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Opportunities and Pitfalls in the Trademark Modernization Act

Contributed by Tal S. Benschar, Koffsky Schwalb

The stimulus bill signed on Dec. 27, 2020 included the Trademark Modernization Act of 2020, which made five changes to the Trademark Act, commonly called the Lanham Act. One amendment created three different procedures to cancel, in whole or in part, registrations where there has been no use in commerce. Another formalized a procedure to permit trademark owners to submit materials in opposition to a pending registration without engaging in a formal opposition.

These new procedures give trademark owners and online merchants tools to deal with false and pirated registrations, a growing problem. At the same time, these procedures present significant potential pitfalls to trademark owners, particularly to foreign trademark owners, where trademark rights are not grounded in use but in registration. Domestic trademark registrants likewise face potential problems from these amendments. And these amendments will affect e-commerce platforms such as Amazon, where rival claims to trademark and brand names often play out.

This article reviews these new methods of cancelling existing registrations, or opposing pending applications, how trademark owners and merchants can take advantage of them, and what possible pitfalls they present.

Growing Problem of False Registrations

The House Committee Report indicates that Congress perceived a significant problem in existing registrations that do not reflect their actual use in commerce. Many of these are due to fraudulent registrations or use specimens from China. The number of applications from that country has grown six-fold in the last few years, and just in the first week of May 2019, more than 10,000 trademark applications from China were filed.

Much of this problem is driven by Amazon. One of Amazon's key offerings is its Brand Registry. Trademark owners register their brands with Amazon, which gives them exclusivity in use of that brand for those goods, as well as many valuable marketing tools. Amazon maintains a separate Brand Registry for each country in which it operates. For the U.S., one needs to show a Patent and Trademark Office (PTO) registration to obtain entry, so many online merchants have obtained false federal registrations to enable them to access this valuable Amazon marketing tool. The new procedures are meant to provide expeditious removal of these false registrations.

Non-Use Standard vs. Abandonment Standard

The standard for all three new cancellation procedures is non-use. This, of course, is grounded in the long-standing rule of U.S. trademark law that trademark rights stem from use in commerce, and such rights are both gained and lost based on use. See *Trade-Mark Cases*, 100 U.S. 82, 94 (1879). Trademark law has long provided that sustained failure to use a trademark in commerce can result in an "abandonment," meaning loss of all rights. This is provided for expressly in the Lanham Act as one basis to cancel a mark. 15 U.S.C. §§ 1064(c), 1127.

However, the Lanham Act defines abandonment in subjective terms: when use of the trademark "has been discontinued with intent not to resume such use." 15 U.S.C. § 1127. True, intent can be inferred from the circumstances, and non-use for three consecutive years is "prima facie evidence of abandonment." But courts and the Trademark Trial and Appeal Board (TTAB) are reluctant to find abandonment, and there are many cases where a party puts in evidence attempting to show that while it ceased using the mark, it always intended to return to using it.

In contrast, all three of the new cancellation provisions are based on an objective standard: non-use for a specified period of time (three years, or for certain domestic registrations, immediately after issuance) results in cancellation, period. The registrant's intent has no bearing on this standard.

On the other hand, all three new cancellation procedures are limited to the situation where the mark has never been used in U.S. commerce. Where a registrant can show some initial use, even if that ceased at some later point, then none of these three new procedures are applicable. A party seeking to cancel such a registration can only rely upon a traditional abandonment analysis.

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Three New Cancellation Procedures

The three new procedures are termed ex parte expungment, ex parte reexamination, and cancellation for non-use. Each have their own rules and implications for trademark owners.

Ex Parte Expungement

This procedure allows anyone to file a claim with the PTO, supported by a verified statement of "reasonable investigation," along with any evidence, to show that a registered mark has never been used for all or some of the listed goods or services. After this initial stage, the filer has no more involvement. This has both an advantage in terms of savings of time and resource, and a disadvantage in that the filer has no more control over the objection.

The PTO then reviews the submission, and if it believes that a prima facie case has been made, initiates a proceeding, on notice to the registrant, that allows the registration to be cancelled in whole or in part. Alternatively, the PTO director can file his own petition if there is reason to believe that the facts warrant it.

This procedure can only be invoked after three years and less than 10 years after registration. As noted, the PTO assesses separately each good or service for non-use before deciding to cancel. This means that where a registrant has used the registered mark for some, but not all the listed goods and services, then the cancellation will only be partial.

Ex parte expungement applies to all registrations, including those based on foreign registrations under the Section 44 of the Lanham Act or the Madrid Protocol. But such foreign-based registrations can avoid cancellation by showing "special circumstances that excuse such non-use."

Ex Parte Reexamination

This is similar in many respects to ex parte expungement, but is limited to domestically filed registrations under Sections 1(a) and 1(b) of the Lanham Act, as well as registrations on the Supplemental Register. Request for reexamination may be filed at any time after the "relevant date," which means the time that use was required to have commenced under the applicable section of the Lanham Act. Conversely, such filings can only be made up to five years after registration.

Here again, the requestor's involvement is only at the initial stage, and then the PTO examines the filing and, if warranted, initiates the procedure without the filer's involvement. Like ex parte expungment, the PTO director may initiate the procedure. And, here again, the PTO assesses the registration for non-use as to each good or service, and will cancel only those for which non-use is found.

