

Causes for Making Trademark Infringement Defence (II)

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IV. Right exhaustion defence

By the right exhaustion defence, set in direction to sellers, is meant that after a trademark owner enters his goods in the channel of commerce, a buyer of the goods can resell the goods without consent from the trademark owner. Depending on different territory, the right exhaustion defence involves two circumstances: domestic exhaustion and international exhaustion.

Domestic exhaustion of trademark right

By the domestic right exhaustion is meant that after a trademark owner enters his goods in the channel of commerce, a buyer of the goods can resell the goods without consent from the trademark owner, and his reselling is not to

be found infringing.

While the Trademark Law does not directly provide for domestic exhaustion of right, it may be presumed from Article 52 (2) of the Trademark Law, which provides that selling goods that infringe the exclusive right to use a registered trademark is an infringement of such exclusive right. If the provision is reversely construed, it may be reasonably concluded that an act of selling goods not infringing the exclusive right to use a registered mark is not an infringement of the exclusive right to use a registered mark, namely the right exhaustion doctrine.

The doctrine of domestic exhaustion of the trademark right is a universally accepted doctrine, on the one hand, because it ensures smooth distribution of goods within a nation.

If a trademark owner has the right to control the first and the following transaction of his or its goods, it would greatly inhibit distribution of the goods, and is not conducive to establishing the market order. On the other hand, not applying the right exhaustion doctrine would render all follow-up sales infringing, which is obviously contrary to the rudimentary theory of the trademark law. For the traditional trademark law, the confusion doctrine is used to prevent consumers from confusing between goods or services of one provider from those of another. The present-day trademark law theory has been extended to dilution doctrine to prevent dilution of the only corresponding relationship between a well-known mark and the trademark owner. By applying any one of said doctrines, it is impossible to find any follow-up sales infringing a trademark. Thus, the infringement establishment now lacks theoretical basis.

For this reason, it is possible to inevitably conclude that the right exhaustion defence is applicable only to sellers, not to users of goods. In respect of use of another party's trademark on goods, even if it is a fair use, one cannot make a right exhaustion defence mainly because the use is not directly related to the order of distribution of goods *per se*, but it is possible to create confusion and dilution.

But in the trial of some cases, subjects are not differentiated to which the right exhaustion defence is applicable.

This is true in the case arising from infringement of the trademarks, such as "SWAROVSKI" (pronounced "shi hua luo shi qi"). The defendant, keeping a "Shihualuo" wedding photo studio, argued that it used the mark in its advertisement to show to its customers the source of prop it provided in the wedding photography as said props were made and marketed by the plaintiff and the latter's exclusive right to use said mark was exhausted after it sold the goods. However, since the defendant used the mark in its service provision, and it was a user, not a seller, of the mark, it was not the one to whom the right exhaustion defence applies. Even if the use of the mark in suit was fair use, it was not possible for one to make a successful defence on the bases of right exhaustion. While the court did not support the defendant's cause of defence, nor did it take into account of the party to whom the right exhaustion should apply. It believed that the defendant's use went beyond the reasonable scope, which was likely to create confusion on the part of consumers.¹⁸

International exhaustion of trademark right: parallel importation

Whether a trademark right is exhausted internationally

has direct effect on the legitimacy of parallel importation; hence the international exhaustion defence is often made by importers.

1. Meaning of parallel importation

The parallel importation refers to an act whereby another party legitimately imports goods a trademark owner legitimately sold in a country of exportation to a country of importation. Parallel importation generally needs to meet the following requirements:

(1) The party making and marketing imported goods is a trademark owner in the country of importation

In practice, views are always divided on whether parallel importation is an act infringing the exclusive right to use a registered mark since where the manufacturer of the goods is also a trademark owner in the country of importation, selling said goods in the country of importation will not create confusion or dilution in the sense of the Trademark Law. For this matter, finding the act infringing is contrary to the confusion and dilution doctrines under the Trademark Law. But not finding it infringing would make the importation legitimate, an outcome having impact on the domestic market in the country. Given this, parallel importation is regulated, in various countries, under their economic policies, not according to their principles of the trademark law theory.

