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**FIRST TO FILE: A LOOPHOLE FOR THE TRADEMARK TROLLS AND
CYBER SQUATTERS**- Khushi Agarwal¹**ABSTRACT**

Trademark trolls and cybersquatting are two related issues that have become increasingly prevalent in the digital age. Trademark trolling refers to the practice of using trademark laws to bully or extort money from individuals or companies, often by making false or exaggerated claims of trademark infringement. Cybersquatting, on the other hand, refers to the act of registering or using a domain name that is similar or identical to a well-known trademark with the intention of profiting from the goodwill and reputation of the trademark owner. Both of these practices can cause significant harm to businesses and individuals, and it is important for trademark and domain name owners to take steps to protect their rights and prevent these types of abuses.

INTRODUCTION

Just as, sometime ago, the world was in the fear of the Covid-19 pandemic, similarly, businesses and people in the trademark field are currently in the fear of Cyber squatters and trademark trolls. Recently, the crime of cyber squatting has overtaken the world with increasing numbers and businesses are trying their best to protect their brands and products/services from these cyber squatters and so is the case with trademark trolls. According to the WIPO, the number of cases of

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cyber squatting filed with the WIPO's Arbitration and Mediation Center has clocked a steady increase during the Covid-19 period².

THE CONCEPT OF TRADEMARK TROLLING AND CYBER SQUATTING

Trademarks are the brand name, logos, symbols, designs, etc. that help businesses to exclusively enjoy the benefits of goodwill and reputation that their brands have developed after years of hard work. It helps business owners or companies to differentiate their products or services from other companies' products or services and protects the brands from unauthorized usage by anyone else. As per the trademarks Act, 1999, once the trademark is registered, no one can use a similar mark or deceptively similar mark in the same course of trade.

However, trademark trolling is an activity carved out to prevent business owners from getting their trademark registered by getting the same mark registered before the actual owner does so. The act of filing frivolous trademark registration applications without even the smallest intention of using them in the course of trade is known as trademark trolling. The people engaged in these activities are called trademark trolls or trademark bullies. These applications are exclusively submitted to extort money from powerful organizations through lawsuits alleging infringement or getting the license through negotiations.

The same is the concept of cyber squatting. The process of registering names, particularly those of well-known companies, as internet domains with the goal of reaping money off of the goodwill of the trademark holder is known as cyber squatting and the doers of such activity are called the cyber squatters. Be it trademark trolling or cyber squatting, the intention is to make money through illegal means. Such activities are causing real problems for the business owners or companies, especially the large ones, who are left with no other option but to suffer the loss, either in the form of money or in the form of their brand names.

Many companies have gone and suffered through this menace. One such example is the case of the very famous company, **TESLA Motors**³. The mark TESLA was registered across various classes, including cars in 2009 by a cosmetics businessman, Zhan Baosheng. Various offers were

²https://www.wipo.int/amc/en/news/2020/cybersquatting_covid19.html

³(2014) No. 09258 San Zhong Min (Zhi) Chu Zi (2014).

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made by TESLA to purchase the marks but all in vain. However, Mr. Zhan asked for the price of USD 32 million which was ultimately rejected by the company. At last, the TESLA Company had to enter into a settlement agreement with Mr. Zhan, whereby he agreed to withdraw his rights in the mark on the condition that the company would drop its compensation demands in court. The company also agreed to purchase the domain names such as tesla.cn, etc. This was a clear-cut case of trademark trolling.

Another such case is the **Castel Frères' case**⁴. The Castel Frères was a French winemaker who entered the Chinese market allegedly in the year 1998 but did not get its trademark registered until the year 2002. In the meanwhile, a Shanghai company, Li Dao Zhi got the mark 'Ka Si Te', a transliteration of Castel registered in 2000, and thereby, sued the French company for infringement. Though the French company began selling its products in the Chinese market in the year 2001 only, the Chinese company had no usage of the mark and was not engaged in any trade before the case. Because of this reason, the French company requested the Chinese court to cancel the registration of the Chinese company based on non-usage but the company then started using the mark during the pendency of the litigation. Eventually, the French company was held liable and was ordered to pay USD 5 million to the Chinese company. Though the French company was the first to use the mark and began its selling, the Chinese company was the first to register the mark, based on which the Chinese court gave its order. On appeal to the Chinese Supreme Court by the French company, in 2016, the trial court order was upheld and the French company was held liable to pay compensation to the Chinese company.

In the area of cyber squatting, the famous case of **Yahoo** recently came across. A similar trademark as of the plaintiff, Yahoo was used by the respondents as the domain name, yahooindia.com. The court holding the case in the favor of the plaintiff and granting the injunction held that web services are regarded as goods worldwide and therefore, the defense that the services offered did not meet the definition of goods was not acceptable⁵.

⁴ (2013) No. 1405 Min Shen Zi (2013).

⁵Yahoo! Inc. v Akash Arora and Anr,78 (1999) DLT 285.

