

DAY **ONE** **PROJECT**

A Strategy for Countering Fraudulent Trademark Registrations at the Patent and Trademark Office

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Summary

The Biden Administration should enhance the efforts of the U.S. Patent and Trademark Office (PTO) to defend against fraudulent trademark registrations. Since 2015, the PTO has struggled to cope with a rising flood of fraudulent trademark applications originating mainly from China. One study indicates that as many as two-thirds of Chinese trademark applications for certain classes of goods include falsified evidence that the applicant is using the mark in commerce in the United States — a requirement for trademark registration under U.S. law. High proportions (up to 40%) of these fraudulent applications survive the PTO’s application-review process and result in fraudulent trademark registrations.

Urgent action is necessary. The PTO reports that the trademark application rate has recently surged to extreme levels, which has doubled the number of applications awaiting examination. Many of these applications likely contain fraudulent claims of use. Identifying and denying fraudulent claims will help ensure that only those businesses that are actually using their trademarks in U.S. commerce benefit from the U.S. trademark system. In addition to creating a fair playing field for companies (both American and foreign) that abide by the rules, countering fraudulent trademark registrations will support American economic recovery from the COVID-19 pandemic by providing small businesses with robust protection for brand names of new products.

Challenge and Opportunity

Companies in the American marketplace are facing mounting difficulties finding trademarks that are not already claimed by someone else. These difficulties are especially severe for small businesses that lack the resources to conduct costly searches for effective but not-yet-claimed brand names.

To help address these difficulties, the PTO requires any trademark applicant to prove that it is actively using the mark in commerce in the United States. This requirement helps limit trademark depletion¹ and prevents bad-faith applicants from warehousing and squatting on unused trademarks. Applicants typically fulfill the “proof of use” requirement by submitting digital photographs of their products bearing the mark that they are applying to register. Applicants can also prove use by submitting screen captures of webpages where their products are made available for purchase.

Unfortunately, these proofs are easy to fake. And indeed, evidence suggests that the PTO’s trademark-application system is becoming rife with fraud — fraud that for multiple reasons is largely perpetrated by Chinese entities. Most significantly, certain Chinese provinces seeking to meet growth targets provide subsidies to their citizens to register trademarks abroad. These subsidies often exceed the cost of registration at the PTO, allowing registrants to pocket the difference. In 2019, Chinese entities filed

¹ Trademark depletion is “the process by which a decreasing number of potential trademarks remain unclaimed by any trademark owner.” For more on this phenomenon, see: Beebe, B.; Fromer, J.C. (2018). Are We Running Out of Trademarks? An Empirical Study of Trademark Depletion and Congestion. *Harvard Law Review*, 131(945).

69,000 trademark applications with the PTO. An academic study suggests that as many as two-thirds (approximately 45,000) of these applications included fraudulent evidence of use, often in the form of digitally altered or otherwise improperly manipulated photographs.² The study reports that nearly 40 percent of these applications proceeded to registration.³

A recent study by the Department of Commerce Office of Inspector General (OIG) confirms both the prevalence of fraudulent trademark applications and the current failure of the PTO to effectively prevent them from registering.⁴

Plan of Action

The Biden Administration should implement techniques and technologies at the PTO that will help to stem the flood of fraudulent trademark applications. One highly cost-effective measure would be to **provide the PTO's Trademark Examining Attorneys with enhanced training on how to identify trademark applications that include falsified evidence of use.** Training should include examples of fraudulent evidence of use from past applications, information on certain “red flag” characteristics⁵ of applications that suggest fraudulent evidence of use, and basic instructions on how to use resources such as Google Reverse Image Search to identify digitally altered images. Additionally, we support the OIG's recommendation that the PTO revise its examination guidelines to further clarify how examiners may identify fraudulent applications.

The PTO should also **use existing reverse image-search technology to develop an indexed, searchable database of all digital images submitted to the PTO as evidence of use** so that trademark examiners can compare incoming submissions with previously submitted evidence of use. Much reverse image-search software is already available on an open-source basis, suggesting that such technology should not be prohibitively expensive to implement at the PTO.

To address trademark registrations that have already been granted based on fraudulent evidence of use, **the PTO should more rigorously examine ongoing evidence of use** that registrants are required to submit in the sixth year after registration as well as every ten years after registration. PTO examiners should review this evidence for “red flag” characteristics of fraud. The PTO should also **expand its Post Registration Audit Program to include a larger sample of current registrations.** Initiated in 2017, this program randomly audits trademark registrations when a mark is registered for multiple goods or services in a particular class of goods or services. The audit requires registrants to submit evidence of use with respect to all goods or service specified. The PTO's two-year pilot study demonstrated that approximately 50% of audited registrations result in cancellation or the removal of

² See Beebe, B.; Fromer, J.C. (2020). Fake Trademark Specimens: An Empirical Analysis. *Columbia Law Review Forum*, 120(217).

