



# *China: Managing the IP Lifecycle*

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**Trademark protection on e-commerce platforms**

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## Trademark protection on e-commerce platforms

With the increasing protection of IP rights on e-commerce platforms, trademark registrants' rights are respected and protected. It is difficult to sell counterfeit products on e-commerce platforms. For example, according to the IP protection rules of Taobao.com (an e-commerce platform under Alibaba Group), the punitive measures of 'three strikes and you're out' will be implemented for merchants' serious infringement of IP rights. Each time a seller sells or attempts to sell counterfeit goods will be recorded as one strike. If the same seller sells counterfeit goods on three occasions, its account will be permanently closed. At the same time, depending on the severity of the case, Taobao can take measures such as removing goods from the platform, deleting goods, restricting the release of goods, limiting and freezing deposits, paying liquidated damages and banning the account, among other things. For the improper use of the IP rights of others, merchants may also face serious penalties such as deletion of the infringing goods, deduction of credit points and reduction of page views. The activities of IP rights infringers will be punished severely by e-commerce platforms, and infringers risk finding themselves with no platform via which to conduct their operations. This is good news for brand owners.

However, every coin has two sides. On the one hand, low costs, simple procedures and short processing time for complaints are highly convenient for those wishing to protect trademarks. On the other hand, some trademark squatters use these IP protection mechanisms to interfere with the normal business activities of online merchants by filing malicious complaints. In assisting online

merchants to deal with IP disputes, it has been found that trademark squatters filed malicious complaints more often. This phenomenon deserves the attention of brand owners and online merchants conducting e-commerce operations.

## Register trademarks early to prevent malicious complaints by squatters

With the rise of international purchases, many products are sold in China through various channels and enjoyed by Chinese consumers before their brands are registered in China. In order to enter the Chinese market early, many international companies began to sell their products via international and global purchase channels on e-commerce platforms. However, when the brand owners began to file their trademarks in China, they realised that their brands had been pre-emptively registered by trademark squatters. By complaining to e-commerce platforms, these squatters interfere with the normal business activities of real brand owners. Sometimes, squatters even threaten brand holders for high licence fees, the huge cost of trademark assignment and exclusive dealership, as well as raising other unreasonable requirements.

Due to a lack of evidence of prior use, international brand owners often find it difficult to take action against squatters. The spirit of China's Trademark Law is to protect the first to file as routine, while protecting prior use only would be an exception. To contest a prior filed or registered trademark, the opponent or applicant of an invalidation should submit sufficient evidence of prior use to prove that the mark has obtained a certain level of reputation in China through use before the application date of the squatter's

trademark. In the absence of prior rights and sufficient evidence of use in China, legal action against pre-emptively filed trademarks is often difficult and time-consuming. According to the Trademark Law, there is a five-year time limit for filing an invalidation against a registered trademark based on prior use or prior rights. Once the registered trademark has been registered for more than five years, it is more difficult to invalidate the pre-emptive registration. The applicant of the invalidation must prove that the squatter has bad faith and that the applicant's trademark is well known.

In certain trademark invalidation cases, the evidence provided by the applicants was gathered mostly outside China or was made up of evidence of prior use not by the applicants. As the applicants of the invalidations failed to act against the pre-emptive registrations early enough, some squatters began to use and promote the trademarks in China before the applicants. Although some squatters falsely claimed that their products were related to or from the applicants of the invalidations with a purpose to mislead consumers, the Trademark Office was often unable to support the claims of the applicants of invalidations due to the lack of valid prior-use evidence. Finally, the invalidation applicants had to negotiate with squatters for trademark assignment and pay assignment fees that had been requested by the squatters to quickly resolve the disputes.

To avoid the risks related to trademark squatting, international brand owners should register their trademarks in China as soon as possible. In the meantime, before filing trademark registration applications and selling products in China, trademark availability searches should be conducted and trademarks monitored in order to discover any pre-emptive registrations in a timely manner. If the brand owner's trademark is squatted, oppositions or invalidations should be filed as soon as possible. It is advisable for brand owners to preserve any information and documents on the creation of their brands (eg, brand design contracts and design concepts for trademarks) and evidence of use and media reports in China. For trademarks with design elements, it is also advisable for brand owners to file copyright registration. With copyright registration certificates, it is easier to prove that the trademarks were created by the applicant and to then claim the prior copyright rights in legal actions against pre-emptive registrations. In business operations on e-commerce platforms, once a complaint has

been issued, the online merchants may also come to the e-commerce platforms for help. For explicit pre-emptive registrations and malicious complaints filed by trademark squatters, after invalidation actions have been taken, some platforms may be able to consider detailed situations and take special precautions.