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All such cases bring us to the concept of the 'first to file' principle, used by many countries across the world as most of such cases of trademark trolling are happening in the countries using this principle.

FIRST TO FILE PRINCIPLE

This is the concept where the date of filing for the registration of the mark is given more importance than the date on which the mark was first used by the owner. A right to trademark belongs to the owner who had the earliest date of filing. Countries using this concept are **China, Japan, Germany**, and many others. If a dispute arises between two companies over a certain trademark, a company that filed first for its registration would be given a preference over the other, irrespective of the fact that the second company was the first to use the mark.

Such a concept is a loophole which is encouraging trademark trolls to engage in the activities like trademark trolling and this is the reason why the cases of such illegal activities are more in the countries using this, first-to-file principle. This concept allows the doers of such activities to get the mark of the large companies registered first, before the actual owner, and then claim money from these large companies illegally knowing the companies will have no option but to pay them to protect their brands. The doers very well know that they have to just get the mark registered before the actual and are not required to show or engage in any sort of usage in order to prove the mark as their own.

For example, a very well-known company in India who have gained major of the market share in its favor, now thinking to open a company in Japan, won't be able to do so, if any other person (trademark troll), gets the same mark registered first in Japan without actually using it. This causes a big hindrance in the way of these large companies like the Indian company in the example, who have established their image in the market with a particular name. They won't be able to expand their company in countries like these until and unless, they either change their brand name which is actually not possible, as all the goodwill and reputation are attached to that brand name, or pays the trademark trolls whatever amount is asked by them. Hence, the principle of 'first to file' is actually a big hindrance in the way of business owners, especially the large ones who are the target of these squatters most of the time.

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FIRST TO USE PRINCIPLE: A SOLUTION?

Many countries, especially common law countries like **India, Australia, the United States, Canada**, etc. instead of using the 'first to file' principle, use the 'first to use' principle. This principle allows the owners to get the mark registered later on, after first using it which helps in establishing the brand value of the mark. If another person gets the same mark registered first, even then the prior user of the mark gets the preference and he can file the case of passing off. If the mark will be a well-known mark, he can stop the new user from using the mark. It is crucial to highlight that this enables the protection of companies' previously built-up goodwill since the goodwill is then recognized by courts as an earlier-existing entity as opposed to the trademark troll's nebulous rationale for trademark usage.

The principle was brought up in India in the case of **M/S Superflo Pvt Ltd. v. M/S Sandhyamani Associates**⁶ where the plaintiff first used the "Superflo" trademark, but despite their application for registration, they were unable to do so. However, the defendants took the benefit of it by getting the same mark registered which was a case of trademark trolling since the same had been done earlier also by the defendants. In order to avoid the violation of the plaintiff's goodwill, the court in the case recognized the principle of the prior user instead of prior registration.

Many other cases like Sony's Playstation 5 and H&M's case also came to light wherein the trademark trolls tried to take advantage of the situation and tried to commit trademark trolling for illegally gaining money. However, the Indian courts came as a rescue to these large companies by upholding the principle of the prior user or first to use principle instead of prior registration or first to file principle.

As per **Section 34**⁷ of the Trademarks Act, a user can have his/her rights in the trademark protected even though the mark was not registered, if the mark was a well-known mark and was in prior usage. This Section protects the rights of the users who had been using the mark for a long duration continuously and has built an image in the market. In such a case, no other user can

⁶M/S Superflo Pvt. Ltd. v. M/S Sandhyamani Associates, (2015) SCC OnLine Del 14403.

⁷ Trademarks Act, 1999, § 34.

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get the same mark registered and if he does so, he can be sued for passing off under **Section 134**⁸ of the Act. The same was also upheld in the case of **M/s R.J. Components and Shafts v. M/s Deepak Industries Limited**⁹.

CONCLUSION

With the rising cases of trademark trolling and cyber squatting, the principle of 'first to use' or 'prior user' comes as a hindrance to these squatters. The cases and situations discussed above make it very clear that the principle of 'first to file' or 'prior registration' is actually encouraging the trademark trolls or cyber-squatters to commit the activity of trademark trolling or cyber squatting and is acting as a loophole in the field of trademarks causing hindrances and problems for the business owners to protect their brands and products or services. While the principle of 'first to use' or 'prior user' is coming in the way of trademark trolls or cyber-squatters and is actually discouraging the usage of such practice.

Trademark is very crucial for every business, especially in today's innovative world and if activities like trademark trolling or cyber squatting are not discouraged and stopped, it would cause a great problem for the companies and also for the country's economy as it would directly affect the ease of doing business. Hence, such illegal activities must be brought to end as soon as possible by changing the principle of 'first to file' with 'first to use' and thereby, smoothing the ease of doing business for the companies and encouraging them to invest in the country. This would be beneficial not only for the companies doing business in the country but also for increasing and building a strong economy of the country.

⁸ Trademarks Act, 1999, § 134.

⁹ M/s R.J. Components and Shafts v. M/s Deepak Industries Limited, (2017) 244 DLT 502.

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