taobao for trademark infringement against the company. Hehui’s goods were taken down from its online store by Taobao. Though the trademark at issue was invalidated before the Trademark Review and Adjudication Board (hereinafter referred to as “TRAB”) and still pending in the appellate judicial procedure, Hehui filed a lawsuit for a declaratory judgement of non-counterfeiting, as it was losing profit from the take down and needed to restore the sales on Taobao as soon as possible. The Shanghai Intellectual Property Court found that Mr. Wang had not taken any judicial actions during the eight months after their cease and desist letter and had not withdrawn his warning letter, which created considerable uncertainty and risk for Hehui’s business. Thus, as Hehui enjoyed considerable reputation and had already been using their trademark before Mr. Wang had registered his, they had the right to continue its use within its initial scope according to Article 59 of the Chinese Trademark Law.<sup>58</sup>

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Technology Co., Ltd. v. Nanjing Starry Sky Communications Development Co., Ltd.] (Sup. People’s Ct. 2012).

<sup>57</sup> Wangxinxiang yu Shanghai Hehui Anquan Yongpin Youxian Gongsi Queren Buqinhai Shangbiaoquan Jiufen Ershen Minshi Panjueshu (王新祥与上海和汇安全用品有限公司确认不侵害商标权纠纷二审民事判决书) [Wangxinxiang v. Shanghai Hehui Safety Products Co. Ltd.] (Shanghai Intell. Prop. Ct. 2016). See also Liu Jing (刘静), *Cuigao Chengxu Zai Queren Buqinquan zhi Su Zhong de Panduan* (催告程序在确认不侵权之诉中的判断) [*The Role of Reminder Procedure in the Application of Declaratory Judgement for Non-counterfeiting*], 3 ZHONGHUA SHANGBIAO (中华商标) [CHINA TRADEMARK] 54, 54-55 (2018).

<sup>58</sup> See *Shangbiao Fa* (商标法) [Trademark Law] art. 59 para. 3.

For business purposes, it is useful in certain circumstances to obtain a declaratory judgement on non-counterfeiting in order to exclude uncertainty and troubles caused by the threat of IP infringement actions.<sup>59</sup> However, this is purely a defensive action that comes at the cost of the victim and no compensation can be claimed from trademark troll entities in such an action. If the practice of qualifying trademark trolls as unfair competition can be recognized by the SPC, such an action will be more efficient for victims of trademark trolls: it is a relatively aggressive action that also permits victims to obtain compensation for harm caused by the trademark trolls.

### 3. Coming Back to Compensatory Damages

As discussed above, the increasing damages are important inducers for the increasing number of trademark trolls. The higher the damages for trademark infringement rises, the greater the amount of trademark troll cases there are. The current legal practice for determining damages for IPR infringement has seriously disturbed the balance of law. The pressure from abroad and the proactive domestic policies both push for increased damages for IPR holders to achieve the objective of greater IP protection. However, in this process, the principle of the rule of law has been forgotten and the law has somewhat become a tool for economic or social missions. The principle of the rule of law should always be respected, as the inherent value of the law itself can guarantee fairness and justice in protecting individuals' rights. In this process, the fundamental concept of compensatory damages in the civil law system has been cast aside, and the judicial practice where determining damages is driven by policies has become uncontrollable. The unjustified increase of damages for trademark infringement has been used by trademark troll entities as a method to misappropriate the legal profit and property of the alleged trademark infringers.<sup>60</sup>

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<sup>59</sup> Zhang Guangliang (张广良), *Queren Buqinquan zhi Su Ji Qi Wanshan* (确认不侵权之诉及其完善) [*The Improvement of Procedures of Cases for Declaratory Judgement on Non Counterfeiting*], 11 RENMIN SIFA (人民司法) [PEOPLE'S JUDICATURE] 96, 96-99 (2008). See also Tang Maoren (汤茂仁), *Queren Buqinquan de Shouli Tiaojian Ji Xiangguan Falü Wenti Yanjiu* (确认不侵权案的受理条件及相关法律问题研究) [*The Acceptability of Cases of Declaratory Judgement on Non-counterfeiting*], 6 FALÜ SHIYONG (法律适用) [J. OF LAW APPLICATION] 82, 82-85 (2006).

