

Research on the Legal Regulation of Malicious Trademark Registration——From the Trademark Compulsory Transfer System

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Abstract: Malicious trademark registration harms public interests and the legitimate rights, triggering risks in the application of law. Therefore, in order to strengthen the governance of malicious trademark registration, China National Intellectual Property Administration (CNIPA) released the Draft Amendment to the Chinese Trademark Law (Draft for Public Comments) (Hereinafter referred to as the "Draft for Public Comment") on 13 January 2023. This paper, analyzes malicious trademark registration and related systems abroad, and introduces the newly added trademark compulsory transfer system for malicious registration in China. The aim is to clarify the legal application boundaries of the trademark compulsory transfer system. It puts forward relevant suggestions on how to regulate the phenomenon of malicious trademark registration, with a view to effectively curbing the behavior of malicious trademark registration, promoting the orderly development of the trademark registration market, and facilitating the high-quality development of China's market economy.

Keywords: Malicious Registration; Trademarks; Legal Regulation; Compulsory Transfer System; Draft Amendment to the Chinese Trademark Law

1. Introduction

The use of trademark is the legitimate basis for obtaining trademark rights. The registration of trademark is the efficiency value for verifying trademark rights. The confirmation of trademark rights should seek a reasonable balance between use and registration.^[1] This paper starts from the trademark compulsory transfer system for malicious registration, analyzes the necessity of establishing this system, and then explores its legal application boundaries, improvement, etc., hoping to provide a narrow point of view for the establishment and improvement of this system in our country.

2. Overview of Malicious Trademark Registration

2.1 The Concept of Malicious Trademark Registration

Malicious trademark registration refers to the improper registration behavior that violates the principle of good faith and prohibitive legal provisions. It harms public interests or the legitimate rights and interests of others, and intends to obtain the "rights" of registered trademarks.^[2] In civil law theory, malice and good faith have dual meanings. But in *Trademark Law*, malice is both a kind of intention-based malice and a kind of cognition-based malice. It is regarded as the criterion for evaluating whether there are violations of legal principles and improper registration behaviors.

Malicious trademark registration is an improper act derived from the trademark rights registration acquisition system. In practice, there have already emerged behaviors of hoarding and preemptively registering trademarks. Moreover, a large number of market entities have emerged that make profits by transferring trademarks or initiating infringement lawsuits, namely "Trademark Trolls" who do not aim to use them.

2.2 Typification Analysis of Malicious Trademark Registration

The first is the type of malicious trademark registration as stipulated in the current *Trademark Law*. China's *Trademark Law* divides it into three aspects for bad motives, namely, non-purpose of use, improper means and violation of legal provisions. According to the *Several Provisions on Regulating*

Trademark Application and Registration Behaviors issued by the State Administration of Market Regulation in 2019, the main types of malicious trademark registration in China can be roughly divided into the following five categories. First, the type that infringes upon the prior rights and interests of others. The normative basis is mainly reflected in the system integration of Article 13 well-known trademarks, Article 30 identical and similar trademarks, and Article 32 prior rights of the *Trademark Law*. Second, the type without real intention to use. The core of this type lies in the applicant's lack of a purpose for use. A typical phenomenon is that applicants apply for a large number of trademarks far exceeding the requirements for production and operation, and unable to prove their intention of use. In practice, a vicious model has emerged where professional institutions make profits by hoarding popular trademarks. Third, the type of encroachment on public resources. This type shares a common point with the second type mentioned above in terms of having no intention of use, but it pays more attention to the malicious registration of public resources in the public domain, including the names of ancient poems, operas, and famous mountains and rivers.^[3] In essence, it is the monopolistic possession. Fourth, the type of use specific relationships. According to Article 15 of the *Trademark Law*, this type is premised on the existence of specific relationships such as agency, representation, and business transactions between the parties. Malicious registrants take advantage of this to violate the duty of good faith and seize business opportunities. Fifth, the type of use fraudulent and improper means. This type focuses on improper behaviors during the application process, including traditional deceptive methods such as fabricating facts and submitting false documents. It also needs to incorporate the new forms of fraud referred to in Article 33 and Article 44 of the *Trademark Law* to dynamically fill the legal loophole.