But if a trademark owner in a country of importation and country of exportation is not the same party, a seller's importation is likely to create confusion or dilution on the part of consumers in relation to different trademark owners. Therefore, the matter may be addressed by applying the confusion or dilution doctrine, without the need for formulating separate rules. Hence, if the manufacturer and seller of the imported goods are not the trademark owner of the country of importation, there is no parallel importation, and this is so even if the trademark owner of the country of exportation is somewhat related to the one of the country of importation.

This is true in the case arising from infringement of the trademark "艾斯特-device-EINSIEDLER". The registrant of the trademark in China was the plaintiff, Dewei Trading Company. The defendant's imported beer came from the German Einsiedler Corporation. While the Einsiedler beer marketed by the plaintiff also came from said Corporation, where the plaintiff enjoyed the exclusive right to use the registered mark in China, the defendant's importation and selling the beer in China would objectively create confusion on the part of consumers about the different trademark owners; hence the act was one of selling in its common sense, not one of

parallel importation.¹⁹ As for the case, even if parallel importation was accepted as legitimate in China, it was impossible to find the defendant's act not infringing.

(2) Said importation should be legitimate

Only when an importation is legitimate is it meaningful to discuss the legitimacy of said importation. As mentioned above, whether parallel importation is legitimate or not is determined out of the consideration of a country's economic policy. If it is illegitimate, it is certainly not in conformity with a country's economic policy, and such act is not protected in any country. For that reason, if parallel importation is illegitimate, then even if it is accepted as legitimate in one country, the importer is not exempted from liability accordingly.

This is true in the case arising from infringement of Michelin's series of trademarks of the "tyreman device" and the word of "MICHELIN". The tyres the defendant marketed were authentic products made by the plaintiff in its plant based in Japan, but the products were not legitimately imported through Customs. In the case, while the products the defendant marketed indeed came from the plaintiff, its importation was not legitimate; hence, even if parallel importation was accepted as legitimate in China, it was not exemptable for lack of the legitimacy element in the importation.²⁰

(3) Importer does not change the trademark of imported goods

If the trademark on imported goods is changed, the user of the changed trademark is the importer, not the former manufacturer of the goods; the importation, then, is not addressed as a matter of parallel importation. It should be noted, however, that requiring an importer not to change the trademark on the goods does not mean not allowing any change in the goods so long as the change does not produce a change in the consumers' preception of the trademark of the goods.

As is true in the case arising from infringement of "SAMSUNG", the SAMSUNG optical memory devices the defendant, Xinyida Company, imported from the United States were authentic products made by Samsung, proprietor of the trademark in suit. After importing said optical memories devices from the United States, the defendant removed the panel, painted it silver, or put the logo of "SAMSUNG" on the panel, and then put it back in the light driver ..., so it was not one that had changed the trademark of the goods.²¹

The elements of parallel importation were present in the case; hence it is a typical case of parallel importation.

2. Relations between international exhaustion of trade-

mark right and parallel importation

The key issue in determining whether a parallel importation is infringing or not lies in whether the country of importation adopts the doctrine of international exhaustion of the trademark right. If so, the trademark owner has no control over the follow-up retailing or reselling of the goods it makes and markets in the country of exportation, nor should it interfere with the follow-up sale of said goods in the country of importation. For that reason, another party's importation of said goods and sale of them in the country of importation do not infringe the trademark owner's trademark right in the country of importation. That is, the parallel importation is not infringing. Countries hold different views on international exhaustion of the trademark right. The EU Court of Justice is opposed to it while it is acceptable to an extent in the U.S.²². The Chinese Trademark Law does not expressly provide for the matter.

3. Analysis of legitimacy of parallel importation

Finding the nature of parallel importation is the precondition for analysing the legitimacy of parallel importation. Since an importer imports to sell, importation should be determined as one of selling whether it actually sells or not.

Where importation is determined as an act of selling, Article 56 of the Trademark Law concerning distributors should apply, which provides that selling goods that infringe the exclusive right to use a registered trademark should be an infringement of the exclusive right to use a registered trademark. Accordingly, the key in considering whether importation is infringing or not lies in whether the marketed goods are infringing goods. Since what an importer imports are goods made and marketed by the trademark owner itself, logically, finding the goods infringing would put the trademark owner's own trademark right before unsurpassable barrier. For that matter, if it is presumed under the provision, it should be determined that parallel importation is allowed in China, and international exhaustion of the trademark right is adopted.

