

From China to Vietnam: Can Unfair Competition Law Be Used to Address Trademark Squatting?

In China and Vietnam, the legal landscape for trademark protection is undergoing significant transformations. For years, rights holders have struggled to combat the widespread practice of trademark squatting, where bad-faith actors exploit the "first-to-file" principle to register and hoard trademarks, unfairly profiting from the efforts of legitimate owners. However, recent court rulings, such as Bayer v. Li Qing and Emerson v. Hemeiquan, have begun to shift the landscape, interpreting unfair competition laws more broadly. These decisions have created new legal tools that empower brand owners to protect their IP rights. These changes in the legal system are reshaping how businesses approach brand protection in China and Vietnam, making it crucial for any company operating in this market to understand the implications.

IN CHINA

Trademark Squatting - When Does It Constitute Unfair Competition?

Trademark squatting involves registering trademarks, often in [bad faith](#), with the intent to profit from the trademark's value without genuine use. In China, this can take various forms, including hoarding trademarks or registering them with malicious intent. The Chinese courts have increasingly recognized these practices as forms of unfair competition under Article 2 of the Anti-Unfair Competition Law, which emphasizes fairness and honesty.

The interpretation of "unfair competition" under Article 2 has evolved over time. Traditionally, Chinese courts required evidence of [actual use](#) or malicious intent to establish unfair competition. However, recent decisions like Bayer and Emerson signal a more expansive interpretation, focusing on the *potential* for harm to the brand owner, even if the squatter hasn't used the trademark yet.

In the **Bayer v. Li Qing** case, the court ruled that:

- The defendant, Li Qing, engaged in unfair competition by [maliciously registering](#) Bayer's copyrighted works as his own trademarks and filing malicious administrative complaints based on these trademarks.
- The precedent-setting decision established that trademark squatting combined with malicious trademark use can be considered unfair competition and be ordered compensating the genuine right owner for damages

In **Emerson v. Hemeiquan**, the court ruled that:

- Trademark squatting, [even without malicious intent to use the squatted trademarks or interference with the plaintiff's business, or actual use of the trademarks, constitutes unfair competition.](#)
- This decision offers a new avenue for rights holders to address the significant costs associated with dealing with trademark squatters and hoarders

These decisions are significant as they allow brand owners to seek remedies against squatting without proving actual use or malicious intent, broadening the scope of legal protection.

These cases broadened the scope of unfair competition to encompass [trademark squatting](#), even in the absence of actual use or demonstrable malicious intent. This is a major departure from previous interpretations and provides a powerful tool for brand owners. By removing the requirement to prove actual use or malicious intent, these decisions make it easier for brand owners to pursue legal action against squatters. This is particularly beneficial for foreign companies that may struggle to gather evidence in China.

What legal remedies and strategies?

Brand owners facing trademark squatting in China can leverage several legal remedies:

- **Injunctions:** Courts can issue injunctions to halt both squatting activities and the unauthorized use of trademarks. These orders prevent squatters from further infringing on the brand owner's rights.
- **Monetary damages:** Victims of trademark squatting can seek compensation for financial losses or damages caused by the squatter's actions. This can include the actual loss suffered or the profits unlawfully gained by the squatter.

- **Declaratory judgments:** Such judgments can establish the rightful ownership of a trademark, providing clarity and legal standing for the brand owner.
- **Alternative dispute resolution:** Mediation or arbitration can be viable alternatives to court proceedings, offering a potentially quicker and less contentious resolution.

What limitations and challenges?

While [unfair competition](#) claims provide a useful tool against trademark squatters, they have limitations. These cases do not resolve disputes over trademark ownership, which require separate administrative proceedings like invalidation or cancellation. Additionally, courts may separate unfair competition and trademark infringement claims, potentially leading to case consolidation or suspension. Obtaining pre-trial injunctions can be challenging, and addressing non-commercial aspects of bad faith behavior, such as defamation, often requires separate legal actions.

IN VIETNAM

Article 3.6 of the Law on Competition of Vietnam 2018 stipulates: "Practices of unfair competition means practices of enterprises that run counter to the principles of goodwill and honesty, commercial practices and other standards in [doing business](#), which cause or are likely to cause damage to lawful rights and interests of other enterprises".

