

Protecting Your Trademarks In China

A Means Of Combating Bad-Faith Trademark Applications - Article 15.2 Of The PRC Trademark Law



CHINA


The aim of this article is to present an example of the application of Article 15.2. of the PRC Trademark Law, based on the analysis of the “DNP” case, designated by the China Trademark Association as a case study for 2023¹.

Introduction of the case

The “DNP” trademark was created by an Italian company (“the Italian Company”), which is one of the world’s leading manufacturers in the quick coupling industry for hydraulic systems, with 95% of its products exported worldwide and used in a wide range of industries.


The “DNP” trademark was first registered in Italy by the Italian Company on December 18, 1997 for, among others, the following products in Class 6 “*quick couplings and fasteners made of metallic materials for use in fluid pipelines*”. That trademark was renewed in Italy in 2007 and 2017. The Italian Company has not registered its trademark “DNP” in China.

Mrs YAO is the legal representative of a company registered in Shanghai (“Company A”), and her son-in-law, Mr. LV, is the legal representative of a trading company also registered in Shanghai (“Company B”). Company B has been the Chinese distributor for the Italian Company since 2009, responsible for selling the Italian Company “*hydraulic couplings*” and other products in China.

Without the prior consent of the Italian Company, on July 25, 2012 and May 8, 2015 respectively, Company B applied for the registration in China of trademarks No. 11257100 “” and No. 16898353 “**dnp**” (“Company B’s Trademarks”) for the products “*valves (machine parts)*” and other goods closely related to “hydraulic couplings” in Class 7 subclasses 0734 and 0749. Company B’s trademarks were approved for registration by the China National Intellectual Property Administration (CNIPA) for registration, with their exclusive rights expiring on August 27, 2024 and August 13, 2026 respectively.

On November 3, 2017, Company A applied for the registration of the trademark “DNP” No. 27275121 (“Company A’s Trademark”) in China, for, among others, the following products in Class 7 subclasses 0734 and 0749 “*hydraulic valves, pump control valves*”. Company’s A Trademark was preliminarily published by the CNIPA on October 6, 2020.

The Italian Company filed the following applications:

- On July 2, 2017, two applications for invalidation of Company B’s Trademarks at the CNIPA (the “Invalidation Case”). These applications were based on Article 15 (1) of the PRC Trademark law, which states that a trademark registered by an agent or a representative in its own name (Company B) without the authorization of the entrusting party (the Italian Company) is invalid.
- On November 8, 2017, two applications for the new registration of two trademarks “” and “**dnp**” respectively in classes 6 and 7 with the CNIPA (the “New Application”). The purpose of these applications was for the Italian Company to register its trademark DNP in China in the event of a successful Invalidation Case.

1. DNP was represented by DS Beijing Office.

- On January 6, 2021 an opposition against Company A's Trademark (the "Opposition Case"). This opposition was based on Article 15 (2) of the PRC Trademark law, which states that a trademark registered by an applicant (Company A) which does not have any agency or representative relationship with a third party (the Italian Company), but has contracts, business relationships or other relationships, and knowingly registers the other party's trademark (the Italian Company's trademark), is invalid.

Decision of the CNIPA


The Invalidation Case:

In 2018, the CNIPA confirmed that the registration of Company B's Trademarks violated the provisions of Article 15(1) of the Trademark Law, as Company B's was the distributor of the Italian Company, and declared Company B's Trademarks invalid. Company B appealed CNIPA's decision and filed a lawsuit with the Beijing Intellectual Property Court. Ultimately, in August 2019, the court upheld CNIPA's invalidation decision. Company B did not appeal this decision.