Secondly, there are the newly added provisions in the "*Draft for Public Comment*", Article 22 categorizes malicious applications and clarifies the specific circumstances of malicious trademark registration applications. Applicants shall not maliciously apply for trademark registration, including: (1) Applying for trademark registration in large quantities without the purpose of use, thereby disrupting the order of trademark registration; (2) Applying for trademark registration by fraud or other improper means; (3) Applying for the trademark registration that is detrimental to the interests of the state and public, or has other significant adverse effects; (4) Intentionally damaging the legitimate rights or interests of others or seeking improper benefits in violation of the provisions of Articles 18, 19 and 23 of this law; (5) There are other malicious acts of applying for trademark registration.^[4]

3. Trademark Compulsory Transfer System for Malicious Registration in Foreign Countries

Other foreign countries have long had trademark compulsory transfer system for malicious registration. In 1958 at Lisbon, *Paris Convention for the Protection of Industrial Property* (hereinafter referred to as the "*Paris Convention*") clearly stipulated that if an agent or representative maliciously registered a certain trademark, the trademark owner had the right to oppose the registration or request the revocation of the registration. Furthermore, if permitted by the laws of the member states, the trademark owner may also request the transfer of the registered trademark to themselves or prevent an agent or representative from using the trademark. However, the above regulations do not apply to situations where an agent or representative can prove that their actions are justified. It can be seen that *Paris Convention* firstly proposed the suggestion of establishing a compulsory transfer system for malicious registered trademarks, but it did not make a mandatory requirement.^[5]

To protect the legitimate rights and interests of right holders, promote high-quality social development and address malicious trademark registration, establishing a trademark compulsory transfer system for malicious registration has gradually become a common choice for different countries and regions. In the United States, due to the adoption of the acquisition system, a high degree of attention has been paid to the actual use of trademarks. Malicious trademark registration is regarded as a serious act of dishonesty, so applicants for malicious trademark registration often face severe legal consequences. For instance, malicious trademark registration is directly rejected at the application stage. Or even if it is registered by chance, it will be declared invalid once discovered.^[6] In the European Union, Article 21 of the *Regulation (EU) 2017/1001* stipulates that if an EU trademark is registered in the name of the trademark owner's agent or representative without the authorization of the trademark owner, the trademark owner has the right to request the transfer of the EU trademark in his or her name, unless the agent or representative provides a legitimate reason. The trademark owner may make a request for the compulsory transfer of the trademark.

4. The Legal Application Boundaries of the Trademark Compulsory Transfer System for Malicious Registration in China

Although the trademark compulsory transfer system for malicious registration has appeared for the first time in the "*Draft for Public Comment*", there have been certain practices related to it in the domestic trademark field before. In the field of judicial practice, such as in the case of the "Tiger Head Liquor"^[7], the compulsory transfer of trademark rights has already been involved. The court ultimately ruled that both the trademarks registered by the preemptive registrant and the transferee enterprise should be returned. Article 45 of the "*Draft for Public Comment*" clearly stipulates and lists the specific circumstances under which the system applies. The following will conduct an analysis of the application of law in each specific situation.

4.1 Malicious Registration in Violation of the Provisions for the Protection of Well-known Trademarks (Article 18)

Due to significant popularity and market recognition, well-known trademarks are more likely to be targeted by malicious registrations than ordinary trademarks. If only protection for the same or similar categories of goods is provided, it will neither be able to curb the infringement of the reputation of well-known trademarks nor be able to motivate market entities to continuously improve the quality of goods and services. The successive revisions of China's *Trademark Law* have reflected the trend of strengthening the protection of well-known trademarks. "*Draft for Public Comment*" breaks the traditional protection framework. On the one hand, it grants well-known trademarks (whether registered or not) the right to cross-class protection beyond the restrictions of goods or services categories, prohibiting others from registering the same or similar trademarks in any category that are likely to cause confusion or mislead the public. On the other hand, new provisions have been added to address the dilution of well-known trademarks. It allows the right holder to assert invalidation or compulsory transfer. As the right holder inherently has the legal right to prohibit confusing registrations, the implementation of compulsory transfer system for malicious registration will not harm the interests of third parties and is in line with the orientation of the *Trademark Law*. It should be emphasized that the scope of cross-class protection must be commensurate with the distinctiveness of the trademark. The determination of well-known trademarks should still follow the principles of passivity, case-by-case nature and necessity. If the right holder has no need for use, they can directly choose the invalidation declaration procedure to deny the validity of the maliciously registered trademark, reflecting a reasonable allocation of legal relief.

4.2 Malicious Registration by Parties with a Fiduciary Relationship (Article 19)

The subjects of malicious registration regulated by Article 19 include two categories. The first category is the agent or representative of the person whose trademark has been preemptively registered. The second category consists of third parties who come into contact with the trademark based on contractual, business transactions and other relationships. The regulation of agents or representatives, on the one hand, stipulates that they have the duty of loyalty and diligence under civil law and must not infringe upon the rights and interests. On the other hand, the agency mechanism has become the norm in trademark registration practice, and in certain circumstances, it is even a mandatory legal procedure. As the party closest to the trademark's rights, the agent is highly likely to violate their obligations and encroach upon the trademark. At this point, the compulsory transfer system, by returning the trademark to the true right holder, constitutes the most direct and effective means of relief. For the second category of subjects, since there is a possibility of contact with unregistered trademarks, it is legitimate to grant the prior user the right to request compulsory transfer. Firstly, during the existence of a maliciously registered trademark, it objectively hinders a bona fide third party from registering, and the transfer act does not deprive others of the opportunity. Secondly, if a bona fide third party indeed submits the registration before the transfer application, the third party can still file for invalidation after the transfer is completed. Therefore, the compulsory transfer system does not have a substantive conflict with the principle of prior application or the protection of public interests.

