

## PRC - Bad Faith TM Registration

Extracts from Civil Judgment of Shanghai Municipality Minhang District Court

*(2017) Hu 0012 Minchu No. 26614*

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### **Regarding Misuse of Trademark Registration Process as Form of Unfair Competition**

“Although the plaintiff’s trademark rights were maintained after numerous time-consuming administrative procedures and related litigation, its normal business activities were severely disrupted and adversely affected.

It is important to be clear that applying to register a trademark, or opposing a trademark registration application filed by a third party and requesting that it be rejected, or applying for a third party’s registered trademark to be invalidated, are all procedural arrangements bestowed under the trademark legal system for commercial entities to obtain and safeguard their trademark rights. However, commercial entities must exercise their rights legally must not use apparently legal forms to achieve substantively illegal ends.

Reviewing the entire course of the current dispute, the Plaintiffs were first to register trademarks that gained a definite degree of fame through continuous use, giving rise to prior rights under the law. As an enterprise established later that produced and sold goods such as water filters, etc., the Defendant clearly knew the fame and significant commercial value of the two Plaintiffs’ trademarks and their brand. It should have respected the Plaintiffs’ prior rights and the fruits of their labor in the market, and the Defendant’s competition in the marketplace should be premised on compliance with the law and business ethics.

But in fact, the defendant not only engaged in the aforesaid acts of trademark infringement and unfair competition via false advertising, it also damaged the plaintiff’s prior rights through bad faith applications for registration and by acts such as abusing opposition, etc., procedures and filing bad faith applications in related classes for trademarks that were identical with or similar to the Plaintiffs’ trademarks and then using these as a basis for trademark oppositions, invalidations and other procedures to interfere with and hinder the plaintiff’s normal exercise of trademark rights.

The Defendant’s bad faith trademark applications and abuse of opposition, etc., procedures were part of its large-scale and comprehensive acts of infringement. In essence, the overall purpose of the infringements was to ride on the goodwill of a competitor, i.e., the Plaintiffs and their brand, and to interfere with the Plaintiff’s normal business activities by setting up barriers to address infringements. The Defendant intended to undermine the Plaintiffs’ competitive advantage and to establish its own competitive advantage. This clearly demonstrated subjective bad faith.

The aforesaid series of actions by the Defendant disrupted orderly market competition. As a result, the legitimate rights and interests of the two Plaintiffs were also harmed. The Defendant’s actions were improper.

Article 2 of China's *Anti-Unfair Competition Law* provides as follows:

*“Operators shall comply with the principles of voluntariness, equality, fairness, honesty and credibility in market transactions, and abide by recognized business ethics. The term “unfair competition” in this Law refers to where business operators violate the provisions of this Law, damage the lawful rights and interests of other operators, and disrupt social and economic order.”*

This court believes that although the *Anti-Unfair Competition Law* does not set out special provisions for the aforesaid types of acts carried out by the Defendant, there are still clear and specific provisions regarding the normal constituent elements of unfair competition under Article 2 of the Law. Although there are no special provisions in the *Anti-Unfair Competition Law* regarding other acts [of unfair competition], such acts should still be considered as unfair competition if they meet the requirements of Article 2.

As mentioned above, the acts of the Defendant in the current case violated the principles of good faith and recognized business ethics and also disrupted orderly market competition. The legitimate rights and interests of the two Plaintiffs were actually damaged due to those competitive acts. Therefore, the acts of the Defendant fall squarely within the scope of acts of unfair competition as provided under Article 2 of the *Anti-Unfair Competition Law*. It is necessary to rule on the illegal nature [of those acts] and to order the Defendant to bear corresponding civil liability.”

### **Regarding Damages**

“In the current case, the Plaintiffs claimed that it was difficult to calculate the actual losses caused by the Defendant's acts of trademark infringement and unfair competition, or the profits generated from the aforesaid infringing acts. The Plaintiffs [therefore] requested a determination based on the standards for statutory damages.

This court believes that after the Defendant was set up as an enterprise and sold its water filter bottles and filter element products nationwide via WeChat and online platforms.

As regards sales volumes, according to the record for the *Trademark Opposition Application* submitted by the Defendant to the [PRC] Trademark Office in June 2015, its notarized sales volume for water filter bottles on its Alibaba online store were around 200,000 units for a period of less than 13 months, starting from June 1, 2011. The Defendant [later] argued that it had been exaggerating and that the real net sales were only a third of the amount [indicated by the notarized evidence]. However, the Defendant did not provide any evidence to support its defense argument.

The Court also notes that after the WeChat public platform cancelled the Defendant's allegedly infringing official account, the Defendant reopened it. Its subjective bad faith was obvious, and this constituted recidivism.

In summary, this Court has determined the amount of compensation based on the ascertained facts, comprehensively considering the fame of the relevant trademarks, the Defendant's scale of production and sales, the circumstances of repeat infringement, the degree of subjective bad faith, the duration of infringement, the scope of infringement and other factors. This court also

recognizes the direct economic losses suffered by the Plaintiffs as a result of the Defendant's bad faith trademark registration applications and other acts of unfair competition.

Regarding reasonable expenses. The notarization fees, translation fees and library search fees claimed by the Plaintiffs were incurred because of the current litigation. The Plaintiffs also provided relevant evidence, which was verified by this Court. As for the amount of compensation for attorney fees, the amount payable has been set by the Court based on the litigation claims of the Parties, the specific circumstances of the case, the amount of work carried out by the lawyers and the relevant standards for lawyer fees. The property preservation bond fee was incurred as a result of the Defendant's bad faith infringement. The fees expended for this by Plaintiff should be seen as necessary and are supported by this Court."

### **Damages Award**

"The Defendant Shanghai Kangdian Industrial Co., Ltd. shall compensate the Plaintiffs Brita GmbH and Brita Clean Water Systems (Shanghai) Co., Ltd. for economic losses of RMB 2.3 million and reasonable expenses of RMB 500,000 within 10 days from the effective date of this judgment."