We have mentioned above, however, that determination of the legitimacy of parallel importation by no means falls within the scope of consideration of the Trademark Law alone. More consideration is taken of a nation's economic policy. For this reason, in China whether parallel importation is legitimate should also be considered according to our economic policy. The overall consideration of the economic policy obviously does not fall within the power of a court hearing a particular case; hence we should adopt a relatively

conservative attitude toward the matter. Where the Trademark Law does not expressly provide for the legitimacy of parallel importation, legitimacy of parallel importation is not to be determined.

However, practice varies on the matter. In the above case of parallel importation involving “SAMSUNG” mark, the court took the view that the parallel importation was legitimate.

In the case, the court believed that with China’s accession to the WTO and on account of the factors of the enhanced free international trade of goods and ensured free distribution to make goods affordably accessible to consumers, especially the fact that imported goods were authentic goods of the same brand, not counterfeit, with the quality substantially the same as those made or marketed by the trademark owner or trademark user itself and without disruption of the order of the market, Xinyida’s importation of the Samsung’s optical memory devices from the U.S. should not be found illegitimate anyway in the absence of express law provisions on the matter.²³

While it was finally determined in the case that the defendant’s act infringed the exclusive right to use the trademark in suit, its parallel importation was not found unexemptable; hence, the establishment of the infringement did not mean that the court found parallel importation infringing.

V. Right conflict defence

Meaning of right conflict defence

By right conflict defence is meant that when a trademark owner accuses a defendant of infringing its trademark right and the defendant argues that it enjoys legitimate right (such as the exclusive right to use a registered mark, the design patent right, or the right of name) in the word of the mark, its use of the word is legitimate use of its right, not infringing.

Since different rights should be defined clearly in theoretical terms, they have different scope of protection. They should not overlap. For that matter, the concept of “rights conflict” does not stand theoretically. But, it is no denying that there objectively exists the circumstance where the carrier of various rights is identical (for example, a work of calligraphy, a carrier of the copyright, can also be registered as a mark to serve as a carrier of the trademark right). In this case, use of a carrier of multiple rights is likely to simultaneously fall within the scope of protection of the different rights,

while the user may enjoy only one of the rights. Then the so-called right conflict arises.

By exclusivity, one of the essential characteristics of the IP rights, is meant that an IP right is owned by the proprietor, and only the proprietor enjoys the right to possess, use and dispose of an achievement of a relevant mental activity, and another party should not do so without authorisation.²⁴ Thus, an IP right is defined from two perspectives: it is an exclusive right (active right) from the perspective of the proprietor *per se*; a prohibitive right (passive right) for another party’s perspective of use. Usually, the components of an IP right are provided for by various IP departments from the two perspectives.²⁵ Comparatively speaking, the prohibitive (passive right) is the core of an IP right, and the key for protection of the right lies in prohibition of another party from using it. This is exactly the essential reason that right conflict arises.

That any particular right proprietor enjoys the exclusive right to use his or its right does not mean that he can use the carrier of the right as he wishes. He should consider whether his use of the exclusive right within the scope of his right falls within the scope of protection of another party’s right (namely the scope of prohibitive right of another party’s right). When different rights have the same right carrier, it is possible for the use of the carrier to fall within the scope of the exclusive right of one right while lying within the scope of the prohibitive right of another right. Then the proprietor cannot use the carrier of the right without authorisation of another proprietor, or he infringes the right. Take for example, a work of calligraphy, a carrier of the trademark right and copyright, when a user uses it in respect of goods in such sufficient manner as to indicate the source of goods, then it is the use in the sense of the copyright on the basis of its aesthetic appeal, and also the use to indicate the source of goods in the sense of the trademark right. Accordingly, such use is protected within the scope of the copyright and of the trademark right. Then, even if a defendant is the proprietor of the copyright, his use infringes the trademark right.

Principle for handling right conflict defence

Even if a defendant enjoys a prior right, it does not mean that he naturally has the right to use the carrier of the right in the sense of trademark as rights of different categories have different characteristics and scope of protection. For that reason, a defence made against infringement claim on the basis of a different right is treated by following different principles. Following is a discussion of right conflict defence under different circumstances:

1. Non-commercial word right conflict defence

The defence is treated by following the principle that the defendant's use has the function to indicate the source of goods or services, but the function does not fall within the scope of protection of the right in the following non-commercial words; hence whether the right on the basis of which the defendant makes the defence arises before the trademark right, the use falls within the scope of the prohibitive right of the trademark right, and is infringing, and the defence of the nature does not stand.