³ *Id.*

⁴ See Department of Commerce Office of Inspector General (2021). USPTO Should Improve Controls over Examination of Trademark Filings to Enhance the Integrity of the Trademark Register, Final Report No. OIG-21-033-A.

⁵ See FAQ for full description of “red flag” characteristics.

goods or services from registrations.⁶ Increasing auditing would bring down the numbers of trademarks that are not being productively used, while also deterring applicants from pursuing overly broad trademark registrations.

The PTO should use its authority under the Trademark Modernization Act (TMA) of 2020 to **conduct a large-scale review of previously granted registrations to identify “red flags” of fraud.** Where appropriate, the PTO should petition for cancellation of such registrations for lack of use in commerce. The PTO could fund this review with revenue from the recent surge in trademark applications, which has delivered a corresponding surge in application fees.

Finally, we support each of the seven recommendations enumerated by the OIG in its report. To monitor the effectiveness of its efforts to prevent the registration of fraudulent applications, the PTO should develop audit procedures that empowers managing attorneys to review on an on-going basis examining attorneys’ processing of applications most likely to contain fraudulent evidence of use.

Conclusion

The problem of fraudulent trademark registrations at the PTO has become increasingly severe, but it can be contained. The Biden Administration can take multiple steps to accomplish this goal, including providing PTO examiners with enhanced training and tools, strengthening review of ongoing evidence of use, and working to rescind trademarks granted on the basis of fraudulent evidence. With the PTO set to process near-record numbers of trademark applications in the coming months, it is imperative to protect the American economy and support legitimate business interests by ensuring that fraudulent applications do not overwhelm the U.S. trademark system.

Frequently Asked Questions

1. The PTO has already implemented a variety of reforms to address fraudulent trademark applications. Why aren’t these enough?

Since August of 2019, the PTO has required that all foreign trademark applicants be represented by an attorney licensed to practice law in the United States. The PTO imposed this requirement mainly to address fraudulent Chinese trademark applications. Media reports indicate, however, that fraudulent Chinese applications continue to flood into the PTO.^{7,8} Indeed, the PTO is currently experiencing an unprecedented backlog in examining trademark applications. The PTO’s Commissioner for Trademarks recently stated that the “surge [in filings] has doubled

⁶ See U.S. Patent & Trademark Office, [Post Registration Proof of Use Pilot Status Report](#) (2014).

⁷ Lince, T. (2021). [USPTO struggles with backlog as number of Chinese trademark applications rises rapidly](#). World Trademark Review, April 21.

⁸ Lince, T. (2021). [Growing backlog, falling morale: Former USPTO examining attorney reveals impact of Chinese trademark applications](#). World Trademark Review, April 26.

the number of applications waiting to be examined and increased waiting times at various stages in our processes.”⁹

The TMA established various mechanisms by which the PTO and third parties can seek to cancel trademark registrations for non-use. The PTO is currently proposing rule changes to implement the TMA that will likely go into effect by December 27, 2021. However, the TMA reforms are mainly designed to address fraudulent trademark registrations after they have been granted registration. The PTO should also work to prevent the granting of such registrations in the first place.

2. What evidence is there of especially high levels of fraudulent trademark applications from China?

The authors of this memo have conducted a comprehensive quantitative study of fraudulent Chinese trademark specimens.¹⁰ We have also conducted a quantitative study of the problem of trademark depletion at the PTO.¹¹ The PTO has also published its own report on Chinese trademark applications.¹²

3. What are “red flag” characteristics of applications containing fraudulent evidence of use?

Fraudulent specimens of use tend to have certain characteristics. Most generally, they are typically filed by Chinese applicants applying for registration in only one class of goods. They also tend to include digital evidence-of-use images that (1) contain discontinuities indicating digital alteration; (2) match generic images appearing in Google reverse-image searches; (3) depict a mark consisting of a nonsense word that is unpronounceable in English and that the applicant indicated has no meaning in any other language; (4) depict a tag with irregularities, such as exceptionally poor print quality or inconsistent features across multiple specimen images; (5) depict pricing in non-U.S. currency or a delivery address to a non-U.S. address; (6) depict a product that carries the mark of another company; (7) depict a misspelled mark; or (8) depict nothing more than a screenshot of an e-commerce website (such as an Amazon webpage). While evidence of use exhibiting one or more of these characteristics may be legitimate, evidence of use exhibiting many these characteristics is often fraudulent.

⁹ Gooder, D. (2021). [What a huge surge in trademark filings means for applicants](#). United States Patent and Trademark Office, June 23.

¹⁰ Beebe, B.; Fromer, J. (2020). Fake Trademark Specimens: An Empirical Study.

¹¹ Beebe, B.; Fromer, J.C. (2018). Are We Running Out of Trademarks?

¹² U.S. Patent and Trademark Office. (2021). [Trademarks and Patents in China: The Impact of Non-Market Factors on Filing Trends and IP Systems](#). January.

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