Hence, the 2018 Law on Competition of Vietnam (superseding the 2004 Law on Competition) exhibits notable parallels with China's Anti-Unfair Competition Law, particularly in the domain of regulating unfair competitive practices. Specifically, both legal frameworks: **(i)** are founded upon the fundamental principles of fair, honest, and good faith competition, as well as adherence to established commercial practices; **(ii)** seek to protect the lawful rights and interests of enterprises engaged in competition, prohibiting actions that cause or are likely to cause harm; and **(iii)** possess a broad scope of application, encompassing a wide array of unfair competitive practices, extending beyond the specific issue of trademark squatting.

However, applying Vietnam's unfair competition law to combat trademark squatting may present challenges.

The 2018 Law on Competition of Vietnam conspicuously omits an explicit definition of trademark squatting as a form of unfair competition. This omission may present obstacles in the direct application of the law to adjudicate cases involving trademark squatting.

Furthermore, Article 3.6 of the 2018 Law on Competition mandates establishing that the act of unfair competition has caused or is likely to cause harm to the lawful rights and interests of another enterprise. In instances of trademark squatting, demonstrating such harm can be particularly onerous, especially when the trademark remains unused.

From an IP law perspective, Article 130.1 of the Intellectual Property Law of Vietnam mandates that the "use" of a trademark in commerce is a necessary condition (a prerequisite) for establishing an act of unfair competition.

The Intellectual Property Law of Vietnam underwent its third amendment in 2022, marking a significant legislative development by introducing the concept of "bad faith" into the legislation for the first time". This amendment underscores Vietnam's legislative commitment to addressing the pervasive issue of trademark squatting. The explicit inclusion of "bad faith" in the statutory framework provides a more definitive legal basis for adjudicating cases involving [trademark registrations](#) made with malicious intent. Furthermore, Circular 23/2023/TT-BKHCHN promulgates detailed criteria for ascertaining "bad faith", thereby furnishing regulatory authorities with clear guidance in evaluating and resolving related disputes.

Nevertheless, substantial obstacles remain. The evidentiary burden placed upon legitimate trademark holders to establish "bad faith in trademark registration" (manifested by intentions to resell, license, or transfer the registration; or to impede market entry and restrain competition) is considerable. Procuring evidence of the registrant's subjective intent can prove to be both arduous and financially burdensome.

It is evident that, to more effectively combat the pervasive issue of trademark squatting, further legislative reforms may be warranted. Such reforms could include measures to alleviate the evidentiary burden on legitimate trademark owners in demonstrating "bad faith", the implementation of heightened sanctions for trademark squatting, or, minimally, the promotion of a more proactive and supportive approach from Vietnamese authorities in upholding the rights of legitimate trademark holders

How to Protect Your Brand from Trademark Squatting in China and Vietnam?

To effectively protect their brands, businesses should:

- **Early trademark registration:** The early establishment of trademark rights in China through timely registration is a critical legal safeguard against potential infringement, especially the unauthorized appropriation of marks by bad-faith actors engaging in trademark squatting
- **Regular monitoring and early detection of infringements:** Proactive market surveillance, particularly on online platforms and social media, is essential for the timely identification of trademark infringements
- **Consider Negotiation with Trademark Squatters:** In certain circumstances, negotiating with trademark squatters may offer a swift and cost-effective resolution to disputes. However, it is imperative to exercise caution and thoroughly assess the squatter's intentions, as well as the commercial value and significance of the infringed trademark, before engaging in negotiations.
- **Strategic use of settlements:** Settlements can be an effective way to resolve disputes, provided they are well-structured. Key elements include transferring disputed trademarks, compensation, non-disclosure agreements, and mechanisms to prevent future squatting.

Final thoughts

Trademark squatting remains a significant challenge for businesses in China and emerging economies like Vietnam, causing financial losses and damage to [brand reputation](#). However, the expanding application of unfair competition laws is a game-changer, providing brand owners with new legal tools to combat this issue. By proactively registering and monitoring trademarks, understanding the evolving legal landscape, and seeking legal counsel from experienced international IP lawyers, brand owners can effectively protect their interests. As the legal frameworks of China and Vietnam continue to develop, staying informed about these changes will be crucial for handling increasingly complex, diverse, and ever-evolving IP disputes and infringements.

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