4.3 Malicious Registration that Infringes upon the Prior Rights or Interests of Others (the first half of Item 1, Article 23)

The first half of Item 1, Article 23 of the "*Draft for Public Comment*" expands the "prior rights" stipulated in the current law to "prior rights or interests", meaning that regardless of whether there are legal rights or not, they shall not be infringed upon by trademark registration. However, in practice, the

boundary of "prior rights or interests" is ambiguous and dynamic. Therefore, most holders who are not market entities eliminate the influence through the invalidation declaration procedure. That is to say, prior right holders who are not market entities do not necessarily have the demand to request the transfer of maliciously registered trademarks. Although the *"Draft for Public Comment"* includes such behavior in the category of malicious registration, it does not grant the right to request compulsory transfer. However, the compulsory transfer system is both necessary and feasible for such situations. The core of protecting prior rights under the *Trademark Law* lies in safeguarding the goodwill and the influence. Adverse enterprises maliciously register others' prior rights to save the cost of cultivating their own trademarks.^[8] When the prior rights holder has the intention to use the trademark, the compulsory transfer system can not only avoid duplicate examination but also enhance the effect of infringement prevention. If the right holder has no need for use, they can still choose alternative remedies such as invalidation declaration. Therefore, legislation should not assume that they have no need for the trademark and thus deprive them of the right to request transfer.

4.4 Preemptively Register by Improper Means a Trademark that has been used by Another Party and has A Certain Influence (the second half of Item 1 of Article 23)

The second half of Item 1, Article 23 of the *"Draft for Public Comment"* aims to provide rights protection for trademarks that have not been registered but have a certain influence, that is, to grant the actual user the right to prevent others from maliciously registering their unregistered trademarks. From the perspective of legal effect, although the above-mentioned regulations simultaneously grant all users of unregistered trademarks the right to prevent others from registering, the actual scope should be limited to unregistered trademarks that "have a certain influence". However, it is necessary to clarify its applicable boundaries. On the one hand, the standard of "certain influence" should be lower than the popularity of an unregistered well-known trademark to avoid overlapping with Article 13 of the *Trademark Law*, which may lead to the provision being ambiguous. On the other hand, this impact should not be overly confined to a narrow area. Otherwise, it would improperly restrict the rights of good-faith registrants. In practice, the reasonable scope of influence should be determined through individual case review. If the conditions are met, the prior user not only can deny the validity of the maliciously registered trademark, but also should have the right to request compulsory transfer and become a legitimate right holder.

5. The Improvement of the Trademark Compulsory Transfer System for Malicious Registration

Malicious trademark registration and its abuse are common problems in countries with a registration system, and they are also prominent issues that have not been completely curbed in China's trademark practice. *Trademark Law* has undergone several revisions. Coupled with the addition of the trademark compulsory transfer system for malicious registration in the *"Draft for Public Comment"*, a regulation centered on trademark use has been formed. However, malicious trademarks still have a certain space for existence, and the newly added compulsory transfer system still needs to be improved and perfected.

5.1 Adjust the Scope of Application

5.1.1 Allow Similar Trademarks to be Compulsorily Transferred together

It is necessary to allow the compulsory transfer of similar trademarks of maliciously registered trademarks, and grant the prior right holders the corresponding option. Firstly, if only the main malicious trademark is transferred while allowing similar trademarks to be separated among different rights holders, it is very likely to cause confusion among the relevant public regarding the source of the goods or services. This not only weakens the core function of trademarks in identifying the source, but also disrupts the market order. Secondly, according to Article 56 of the *"Draft for Public Comment"*, in the case of voluntary transfer, similar trademarks must be transferred together with the main trademark. Based on the system interpretation, the same rules should also be applied in the procedure of compulsory transfer with similar legal effects. At the same time, given that the compulsory transfer system is part of the trademark invalidation procedure, if the prior right holder claims to transfer the relevant similar trademarks at the same time, they must clearly list the specific trademarks they request to transfer when filing the application.^[9]

5.1.2 Maliciously Registered Trademarks that Constitute Absolute Invalidity Grounds are Allowed to be Compulsorily Transferred under Certain Conditions