<sup>60</sup> Feng & Ma, *supra* note 30, 39-58.

In fact, the negotiators of the TRIPs Agreement were very attentive to the balance that should be maintained in IP protection systems. Right at the beginning of the Agreement, while it is indicated that negotiating parties desire to promote effective and adequate IPR protection, it is emphasized simultaneously that measures and procedures to enforce IPR should not themselves become barriers to legitimate trade.<sup>61</sup> Furthermore, in Article 41, it is reiterated that IPR enforcement procedures shall be applied in such a manner as to avoid creating barriers to legitimate trade and to provide safeguards against their abuse, and that procedures concerning IPR enforcement shall be fair and equitable. Since the 1980s, China has been striving for an ever-higher level of IP protection with the pressure from outside and also more and more internal motivation for the reinforcement of IP protection. Now, it has arrived in a situation where the measures and procedures for trademark protection are excessively favorable to holders of registered trademarks, and this has caused serious problems with fairness, equitability and the principle of rule of law.

In the face of trademark trolls, in order to restore the balance between trademark holders and third parties, one of the solutions is to return to the concept of compensatory damages. Above all, it should be clear that trademark protection should be based on the goodwill associated with the trademark and not merely a sign in and of itself that is indicated on the trademark registration certificate. This is especially important in regards to determining damages. Therefore, only registered trademarks that have been exploited in China should be worthy of compensation. This is reasonable because only those who have utilized their trademarks can suffer an injury in their business due to the infringement, and only those trademarks that have been utilized in business can contribute to the profit made by the alleged infringer. This naturally would lead to strictly applying an analysis of the causation between trademark infringement and the loss of trademark holder or the profit of the infringer. Chinese courts should be very attentive to this point in order to correct the current deviated practices. In the 2013 revision of the Chinese Trademark Law, a new rule was introduced for this purpose: upon request of the defendant, the court

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<sup>61</sup> See Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Apr. 15, 1994, 1867 U.N.T.S. 154 [hereinafter *TRIPS Agreement*].



may demand that the trademark holder provide evidence of use in the past three years; failure to prove real and effective trademark use will lead to the rejection of the damage claim if there is no other injury.<sup>62</sup> However, this rule is not always correctly interpreted and applied by Chinese courts. For example, in one of the *Uniqlo* cases, the local court determined that there was trademark infringement after comparing the trademark signs, as well as the goods commercialized by the defendant and the goods indicated on the trademark certificate. The court then held that, though the trademark had not been used up until the time of lawsuit, the trademark had been registered for less than three years. Therefore, it found that the above rule exempting damages was not applicable and decided on an amount of 100,000 CNY in damages.<sup>63</sup> In truth, the court had confused the trademark use requirement, which is the criteria for determining trademark forfeiture, with the requirements for determining damages for trademark infringement. While the former aims to eliminate those registered trademarks that have not been exploited within a certain time period from the day of its registration, the latter seeks to base damages upon the goodwill of the trademark holder. Therefore, the three-year period can cover both the registration period and the pre-registration period for the purpose of goodwill examination.

### *B. Solution Newly Developed by Chinese Legislator and Courts*

There are mainly three measures adopted by Chinese authorities in recent years in relation to the fight against trademark trolls. First, the Chinese legislator created a right for prior trademark users in the 2013 revision of the Trademark Law so that they can continue their use even if the mark has been registered later by a third party. Second, the Chinese courts have qualified trademark trolls on the basis of squatted

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<sup>62</sup> Shangbiao Fa (商标法) [Trademark Law] art. 64. Certain trademark troll entities even prepared themselves regarding trademark use for the lawsuit. The Chinese courts should be careful in the examination of such use of evidence by taking into account all the factors in the circumstances of the case.