### **Increase protection to prevent loopholes**

Due to varying practices, European and US companies prefer specific goods and services descriptions to distinguish from the prior trademarks of others when applying for trademarks in their own countries. In China, the most important reference for determining the similarity of goods and services is the official Classification of Similar Goods and Services. The official classification has very clear rules for determining similar goods and services. Trademark examiners must strictly follow the official classification in trademark examination with little room for discretion. However, the official classification has certain limitations meaning that many relevant goods and services are not recognised as similar. According to the official classification, 'walking sticks' in Class 18 are dissimilar to 'crutches' in Class 10, while 'push scooters [vehicles]' in Class 12 are dissimilar to 'scooters [toys]' in Class 28, despite the fact that these goods share many common functions and overlap for users. The use of identical trademarks by different entities may confuse the public. Therefore, experienced trademark applicants tend to designate more relevant goods and services to enlarge the scope of protection. When European and US companies apply for trademark registration in China, they often designate the original specifications of goods and services of marks in their home countries. However, the scope of protection of these goods and services may be narrow, and cannot protect goods that are not similar but may be relevant. In addition, with the expansion of business scope, the protection of trademark registrations must also be expanded. If the company does not update its trademark portfolio in time, there will be a loophole in its trademark rights leaving room for squatting. Some trademark squatters take advantage of these loopholes and pre-emptively register the trademarks on the relevant goods and services. When the online merchants begin to use their trademarks on these unprotected goods and services, the trademark squatters may then file complaints to interfere with the online merchants' normal business activities.

As a trademark filing strategy in China, it is advisable for companies to designate more relevant goods and services to obtain broader protection. In the meantime, the China National IP Administration (CNIPA) updates its list of acceptable goods and services more frequently. New acceptable goods and service items are added to the list every few months. Therefore, it is recommended that online merchants pay close attention to the changes in the official Classification of Similar Goods and Services and the list of acceptable goods and services through their attorneys, and timely file new trademark applications to prevent loopholes in trademark rights. When an international company is planning to conduct business activities in China, it is also advisable to engage trademark attorneys to check trademark portfolios and file new trademark applications to prevent loopholes in trademark rights.

### Replying to complaints against the use of indistinctive names and words

Some popular but indistinctive goods names and descriptive words are often used in goods titles by online merchants in order to be searched by the relevant public and increase browsing rates. These indistinctive goods names and descriptive words are not registrable alone. But some people combine these words with other distinctive elements and file for trademark registration. The CNIPA does not strictly require trademark registrants to waive exclusive rights of the indistinctive part of a combined trademark, and trademark examiners more often accept the distinctiveness of the overall trademark due to distinctive elements therein. After the trademarks are registered, these *mala fide* trademark registrants may file complaints against the use of the indistinctive names and words by online merchants. As trademark registration certificates do not indicate which part of the trademark enjoys exclusive rights, e-commerce platforms generally tend to support these complaints and punish merchants who use these words. In order to have the complainants withdraw the complaints and request the platforms to recover the deleted links to the goods, under the threat of the complainants, online merchants may choose to compromise and pay a high settlement fee to the complainants.

After the complaint, the e-commerce platform usually gives the merchant (respondent) who has been complained about a chance to reply and explain its grounds. Respondents should reply to



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the complaints in a timely fashion and explain that their use of the mark is fair and legal by submitting relevant evidence. Respondents should use the channel provided by the e-commerce platform to report malicious complaints or threats of blackmail by the complainants.

### Timely online registration of store names for trademarks

To carry out business activities on e-commerce platforms, in addition to providing trademarks, it is also necessary to register and use a store name. The store name often appears at the top of online store webpages as, for example, 'ABC flagship store'. Many online merchants may only pay attention to registering their goods trademarks, but they may ignore the protection of service trademarks. Although China does not accept retail or wholesale services for goods other than pharmaceutical, medical and sanitary products, business activities of displaying and promoting others' goods on e-commerce platforms are closely related to services such as 'sales promotion for others' and 'presentation of goods on communication media for retail purposes' in Class 35. Therefore, trademark squatters use this loophole and squat others' online store names

in Class 35 and then file malicious complaints after registration.

Accordingly, online merchants should register their online store names as trademarks as soon as they open their stores. As well as applying for trademark of goods, it is also recommended to register trademarks in Class 35 as soon as possible, to avoid leaving loopholes open to trademark squatters.

### Comment

E-commerce has become a marketing channel that people cannot live without, and e-commerce platforms are the most important medium available for modern commodity trading. For big online merchants, daily online sales volumes are huge. After being on the receiving end of complaints due to IP problems, online merchants may suffer significant losses as a result of punishments. E-commerce platforms become a battlefield between trademark squatters and brand owners. In order to reduce business risks, merchants should strengthen the trademark registration layout in advance and update trademarks portfolios in a timely manner. At the

same time, online merchants can actively use the IP protection mechanism on e-commerce platforms to safeguard their rights and interests, and to crack down on pre-emptive registrations and malicious complaints so as to create a healthy e-commerce business environment. ■



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