The applicable circumstances of the compulsory transfer system are highly consistent with the malicious registration behaviors regulated by Article 22 of the *"Draft for Public Comment"*, both pointing to relatively invalid situations. However, there is no regulation on whether the compulsory transfer system is also applicable to maliciously registered trademarks that constitute absolute invalidity grounds. Some scholars hold that under specific conditions, maliciously registered trademarks that constitute absolute invalidation grounds should also be allowed to apply the compulsory transfer system. Although large-scale registration activities not intended for use have the attribute of harming public interests, they are entirely likely to simultaneously infringe upon the prior rights and interests of specific subjects. If the absolute invalidity clause is rigidly applied, it will inevitably lead to the aforementioned conclusion. In essence, in such circumstances, the grounds for invalidation of maliciously registered trademarks constitute a conflict of relative invalidation and absolute invalidation. This means that although the administrative department has sufficient reasons to declare the application invalid or reject it, it does not exclude the right holder from claiming compulsory transfer based on relatively invalid grounds. The key point is that when the prior right holder acquires the trademark through compulsory transfer, the act itself does not violate Article 22. Therefore, allowing compulsory transfer in this circumstance not only poses no legal obstacles but also better aligns with the legislative intent of this system, which aims to efficiently and fairly address the issue of malicious registration. For the above-mentioned situations and other complex circumstances that may arise in practice, the applicability of the compulsory transfer procedure should be carefully determined.

5.2 Adjust the Procedure Appropriately

According to the system of the *"Draft for Public Comment"*, trademark compulsory transfer system for malicious registration has been incorporated into the framework of the relatively invalidation ground declaration procedure. This design grants specific prior right holders the right to claim the transfer of registered trademarks in the invalidation declaration procedure, and its rationality mainly lies in the compatibility of the system. Firstly, the claimants of the compulsory transfer system are fully covered within the scope of eligible subjects for the declaration of relatively invalid grounds. Secondly, the two have a high degree of overlap in their applicable situations. Moreover, both types of applications require the National Intellectual Property Administration to make an administrative ruling within the prescribed time limit. Finally, both have the legal effect of declaring maliciously registered trademarks invalid. This nested design can handle transfer requests through invalidation procedures, effectively reducing the administrative costs. However, there is still room for optimization in the existing design. To enhance the effectiveness of protecting the rights and interests of prior right holders, it is necessary to add a compulsory transfer procedure at the trademark application stage. At this stage, the prior right holder who has gone through the opposition procedure acquires the "right to apply for the trademark" through compulsory transfer, rather than the exclusive right to use the registered trademark. *The German Trademark Act* provides a reference for this, stipulating that trademark right holders may request their agents or representatives to return the trademark rights during the examination stage and after registration. Although China has not explicitly stipulated the "right to apply for a trademark", the application and transfer system established through Article 18 of the Implementing Regulations of the Trademark Law, as well as the characterization by the Supreme People's Court in relevant retrial judgments, have essentially recognized the rights and interests of trademark registration applications. In terms of specific operations, the prior right holder can promptly initiate the opposition procedure through the initial review announcement mechanism. If they are simultaneously granted the qualification to claim the right to apply for transfer, it can not only significantly reduce the burden of subsequent reviews but also enhance the operational efficiency of the rights confirmation system.

If the administrative department, upon examination, finds the opposition valid, it shall, while rejecting the application for preemptive registration, re-announce the trademark application that has been transferred. This move can not only encourage rights holders to protect their rights early and eliminate infringement risks before they occur, but also safeguard the right of interested parties to raise oppositions through the secondary announcement procedure. Its institutional logic is completely in line with the conventional initial announcement procedure.

6. Conclusion

The huge value of intangible property contained by trademarks and the inherent defects of the trademark registration system bring out many problems.^[10]The *Trademark Law* was revised in 2019. New provisions were added to the general provisions of the law, which clearly stipulate that malicious registration of trademarks is prohibited. The relevant provisions are modified in the sub-rules, aiming to increase penalties for malicious registration of trademarks. However, the provisions of the revised *Trademark Law* regulating the malicious registration of trademarks are too abstract, which makes it difficult to apply the law.^[11] Malicious trademark registration behavior undermines market order, and there is an urgent need for legal regulatory innovation. The compulsory transfer system introduced in the "Draft for Public Comment" breaks through the traditional passive relief model of "declaring invalid" by directly returning maliciously registered trademarks to the legitimate right holders, achieving an essential restoration of the trademark's identification function and a positive reshaping of market fairness. In the future, its design needs to be improved through methods such as adjusting the scope of application, optimizing procedural connections, and coordinating institutional conflicts. By establishing a three-in-one governance framework of "registration - use - integrity", we can fundamentally curb the abuse of rights and promote the high-quality development of trademark rules in our country.

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