The Opposition Case:

The CNIPA acknowledged that the Italian Company's trademark "DNP" was registered in Italy as early as December 18, 1997 in Class 6 for metal pipes and other goods, and «DNP» has also been used as a trade name for a long time. The son-in-law of the legal representative of Company A is the legal representative of Company B. Company B and the Italian Company have entered into a distribution agreement for the products of quick couplings under the brand name «DNP». Company A should therefore have been aware of the trademark "DNP" belonging to the Italian Company. Consequently, in December 2021, the CNIPA confirmed the existence of "*other relationships*" between the Italian Company and Company A. Pursuant to Article 15(2) of the Trademark Law, the CNIPA accepted the opposition filed by the Italian Company and refused to register Company A's trademark. Company A did not appeal this decision.

The New Application:

Following the success of both the Invalidation and the Opposition Case, the two new applications filed by the Italian Company to register its trademarks "  " and " **dnp** " in classes 6 and 7 were accepted for registration respectively in December 2018 and May 2019.

Influence and significance of the Case

The significance of this case is mainly manifested in its crackdown on the malicious trademark squatting and free-riding, which violate the principles of honesty and good faith, and in its determination of the concept and scope of "other relationships" under Article 15(2) of the Trademark Law.

Taking a global view of this case, it seems on the surface that Company A and the Italian Company have no direct business dealings and are not directly related to each other. However, after an in-depth investigation, it was found that Mr. LV (the legal representative of Company B and former distributor of the Italian Company), and Mrs. CHEN are both investors of a third Shanghai registered company. Mr. LV and Mrs. CHEN share the same residential address, which is typical for a couple. Besides, Mrs. CHEN appears to be the person in charge of registration formalities of Company A, and that the legal representative of Company A, Mrs. YAO is in fact the mother of Mrs. CHEN. Therefore, it can be inferred that Ms. CHEN was highly likely to have registered Company A's in her mother's name, while the actual operation rights and control of Company A are in her own hands.

The above close relationship between the shareholders and legal representatives of Company B (Mr. LV) and Company A (Ms. YAO) was confirmed by the judge as « *other relationships* » within the meaning of Article 15(2) of the Trademark Law.

The agency relationship is a special legal relationship of trust. By virtue of this special legal relationship, the distributor (Company B) owes special duties of loyalty and diligence to the person it acts for or represents (the Italian Company), and must act with due diligence and in the best interests of the person it represents (the Italian Company). In the present case, the Company A's affiliate (Company B) clearly breached its duty of loyalty and diligence and violated the principle of good faith by maliciously filing trademark registrations of the Italian Company's trademarks, of which it became aware through its affiliation with Company B. The CNIPA prevented its unlawful conduct in a timely manner and effectively protected the legitimate rights and interests of the Italian Company.

From the above case, it can be concluded that if a third party has maliciously and pre-emptively filed or registered your trademark in China, and if one of the senior executives of that third party was an employee of your agent or distributor in China, or even has a family relationship with the senior executive or any other employee of your agent or distributor in China, it could be assumed that such senior executive should therefore be aware of the existence of your trademark. Therefore, it may be possible, with a relatively high success rate, to take legal action to recover your legal rights to your trademark.

DS recommendations

- China has a "first to file" system, whereby the first person to file an application for the registration of intellectual property rights in China is granted the rights to that intellectual property. This can lead to any third party maliciously registering intellectual property rights. Therefore, before entering the Chinese market and entering into an agency or representative relationship with another company to authorize it to sell your goods in China, it is imperative to register your own key intellectual property rights in China, to prevent them from being maliciously and pre-emptively registered by the agent or any third party.
- In addition, it is imperative to clearly stipulate in the terms and conditions of any contract with an agent or distributor that i) you remain the sole and legal owner of the relevant intellectual property; and ii) the agent or distributor must exercise due care, perform its duties of good faith and diligence, and safeguard and protect your legal rights and interests.
- Finally, you can also provide in the contract that in the event of any unauthorized pre-emptive registration of your trademarks and/or other intellectual property rights, the agent or distributor shall immediately upon request and at no additional cost assign such intellectual property rights back to you. Otherwise, the agent or distributor shall be liable for punitive damages.



For any additional information, please contact:

CHEN Xiaoyun
Associate - Beijing Office
chenxiaoyun@dsavocats.com

11. July2024