<sup>63</sup> Guangzhou Zhinanzen Huizhan Fuwu Gongsi, Guangzhou Zhongwei Zixun Gongsi Su Xunxiao Zhongguo Shangmao Gongsi, Xunxiao Zhongguo Shangmao Gongsi Dongguan Changan Wanda Guangchangdian Qinfan Shangbiaoquan Jiufen An (广州指南针会展服务公司、广州中唯咨询公司诉迅销中国商贸公司、迅销中国商贸公司东莞长安万达广场店侵犯商标权纠纷案) [Guangzhou Compass Exhibition Service Company, Guangzhou Zhongwei Consulting Co., Ltd. v. Xunxiao China Trading Company, Xunxiao China Trading Company Dongguan Chang'an Wanda Plaza Store] (Guangdong Dongguan No.2 Intermediate Court 2014).

trademarks as unfair competition or abuse of right so the Chinese Trademark Law, has provided that Chinese courts can even sanction those who have brought trademark actions in bad faith.<sup>64</sup> Third, the 2018 Chinese E-commerce Law provided for double damages for those who have suffered from bad faith complaints with online platforms.

### 1. Prior Trademark Use as an Exception to Subsequent Trademark Rights

In the event that a bad faith trademark registration cannot be invalidated, either due to the lack of evidence or limited scope of concrete rules, prior users are allowed to continue their use so long as they remain within the initial scope of use according to the 2013 revision of the Chinese Trademark Law.<sup>65</sup> As far as e-commerce is concerned, the initial scope can be defined by the online business. The condition for this rule to apply is that the formerly used trademark must have crossed the threshold of a minimum level of reputation before the registration of the posterior trademark. According to Article 32 of the 2013 Chinese Trademark Law, the threshold of the minimum level of reputation is inversely proportional to the level of bad faith in the trademark registration.<sup>66</sup>

It is noteworthy that, though China continues to utilize the trademark registration system, the protection of unregistered trademarks garners greater attention. The problems of trademark squatting and trademark trolling have caused the Chinese legislators and trademark authorities to modify their rigid opinion about the legitimacy and legal effect of the registered trademark. The recognition of prior trademark users' legitimate interests demonstrates the intention of legislators to protect the goodwill of market operators.<sup>67</sup> For business operators in the Chinese market, it is

<sup>64</sup> See *Shangbiao Fa* (商标法) [Trademark Law] art. 68 para. 4.

<sup>65</sup> *Shangbiao Fa* (商标法) [Trademark Law] art. 59 para. 3.

<sup>66</sup> Feng Shujie (冯术杰) & Li Nannan (李楠楠), *Shangbiao Zaixian Shiyong Kangbian Tiaokuan de Shiyong Tiaojian* (商标在先使用抗辩条款的适用条件) [*The Conditions of Application of the Prior Use as Exception to Registered Trademark Rights*], 9 *ZHONGHUA SHANGBIAO* (中华商标) [CHINA TRADEMARK] 51, 51-54 (2017).

<sup>67</sup> Du Ying (杜颖), *Shangbiao Xian Shiyong Quan Jiedu — Shangbiao Fa Di 59 Tiao Di 3 Kuan de Lijie Yu Shiyong* (商标先使用权解读——《商标法》第59条第3款的理解与适用) [*Prior Use as Exception to Registered Trademark Right — On the Understanding and Application of Article 59, Paragraph 3 of the Chinese Trademark Law*], 5 *ZHONGWAI FAXUE* (中外法学) [PEKING U. L. J.] 1358, 1358-1373 (2014).

advisable to keep evidence of trademark use in order to be prepared in the event of any conflicts involving trademark trolls or trademark squatting.

This exception to the rights of the registered trademark owner is also entirely compatible with the TRIPs Agreement of the WTO. According to Article 16.1 of the TRIPs Agreement, the exclusive rights of the registered trademark owners shall not prejudice any existing prior rights, nor shall they affect the possibility of member states to make those rights available on the basis of use of the trademarks. Furthermore, Article 17 of the Agreement allows WTO Members to provide limited exceptions to the rights conferred by a trademark, provided that such exceptions take into account the legitimate interests of the owner of the trademark and of third parties. We estimate that prior users' rights in the Chinese Trademark Law satisfy all the conditions of the rules. This, in return, implies that the TRIPs Agreement leaves enough leeway for WTO members to implement the trademark protection system since the outcome of this agreement is the result of reconciliation between the trademark use system and the trademark registration system.

