
China: Fighting Trademark Trolls

By [Alejandra Camacho Luna](#)

Uniqlo Trading Co. Ltd. vs Guangzhou Compass Exhibition Service Co. Ltd. and Zhongwei Enterprise Management & Consultancy Co. Ltd., China Supreme Court: (2018) Zui Gao Fa Min Zai No. 396.

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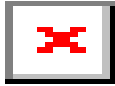
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Over the years, so-called trademark trolls have become an increasingly serious problem worldwide, especially in first-to-file countries like China. However, the Supreme Court in China has endeavored to stop trademark trolls' bad-faith trademark filings and bad-faith litigations against legitimate companies that genuinely intend to register and use marks in China. This article discusses the 2018 landmark decision of the Supreme Court of China that rejected an infringement action brought by the co-owners of the registered UL mark against use of UL ULTRA LIGHT DOWN by Uniqlo Trading Co. on the basis that the infringement action was filed in bad faith. This article also discusses the 2019 amendments to the Chinese Trademark Law directed against trademark trolls.

China has a first-to-file trademark system where the first applicant to file a trademark application acquires rights over the mark regardless of whether the applicant actually intends to use it in the market. Trademark trolls have taken advantage of the first-to-file system for financial gain by filing many applications for marks identical or similar to ones previously adopted in other countries by others. Trademark trolls do not intend to use the marks themselves but rather to block the legitimate owners' applications in order to sell or license the registrations to them. Trademark trolls typically threaten litigation and, in some instances, actually initiate infringement actions against legitimate owners to gain leverage in negotiations to sell or license the registered marks to them.

In 2018, the Chinese Supreme Court issued a landmark decision against trademark trolls in *Uniqlo Trading Co. Ltd. vs Guangzhou Compass Exhibition Service Co. Ltd.* The co-owners of the Chinese



registration for

UL

for clothing (“Zhongwei”) offered to sell their registration for 8 million RMB to Uniqlo Trading Co. (“Uniqlo”), a subsidiary of the Japanese UNIQLO-branded clothing retail store, which uses the mark UL ULTRA LIGHT DOWN



in China along with its well-known mark UNIQLO for a line of jackets. Uniqlo rejected the offer. In response, Zhongwei filed 42 trademark infringement actions against Uniqlo in nineteen different courts, which resulted in a number of different decisions. For example, a second-instance decision by the Guangzhou IP Court held that Uniqlo did not infringe Zhongwei’s exclusive right to use the UL mark because there was no likelihood of confusion given the addition of “ULTRA LIGHT DOWN” to the UL mark and use together with the well-known UNIQLO mark. The Guangzhou IP Court also considered that Zhongwei was not using the UL mark. However, the Foshan Intermediate Court held that Uniqlo infringed Zhongwei’s rights, viewing ULTRA LIGHT DOWN as a separate trademark. While the Foshan court recognized Zhongwei’s bad-faith conduct to some extent, it also held that Zhongwei’s lack of use was irrelevant. The cases eventually made their way to the People’s Supreme Court.

The Supreme Court not only found that Uniqlo did not infringe Zhongwei’s mark, but also held that Zhongwei improperly used the legal system to bring malicious litigations against Uniqlo. Some of the factors that the Supreme Court considered in finding malicious conduct were:

- Zhongwei filed more than 2,600 trademark applications

- Zhongwei did not intend to use the marks in commerce
- Zhongwei's business model was to sell registered marks at a high price to third parties that genuinely use or intend to use the mark
- Zhongwei brought 42 litigations against Uniqlo

Therefore, the Supreme Court found that Zhongwei misused judicial resources in an attempt to illegally profit from a registration that was filed in bad faith.

After the Uniqlo decision, efforts to fight trademark trolls culminated in amendments to the Chinese Trademark Law that entered into force on November 1, 2019. As part of these amendments, Article 4 of the Chinese Trademark Law was amended to provide that “applications for the registration of trademarks in bad faith that are not intended to be used should be rejected.” This amendment not only makes bad faith a ground for oppositions, but also enables examiners to reject bad-faith trademark applications *ex-officio*. The amendments clarify that “bad-faith marks” are those registered by applicants with no intent to use the marks in commerce.

One of the main concerns raised during the drafting of the Article 4 amendment was whether defensive applications would be considered “bad-faith applications.” Defensive applications are typically filings for well-known marks that cover goods and services for which the mark owner does not use the mark. Rather, the owner files such applications to try and prevent a famous mark from being diluted by blocking third parties from registering and using identical marks for goods and services other than those offered by the mark owner. Defensive applications are not considered bad-faith applications under the Article 4 amendment. Other provisions of the Chinese Trademark Law were also amended:

- Article 16 was amended to deter bad-faith filings by forcing trademark agents to refuse representation of clients that intend to file bad-faith applications.
- Article 68, which imposes fines and administrative sanctions (including detention) on trademark agents, was amended to provide that “where an application for trademark registration is filed in bad faith, an administrative penalty such as a warning or fine shall be imposed according to the circumstances; and if a trademark lawsuit is filed in bad faith, the People's Court shall impose a penalty according to law.”

- Article 63, which provides guidelines for imposing infringement damages, was amended to increase maximum punitive damages from three to five times the amount of actual losses, unlawful profits, or reasonable royalty in bad-faith infringement cases.
- Maximum statutory damages were also increased to RMB 5 million (about USD \$774,000).

See [here](#) for translations of the pertinent Articles of the Chinese Trademark Law.

Primary Contacts

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