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Help is on the Way: The Trademark Modernization Act's Response to Fraudulent Chinese Trademark Applications

BY [NOAH GOLDBERG](#) /ON MARCH 1, 2021



Image by Priyam Patel from Pixabay

The United States and China are familiar foes in their constant fight for influence on the international stage. There have been conflicts between the two countries involving trade deals and tariffs,¹ but there is one concern that has largely gone unaddressed until recently: the increase of fraudulent Chinese trademark applications submitted to the United States Patent and Trademark Office (“USPTO”).² The USPTO is the body in charge of conferring federal trademark registrations in the United States based on an applicant’s *use* of a trademark in commerce in connection with its goods or services.³

Mary Boney Denison, former Commissioner for Trademarks at the USPTO, has indicated that there was a 1,200% increase in trademark filings from China in between 2013 and 2017, with a large number paid for by only three credit cards.⁴ Many of these applications had no chance of showing sufficient use to warrant trademark protection, which cluttered the USPTO registration system and led to inefficiencies in the registration process for deserving applicants.⁵ This raises two questions: (1) what caused this rapid increase of Chinese trademark

applications, and (2) what has the USPTO done to address this issue to ensure that the registration system functions properly?

First, the USPTO released a report in January 2021 titled “Trademarks and patents in China: The impact of non-market factors on filing trends and IP systems,” which lists *non-market factors* that may have facilitated this rapid increase in Chinese trademark applications.⁶ By non-market factors, the report means factors beyond the commercial value offered by trademarks in distinguishing brands from one another, which is a key focus of trademark law.⁷ Often times, the volume of applications filed within a country is viewed as a “proxy for the intensity of its brand creation and innovation.”⁸ However, the report cautions against drawing this conclusion in the case of China, in part because of the impact of the Chinese government’s subsidies and mandates on foreign registrations.⁹

The report explains that a “rational economic actor in China may choose to pursue a trademark application without any intention to use the mark in commerce” because the value of these subsidies often exceeds the cost of registering trademarks.¹⁰ When viewing the subsidies in connection with the USPTO’s decision to lower the filing price in 2015, it offers an explanation for why there was a significant increase in Chinese foreign applications in the United States: the USPTO filing price was substantially lower than the subsidy offered by China.¹¹

In March 2020, the Chinese government required state-owned enterprises to increase their foreign filings by 50%.¹² The report posits that this mandate serves as an example of a non-market factor that increased the number of Chinese trademark applications because, as Commissioner Denison testified before multiple congressional subcommittees, “this dramatic rise in applications coincides with the rise in inaccurate and fraudulent claims of use that threaten to undermine the reliability of the trademark register.”¹³

The USPTO has taken two previous steps toward counteracting this trend. First, in August 2019, the USPTO started requiring each foreign applicant to file using a United States trademark attorney, in an attempt to cut down on fraudulent applications.¹⁴ Then, in February 2020, the USPTO began requiring each applicant to provide its own e-mail address, in addition to the registering attorney’s e-mail address, to better determine the identity of the trademark applicant.¹⁵ While these updated policies finally showed that the USPTO was willing to combat fraudulent applications, it was not until the enactment of the Trademark Modernization Act (“TMA”) in December 2020 that real, tangible change could be expected.¹⁶

The TMA serves as a key amendment to the Lanham Act—the premier source of trademark law establishing the mechanisms for federal registrations. While many key foundational principles expressed in the Lanham Act remain, the TMA implements updated substantive and procedural policies that protect trademark applicants. These policies arm the USPTO with more efficient mechanisms for identifying and rejecting fraudulent applications, and for

terminating preexisting registrations where marks are not used in commerce in connection with goods or services.¹⁷ Notable TMA policies include: (1) new USPTO proceedings for canceling registrations, (2) an expedited process for third-party oppositions, and (3) a rebuttable presumption of irreparable harm for trademark owners in infringement lawsuits.¹⁸

To ensure that trademarks are used in commerce, the TMA creates *expungement* and *reexamination* proceedings that may be initiated *sua sponte*, or on its own initiative, by the USPTO.¹⁹ Expungement proceedings may be used to oppose marks that were never used in commerce, after conducting a reasonable investigation.²⁰ If the USPTO meets its *prima facie* burden of showing that the mark was not used in commerce, the burden shifts to the trademark applicant to prove its use of the mark to avoid cancellation.²¹ Reexamination proceedings function in the same way, except they deal with marks that may have previously been used in commerce, but are no longer in use.²² These mechanisms allow for a more efficient challenge of improper trademarks, without relying on third-party challenges.

The TMA also formalizes a cost-effective tactic for third-party applicants called “letters of protest.” Letters of protest allow third-parties to submit evidence for refusing an application during the USPTO examination process; previously, third-parties had to wait until after the examination process to oppose a mark.²³ This streamlines the process for rejecting fraudulent applications and costs a mere \$50, compared to the estimated \$95,000–\$500,000 cost of formal opposition proceedings.²⁴ Another policy increasing efficiency is the TMA’s shortened response time for applicants to reply to the USPTO if a mark is initially refused registration.²⁵ Rather than the previous six-month period, the TMA now prescribes between sixty days and six months for applicants to respond to the USPTO, with the option of filing for extensions.²⁶

After years of conflicting circuit court decisions in response to *eBay Inc. v. MercExchange, LLC* (“*eBay*”), the TMA restored the rebuttable presumption of irreparable harm of trademark infringement.²⁷ The Court in *eBay* held that there was not a rebuttable presumption of irreparable harm in patent infringement cases, and that plaintiffs need to prove the harm they suffered as a result of defendants’ infringements.²⁸ This principle was subsequently expanded to trademark infringement cases, which gathered immense scrutiny because of the difficulty for trademark owners to quantify the resulting harm.²⁹ The difficulty arises because, unlike for patents, the harm in trademark infringement cases is based on harm to the “goodwill,” or reputation, of the trademark owner.³⁰ In other words, monetary damages are often an inadequate remedy for compensating trademark owners for infringing acts by third-parties. By restoring the rebuttable presumption of irreparable harm in trademark infringement cases, the TMA bolsters enforcement against bad-faith applicants and fraudulent registrations because it removes an obstacle for trademark owners from protecting their marks.

The TMA offers federal trademark applicants in the United States a reason for optimism by counteracting the influx of fraudulent Chinese trademark applications. Today, the USPTO is closer to being equipped with the necessary tools for stabilizing the federal registration system, in large part due to Congress's willingness to rework parts of the Lanham Act to better address contemporary trademark concerns. Going forward, these changes will protect against fraudulent trademark applications and provide a more efficient process towards registration for prospective trademark applicants.

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