## 2. Trademark Trolls as Abuser of Private Right

With its main objective being the protection of IPR, the TRIPs Agreement provides that appropriate measures may be necessary to prevent the abuse of IPR by rights holders or practices which may unreasonably restrain trade or adversely affect the international transfer of technology.<sup>68</sup> The conduct of the above-mentioned trademark trolls is an abuse of their rights. Legal rights are abused often because of the lack of a balance of interests in the concerned legal system. Furthermore, the imbalance enables the rights holder to gain far more benefits than what is necessary.<sup>69</sup> In Chinese law, there is no explicit rule or established judicial practice recognizing the abuse of rights.<sup>70</sup> The courts have asserted that certain conduct of trademark trolls is an abuse of their rights on the basis of the *bona fide* principle and, at times, unfair competition.

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<sup>68</sup> *TRIPs Agreement*, *supra* note 61, art. 8.

<sup>69</sup> Jason Vogel & Jeremy A. Schachter, *How Ethics Rules Can Be Used to Address Trademark Bullying*, 103 TRADEMARK REP. 503, 510–11 (2013).

<sup>70</sup> Feng Xiaozheng (奉晓政), *supra* note 12, at 130-134.

In the *Uniqlo* cases, courts of different Chinese regions applied different approaches to reject the claims of trademark trolls on the basis of the *bona fide* principle. The court in Shanghai held that trademark infringement was present since the trademarks and the goods of the plaintiff and defendant were identical; however, as the complainant did not intend to use the registered trademark and instead had tried to sell the trademark to the defendant at a high price and used the trademark infringement lawsuits to gain profit, the court determined that the claim for damages should be rejected.<sup>71</sup> The court in Zhongshan, Guangdong, held that the designated goods (clothing and accessories) of the trademark registration were not relevant to the business of the complainants (advice on commercial exhibition and conferences, trademark consultation and agency); the complainants had not used the registered trademark but tried to sell the trademark at high price to the defendant; the complainants had registered the trademark with intentional fault and their behavior was contrary to the *bona fide* principle; therefore, all the claims should be rejected. However, as the trademark at issue is a valid registered trademark and therefore protected by law, the defendant should take appropriate measures to avoid consumers' confusion.<sup>72</sup> In these cases, the factors considered by the courts are not identical, but the courts have all rejected the claims of trademark trolls on the basis of the *bona fide* principle, and not on the basis of the abuse of rights.<sup>73</sup>

Later, the SPC published four guiding cases concerning trademark trolls, in which it clarified the concept of the abuse of rights together

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<sup>71</sup> Guangzhou Zhinanzhen Huizhan Fuwu Gongsi, Guangzhou Zhongwei Zixun Gongsi Su Xunxiao Zhongguo Shangmao Gongsi, Xunxiao Zhongguo Shangmao Gongsi Dongsi Shanghai Changshouludian Qinfan Shangbiaoquan Jiufen An (广州指南针会展服务公司、广州中唯咨询公司诉被告迅销中国商贸公司、迅销中国商贸公司上海长寿路店侵犯商标权纠纷案) [Guangzhou Compass Exhibition Service Company, Guangzhou Zhongwei Consulting Co., Ltd. v. Xunxiao China Sales and Marketing Co., Ltd., Xunxiao China Trading Company Shanghai Changshou Road Store] (Shanghai No.2 Intermediate People's Ct. 2014).

<sup>72</sup> Guangzhou Zhinanzhen Huizhan Fuwu Gongsi, Guangzhou Zhongwei Zixun Gongsi Su Xunxiao Zhongguo Shangmao Gongsi, Xunxiao Zhongguo Shangmao Gongsi Dongsi Zhongshandian Qinfan Shangbiaoquan Jiufen An (广州指南针会展服务公司、广州中唯咨询公司诉被告迅销中国商贸公司、迅销中国商贸公司中山店侵犯商标权纠纷案) [Guangzhou Compass Exhibition Service Company, Guangzhou Zhongwei Consulting Co., Ltd. v. Xunxiao China Sales and Marketing Co., Ltd., Xunxiao China Trading Company Zhongshan Store] (Zhongshan No.1 Intermediate People's Ct. 2014).