Cancellation for Non-use

Congress also amended Section 14 of the Lanham Act, 15 U.S.C. § 1064, to provide non-use as a basis for cancellation. This procedure is not done ex parte. Rather, the filer must petition the TTAB to cancel based on non-use. That means a traditional inter partes cancellation proceeding, with full blown administrative litigation, including discovery and summary judgment or trial. This means greater expenditure of time and resources for the challenger, although the challenger thereby gains more control over the proceedings. And, the challenger has to show that they have standing to challenge the registration, meaning that the challenger "believes that he is or will be damaged" by the registration.

In some cases, cancellation can also be asserted in the course of federal litigation pursuant to 15 U.S.C. § 1119, which grants district courts the power to cancel or modify registrations. Federal courts generally follow the same standards as for TTAB cancellations in Section 44. See *Shakespeare Co v. Silstar Corp. of America*, 9 F.3d 1091, 1097 (4th Cir.1993); *Petroliam Nasional Berhad v. GoDaddy.com, Inc.*, 897 F. Supp. 2d 856, 869–70 (N.D. Cal 2012). The new grounds of non-use could thus be relied upon in federal litigation, assuming all other requirements of Section 1119 are met.

This procedure applies to all registrations, including foreign registration-based ones, although the latter can avoid cancellation by showing "special circumstances that excuse such non-use."

This grounds may only be asserted beginning three years after registration; there is no end-time limit. And, unlike the two ex parte procedures, the cancellation assessment is all-or-nothing. Meaning, that if the petitioner shows that there has been non-use as to even one of the goods and services, then the entire registration is cancelled.

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Third-Party Submission of Evidence

Another amendment of the Trademark Modernization Act also formalizes what previously was called a letter of protest. If there is a pending application, anyone may submit evidence relevant to a possible refusal, with a short statement of what the evidence consists of and why it is relevant. The director reviews the submission and can include it in the examination file.

This can be an efficient and inexpensive way to oppose pending applications, without the expense and time of a formal opposition or cancellation procedure before the TTAB. And, by its terms, it applies to any possible basis for refusal, which includes not only possible confusion with prior registered marks, but many other possible defects, including descriptiveness, genericness, lack of use and, for trade dress, functionality.

Implications and Strategies

So what impact will these amendment have? And what should trademark owners do to avoid the pitfalls?

Foreign-Registration Based Registrations

The most immediate impact is on foreign-registration-based registrations under Section 44 or the Madrid Protocol. Up until now, these applications only required a bona fide intent to use the mark, and use did not need to start until the five-year renewal period. The amendment effectively shortens that time to three years; after three years of non-use, there is a significant risk of cancellation. Owners of foreign-based trademarks are well advised to time their registrations so that they can commence use in the U.S. within that period.

There is another, more subtle pitfall. It is common practice in many foreign countries, especially Europe, to include large numbers of goods and services in an application, many more than the applicant could possibly expect to use. When that is used to gain a U.S. registration, the result is a registration far broader than the registrant is entitled to.

Even if the owner commences real use for some of the listed goods and services, the other listed goods and services are vulnerable to a showing of non-use. Under these circumstances, a TTAB petition for non-use could result in cancellation of the entire registration. Thus a registrant that uses its registered mark for only some of the listed goods and services risks losing the entire registration.

The best strategy to avoid this potential problem is to review the foreign registrations before filing and weed out any goods or services that the applicant has no real chance of using. If that changes over time, the registrant should voluntarily cancel those goods or services that are clear will not be used. It is not clear if a registrant can avoid cancellation by voluntarily cancelling some of the goods and services while maintaining those it is actually using. But for some registrants, that may be a good strategy to try.

Domestic Use-Based Registrations

A similar potential pitfall exists for domestic registrants under Sections 1(a) and 1(b) of the Lanham Act. Those registrations require that the registrant be using the mark for each and every one of the goods and services listed, either at the time of the application under Section 1(a) for use-based applications, or at the time of filing the statement of use for Section 1(b), intent-to-use applications. The Lanham Act also requires that a specimen of use be filed to evidence use. However, Trademark Office regulations only require a specimen for one good or service in each class.

It often happens that the trademark owner has indeed commenced use for some, but not all, goods or services in the class. A specimen of use is filed, and a registration obtained for all items in the class. But, in fact, use has not commenced for all of the items. This potentially puts the entire registration in jeopardy. Applicants and their counsel must therefore make sure that the owner has in fact commenced use for every listed item, even if a specimen is not required.

On-Line Trademark Issues

The new procedures will likely be heavily used, and possible abused, by e-commerce merchants, particularly those on Amazon and like online platforms. Many Amazon merchants are plagued either by prior entries in Amazon's Brand Registry blocking their ability to offer goods, or takedown claims by putative trademark owners.

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Congress has now provided these online merchants with three new tools to deal with these problems. While obviously not all three are applicable in every given situation, understanding their limitations and requirement are critical to employing them to support their businesses.

Registrants Should Use A PTO Watch Service

It is common practice for trademark owners to employ a watch service that will alert a trademark owner of new applications that may conflict with its rights. The amendment that allows third-party submissions against pending applications should encourage trademark owners to use these services, and act quickly to assess if such a submission is warranted. If successful, a third-party submission can be a very cost-efficient way to head off a problem before it even starts.

Conclusion

Congress gave the PTO one year to implement these new changes, so they will only come into effect at the very end of 2021. Affected parties, particularly trademark owners and on-line merchants, are well advised to start planning now for the impact of these new procedures.

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