

# A New China Trademark Trojan Horse: Hold Registered Trademarks Ransom by the Filing of Bogus Non-Use Cancellations

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The recent draft amendment of the Chinese trademark law seems to finally zero in on trademark squatters, as described in my previous blog ([here](#)). The new regulations, if approved as drafted, will make it more difficult for squatters to steal others' trademark by abusing the first-to-file system in force in China. This could be a historical turning point in China's fight against trademark theft, a plague that has negatively affected many foreign right holders more or less famous in the past twenty years. Even before the draft amendment, the China National Intellectual Property Administration (CNIPA) had already started loosening evidence and administration standards to favor oppositions and invalidations proceedings filed by victims of trademark theft. However, squatters have taken notice of all this. Ever resourceful and ready to exploit as much as possible any possible legal loopholes, they have devised new ways to hold right holders' trademarks ransom and thus gain illicit profit. One of the most recent trends is attacking trademark holders with non-use cancellations.

## Non-Use Cancellation in China

Article 49 of the Chinese Trademark Law provides: "Where a registered trademark ... has not been used for three years consecutively without a proper reason, any organization or individual may apply to the trademark bureau for revocation of the said registered trademark." While the applicant has only to provide a prima facie case of non-use, the real burden of proof shifts over to the right holder. According to Art. 66 of the Implementing Regulations of the Trademark Law, the right holder has two months' time from the notification of the cancellation to provide use evidence, or a convincing explanation of the reasons why it has not started using the trademark in the previous three years.

The fact that there is no filter or limits as to who can file such cancellations, and the fact that the burden of proof of use is on the rights holder, makes it a perfect tool in the hands of trademark scammers: the perfect Trojan horse in the rights holder's camp.

## The New Trend

The scheme is simple. Exploit the very loose requirement as to who can file a non-use cancellation. Anybody, even without any interest in the mark, can file this cancellation. Therefore, squatters can

set up companies, or use companies that have nothing to do with the rights holder or its business, as trojan horses. These companies just file the cancellation and then it is the rights holder's burden to prove legally relevant use of the targeted mark registration.

The author has recently been involved in several such cases. In one case, the applicant of the non-use cancellation was an empty shell company registered in Beijing that was operating by using the same email address and telephone of a Chinese law firm. It was evident in this case that even Chinese law firms could become scammers for the sake of soliciting work. In another case, the applicant had already filed over 200 non-use cancellations against third parties' marks. The same company was not operational or was not operating lawfully as it had been placed in the list of enterprises with abnormal operation by the local MSA.

It seems likely that such Trojan horses are used by competitors of the rights holder. In some cases, the challengers seemed to have done very thorough searches and targeted marks that the rights holder had not used in China in the past three years. In others, the cancellation was clearly random and targeted marks that were well in use and whose use was easy to prove. However, whatever the real motive behind the tactical cancellation, the result provides an unfair advantage or an unfair commercial or economic benefit.

For rights holders, the threat can range from economic harassment to an existential threat. In the best of cases, the rights holder will have to waste money in unwarranted legal work to prove trademark use and win the proceedings. When the mark was not properly used or was not yet in use, the risk of losing it is big. If that happens, not only does the rights holder have to file it again, it may also happen that the same syndicate has filed an identical mark that will be an obstacle to the legitimate right holder refiling, plunging him/her back into the old trademark squatting nightmare. In such cases, the rights holder might be forced to rebrand or spend money in lengthy proceedings. Faced with such high stakes, rights holders may be forced to settle with the scammers and pay a ransom for their registered mark. It could come at a very high price.

## Conclusions

Also considering the likely introduction of a system of mandatory proof of use of the mark, as introduced in the [draft amendment of the trademark law](#), we strongly recommend that all trademark owners in China initiate periodic audits of their portfolios to assess which of their marks might be at risk of attack by targeted non-use cancellation and determine strategies to reduce such risk or at least to avoid the worst case scenario we have described above.

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