<sup>73</sup> In fact, the courts could also reject the damage claim for the lack of use of the registered trademark by the complainant, either by application of article 62 of the 2013 Trademark Law or by application of the causation between trademark infringement and the loss caused to trademark holders or the profit made by the infringer.

with the *bona fide* principle.<sup>74</sup> In the *ELLASSAY* case, the defendant, a company founded in 1999 with a business scope of clothing, wallets and bags, obtained the registered trademark ELLASAY in Chinese characters on clothing in 2008 via an assignment, and it also owned the registered trademark ELLASSAY used on wallets and bags.<sup>75</sup> It had used ELLASAY in Chinese characters as a trade name since 1999 and had enjoyed a certain reputation in the market. In 2011, the plaintiff, an individual, registered the trademark of ELLASAY in Chinese characters on wallets and bags. He filed an application for the trademark “ELLASAY in Chinese characters & device” in 2004, which was rejected following an opposition by the defendant because it was found that this trademark application infringed the trade name of the defendant. In 2011, the plaintiff purchased bags bearing the trademark ELLSASAY and ELLASAY in Chinese characters in the defendant’s different stores located in different cities and filed a trademark infringement lawsuit for 6.11 million CNY in damages. This time, the court of the first instance decided that the defendant should cease the use of ELLASAY in Chinese characters on bags and additionally pay 100,000 CNY in damages. The judgment was maintained in appeal but later overruled by the SPC, which rejected all the claims against the defendant. The SPC held that,

The bona fide principle is the fundamental principle that should be respected by all market operators: on one hand, it encourages people to create value through honest work. Property rights on such a basis are protected by the law; on the other hand, it requires everyone to pursue their interests without harming public interests, market order and others’ legitimate

<sup>74</sup> Shantou Shi Desheng Shipinchang Yu Jinan Huaimeng Jinfuguang Tiaowei Ganguo Shanghang, Guangzhou Kangying Shipin Youxiangongsi Shangbiaoquan Jiufenan (汕头市德生食品厂与济南槐荫金福广调味干果商行、广州康赢食品有限公司侵害商标权纠纷案) [Shantou Desheng Food Factory v. Jinan Huaiyin Jinfuguang Seasoning Dried Fruit Firm and Guangzhou Kangying Food Co., Ltd. for Dispute over Trademark Infringement] (Jinan Intermediate People’s Court Jan. 1st, 2017) (chinalawinfo); Zhidao Anli 82 Hao: Wang Suiyong Su Shenzhen Gelisi Fushi Gufenyouxiangongsi & Hangzhou Yintai Shiji Baihuo Youxiangongsi Qinhai Shangbiaoquan Jiufenan (指导案例82号：王碎永诉深圳歌力思服饰股份有限公司、杭州银泰世纪百货有限公司侵害商标权纠纷案) [Guiding Case No.82 Wang Suiyong v. Shenzhen Ellassay Clothing Co., Ltd. and Hangzhou Yintai Century Department Store Co., Ltd.] (Sup. People’s Ct. Mar. 6, 2017) (Chinalawinfo).

<sup>75</sup> Zhidao Anli 82 Hao: Wang Suiyong Su Shenzhen Gelisi Fushi Gufenyouxiangongsi & Hangzhou Yintai Shiji Baihuo Youxiangongsi Qinhai Shangbiaoquan Jiufenan (指导案例82号：王碎永诉深圳歌力思服饰股份有限公司、杭州银泰世纪百货有限公司侵害商标权纠纷案) [Guiding Case No.82 Wang Suiyong v. Shenzhen Ellassay Clothing Co., Ltd. and Hangzhou Yintai Century Department Store Co., Ltd.]

interests. The bona fide principle should also be respected in civil litigations: on one hand, it safeguards the enforcement of civil rights and procedural rights within the scope defined by laws; on the other, it requires that private rights should be exercised with good faith and care without harming others' interests and the public interests. All acts of acquisition and enforcement of rights performed in bad faith with the aim to harm others' legitimate interests and disturb fair competition order of the market are contrary to the objectives and spirits of laws and are considered abuse of rights. Claims on the basis of such acts should be rejected.

The SPC recognized the prior rights and goodwill of the defendant regarding the trade name ELLASAY in Chinese characters and found that the use of the trademark by the defendant was justified in three ways. First, the name of the company had been used in its special stores. Second, all other signs and trade names with a reputation can clearly indicate the supplier of the products and thus avoid the likelihood of confusion among consumers. Third, the defendant had no intention to ride on the reputation of the plaintiff, who did not have any reputation in the market. The SPC further found that the complainant's acquisition and enforcement of the trademark rights were unfair. The trademark at issue was a coined trademark and it was unlikely that the complainant coincidentally chose to register this sign as their trademark. On the contrary, the complainant was based in the same region and field of business as the defendant. Therefore, it was not likely that he would be unaware of the defendant's trademark. On the basis of its trademark registered in bad faith, the complainant had sued a defendant who had legitimate interests in using the trademark, and such conduct constituted an abuse of rights. Therefore, the SPC confirmed that the concept of the abuse of rights may be applied in such cases to reject trademark troll claims.

In addition to permitting the concept of the abuse of rights, SPC has also adopted policies against bad faith litigation. In the Several Opinions on the Further Promotion of Optimizing Judicial Resource

by Distinguishing Complicated and Simple Cases of 2016,<sup>76</sup> it is stated that:

The fight against dishonest litigations, such as fictive litigations and bad faith litigations, should be reinforced, for which the leveraging function of discretionary power should be used in the determination of court fees and attorney fees. In case the dishonest litigation causes damage to the other party or a third party, the claim for reimbursement by the bad faith party to pay the innocent party's attorney's fee must be accepted if the bad faith party has conducted obvious unfair practice such as the abuse of procedural rights or did not carry out his procedural obligations.

This policy can further compensate the expenses in the form of damages caused to the victim by trademark trolls. It will surely produce a deterring effect to trademark trolls because it increases the risk and financial cost for trademark trolls in bringing a lawsuit. This policy is in complete conformity with the balance as sought and defined by the TRIPs Agreement: according to the agreement, on one hand, the judicial authorities shall have the authority to order the infringer to pay the rights holder expenses, which may include the relevant attorney's fees;<sup>77</sup> on the other hand, the judicial authorities shall have the authority to order a party, at whose request measures were taken and who has abused enforcement procedures, to provide to a party their wrongfully enjoined or restrained adequate compensation for the injury suffered because of said abuse, including the defendant's expenses which, in their turn, may include relevant attorney's fees.<sup>78</sup> In the constant promotion of IPR protection, it is always the IPR holders' rights and interests that are prioritized in the mind of authorities and by media. This has resulted in neglect for the opposite parties' interests. In the current state of Chinese society, everyone can be IPR holders, even the opposite parties. One might thus see how important it is to insist on respecting the principle of rule of law, which

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<sup>76</sup> Zuigao Renmin Fayuan Guanyu Jinyibu Tuijin Anjian Fanjian Fenliu Youhua Sifa Ziyuan Peizhi de Ruogan Yijian (最高人民法院关于进一步推进案件繁简分流优化司法资源配置的若干意见) [Several Opinions of the Supreme People's Court on Further Promoting the Efficient Distribution of Complex and Simple Cases and Optimizing the Allocation of Judicial Resources] (promulgated by Sup. People's Ct., Sep. 12, 2016, effective Sep. 12, 2016) art.1 (Chinalawinfo).

<sup>77</sup> TRIPs Agreement, *supra* note 61, art. 45.2; Shangbiao Fa (商标法) [Trademark Law] art. 63.

<sup>78</sup> TRIPs Agreement, *supra* note 61, art. 48.

guarantees justness and balance in the implementation of policies to protect individuals' rights.

### 3. Trademark Trolls as Unfair Competition

The Chinese Anti-Unfair Competition Law (hereinafter referred to as "PRC AUCL") was adopted in 1993 and revised on 4<sup>th</sup> November 2017 and on 23<sup>rd</sup> April 2019. The law of 1993, on one part, provided for a general rule based on the *bona fide* principle prohibiting any unfair competition practice and, on the other part, listed eleven types of concrete unfair competition behavior in particular.<sup>79</sup> According to Article 2 of the PRC AUCL, business operators shall abide by voluntariness, equality, fairness, *bona fides* principles, law and commercial morality. Unfair competition practices are those which are contrary to the law, disrupt the economic order of the society and harm the legal rights and interests of other competitors or consumers. In recent years, many new types of behavior cannot be qualified as any of the eleven types of unfair practice, which have made the Chinese courts more open to the application of the general rule prohibiting unfair practice.

The Chinese courts not only reject claims of trademark trolls, but have also now started to categorize their conduct as unfair competition in lawsuits initiated by victims. In a judgment in March 2018, the Yuhang District Court ordered the trademark troll entity to pay 700,000 CNY in damages to the victim.<sup>80</sup> In the *Bayer* case, the defendant, a Chinese individual, registered two devices that the plaintiffs, Bayer Consumer Care Holdings LLC and Bayer Consumer Care AG, had used on the packaging of their sun cream products. It then filed complaints with Taobao against distributors of the plaintiff's products and requested compensation as a condition for withdrawal of the complaints;<sup>81</sup> it also made a proposal to the plaintiffs to assign to them the trademarks at the price of 700,000 CNY. In addition, it was

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<sup>79</sup> These are: passing off; abuse of dominant position; government interference in competition; commercial bribery; misrepresentation; infringement of trade secret; dumping; tie-in sale; certain prize-giving sales; commercial detriment; and cahoots bids.

<sup>80</sup> Yuhang is the district where the corporates of the big Chinese E-commerce platforms Taobao and Alibaba are located.

<sup>81</sup> Baier Xiaofeizhe Guanai Konggu Youxianzerengongsi & Baier Xiaofeizhe Huli Gufenyouxiangongsi Su Liqing deng Zhishichanquanquanshu & Qinquan Jiufen An (拜耳消费者关爱控股有限责任公司、拜耳消费者护理股份有限公司诉李庆等知识产权权属、侵权纠纷案) [Bayer Consumer Care Holdings LLC & Bayer Consumer Care AG v. Li Qing] (Yuhang District People's Ct., Hangzhou, Zhejiang Provinc. Mar. 8, 2018).



found that the defendant had registered more than 100 trademarks and filed 2,605 complaints on the basis of eight trademarks against 1,810 online stores. The court held that, the trademark registration by the defendant not only infringed the copyright of the plaintiffs, but also constituted an act of bad faith as the two devices had enjoyed a certain level of reputation in the market because of their use by the plaintiffs. The court also held that there was no likelihood of confusion, as the plaintiffs used their main trademarks and company names on products which were popular in China and the defendant had not. The court concluded that the defendant had made use of the goodwill developed by others to gain profit, which was considered an act of free-riding; the acquisition and enforcement in bad faith of a trademark which infringed the rights of others was contrary to the *bona fide* principle and disturbed the fair competition order; therefore, the defendant's conduct was an act of the unfair competition. The above-mentioned guiding case of the SPC encourages the Chinese courts to apply the *bona fide* principle to suppress trademark trolls.

#### 4. Liability for Bad Faith Complaints with E-commerce Platform

As mentioned above, in the *notice and take down* procedure of the internal IP dispute settlement system, the e-commerce platforms examine the notice from the complainant and the counter-notice from the online store to decide on the existence of IP infringement. If it is found that the items are wrongly deleted or sheltered, the online store can claim damages from the complainant. The platform may be jointly liable with the complainant if it has wrongly determined the existence of IP infringement. The Chinese E-Commerce Law, adopted on 31<sup>st</sup> August 2018, establishes an official *notice and take down* procedure which will very likely replace or modify the internal dispute settlement procedures of e-commerce platforms and increase liability for bad faith complainants.<sup>82</sup>

According to Article 42 of the E-Commerce Law, if IPR holders suspect that their rights have been infringed and send notice of such infringement to the platform with *prima facie* evidence, the platform shall in a timely manner take necessary measures, such as deleting, sheltering or breaking links, stopping transactions or services, and

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<sup>82</sup> The Chinese E-Commerce Law came into effect since Jan. 1st, 2019.

forwarding the notice to the online store. Failure to take necessary measures in time will result in the platform being jointly liable with the online store for consequent damages. In turn, the complainant shall be liable for damages to the online store in cases where a wrongful notice has been submitted. Furthermore, the liability shall be doubled where a notice has been submitted in bad faith. Article 43 of the E-Commerce Law allows the online store to send a counter-notice with a *prima facie* evidence to prove that there is no IP infringement, which the platform shall upon receipt forward to the IPR holder. If the IPR holder has not filed a complaint before the administrations or courts within 15 days, the platform shall terminate the effective measures.

It is more or less evident that the E-Commerce Law established a legal *notice and take down* procedure which redefines the rights and liabilities of involved parties. First, e-commerce platforms are neutralized, just as ISPs are in the *notice and take down* procedure of copyright law, because they are no longer required to decide on the infringement of IPR. Second, the *take down* measures automatically commence upon submission of complaint and will last for at least 15 days if a counter-notice from the accused online store is received, or indefinitely in the absence of a counter-notice. Third, the counter-notice from accused online stores will terminate the *take down* measure within 15 days if no enforcement action is launched by the complainant. There will be two consequences: any complainant will bar the accused online store from using the items (photos, signs or information) at issue or selling the goods at issue for at least 15 days; and *take-down* measures will not last more than the period of approximately 15 days, except when official actions are launched by the complainant. This procedure is less efficient for IPR holders than the former internal procedure of platforms because, without official actions launched, infringing items can only be suspended for about 15 days and can no longer be permanently deleted except in the absence of counter-notice. To resolve this, IPR holders may opt to repeatedly file the same complaint in order to maintain the *take down* measures. However, it is unclear whether this strategy will be considered a bad faith complaint, and we estimate that this depends on the competent authorities' final determination of whether there is IPR infringement. If an IPR holder does choose to adopt this strategy, the accused online store will either be forced to stop using the items at issue or repeatedly send counter-notices.

From the perspective of trademark trolls, the most effective tactic in light of the new *notice and take down* procedure established by the Chinese E-Commerce Law is to repeatedly send complaints in order to maintain the *take down* measures against online stores. Even though the accused online store can repeatedly counter them, the take-down measures will last indefinitely and disrupt the online store's business. Therefore, in order to effectively counter the repeated complaints, the victim's online stores will need to file a lawsuit for unfair competition or abuse of rights against trademark trolls for doubled damages. Such lawsuits will most likely be launched or organized by suppliers of products or licensors instead of distributors, just as in the *Bayer* case.

#### IV. CONCLUSION

Trademark trolls are a problem inherent to the trademark registration system. However, their development depends on the social and legal contexts of a society. The proactive policies for promoting trademark protection in China have sometimes gone in the wrong direction by insisting on basing trademark legitimacy on trademark certificates instead of the goodwill associated with trademarks, the trademark infringement dispute settlement procedures before both administrations and e-commerce platforms are favorable to trademark owners, and damages to trademark infringement have been increasing radically in an unjustified manner in recent years. In these circumstances, trademark trolls have overspread and seriously disturbed the Chinese markets. Fortunately, both Chinese legislators and courts recognize the seriousness of the problem and have provided solutions. The 2018 Chinese E-Commerce Law provided for double damages where complaints with e-commerce platforms are submitted in bad faith. The SPC has qualified enforcement actions brought by a trademark squatter against a victim as an abuse of rights and held that all claims in such cases should be rejected. Bad faith complaints for profit on e-commerce platforms have been qualified as unfair competition and operators of trademark trolls are liable for damage caused to victims. Furthermore, declaratory judgements for non-infringement are also available so that victims of trademark trolls can get rid of uncertainty and risk. In addition, the prior legitimate user of the trademark can continue to use their trademark within the initial scope since the 2013 revision of the Chinese Trademark Law became effective, and in cases of trademark squatting prior to becoming full-

blown trademark trolls, a victim can file an opposition or invalidation against the trademark.