(1) Copyright

The carrier of the copyright protection is a work, and a work in the sense of the copyright refers to a mental result that is of aesthetic appeal literarily and scientifically and of originality.²⁶ Accordingly, the scope of the copyright protection is limited to the use of work for the purpose of "embodying literarily and scientifically aesthetic appeal". Use of a work for the purpose of distinguishing the source of goods or services falls outside the scope of exclusive right in the copyright, but obviously within the scope of the prohibitive right of another party's trademark. While the use also has the function to embody literarily and scientifically aesthetic appeal, as mentioned above, the proprietor, when exercising the right within the scope of his right, should make sure that said use does not fall within the scope of the prohibitive right of another party; hence, under this circumstance, said use, not legitimate, infringes another party's trademark right. No matter whether said work is created before the trademark right or not, it is impossible for the copyright proprietor to pose his copyright against the claimed infringement of the trademark right.

(2) Design patent right

Article 1 of the Patent Law provides: "This Law is enacted to protect the legitimate rights of the patentee, to encourage inventions-creations, to advance the exploitation of inventions-creations, to enhance innovation capability, and to promote the progress of science and technology and the development of economy and society". Article 2 provides: "'Design' means any new design of the shape, the pattern, or their combination, or the combination of the colour with shape or pattern, of a product, which creates an aesthetic appeal and is fit for industrial application".

As the provisions show, the design patent right protects a patentee's industrial use of his design "to express an aesthetic appeal". The Patent Law protects designs to encourage patentees to create more new designs. Hence, like the

copyright, "using a design in respect of goods or services and allowing the use to have the function to show the source of goods or services" do not fall within the scope of the right in a patent. If a design patentee's exploitation of a design has this function, the use falls within the scope of the prohibitive right of the trademark right, and infringes the trademark right no matter whether the patent right is obtained before the trademark right or not.

Determination of whether use of a design in an industrial product is based on industrial aesthetic appeal, or for the purpose of showing the source of goods or services may be made by following this principle: if average consumers buy the industrial product as the design appeals to them, then it is believed that it is used within the scope of the design patent right. But if he buys it as he has trust in the goods provider the design refers to, then it is generally determined that the use is one in the sense of the trademark. To Article 25 of the Patent Law has been added the provision that the patent right should not be granted to "designs of two-dimensional printing goods, made of the pattern, the colour or the combination of the two, which serve mainly as indicators". The State Intellectual Property Office (SIPO) interprets the expression "designs of two-dimensional printing goods, made of the pattern, the colour or the combination of the two" as meaning that they are used mainly to allow consumers to identify the source or manufacturer of the goods put in or products attached to, not for attracting consumers by the "aesthetic appeal" of the design.²⁷ It may be reasonably deduced from the interpretation that use by consumers attracted by the "aesthetic appeal" of the design *per se* is the use in the sense of the design patent right, while use to show the source of goods or services is one in the sense of trademark right.

In the design patent right, the carrier that is most likely to overlap with the trademark right is bottle indications or packages, and disputes of the kind also abound in practice.

This is true in the case involving the "银杏" (pronounced "yin xing," and meaning "ginkgo" in Chinese) mark. The plaintiff enjoyed the exclusive right to use the mark, and the defendant applied for a patent for the design of bottle indication of the bottle for the beer of the same brand. The defendant argued that its use was legitimate use of its design. In the case, the court did not support the defendant's argument in the end as it concluded that the defendant's design was not a prior right, without considering the scope of the right.²⁸

In fact, the carrier of a bottle indication or package functions mainly to be indicative, not aesthetically appealing; hence it is difficult to determine that a patentee's use of the design of the kind is one in the sense of the patent right, and it is easy for the use to fall within the scope of protection for a trademark. As the above discussion shows, under this circumstance, even if the patentee enjoys the patent right in the design, it is impossible for the patentee to pose it against trademark right infringement claim. Therefore, objectively, protection of designs of the kind is not very much meaningful. Fortunately, however, the Patent Law as of 2009 has been revised by excluding designs of the kind from the design protection. Hence, disputes of the type would gradually disappear.

Additionally, since the shape of a product may serve as a carrier of a design patent right, or a three-dimensional mark accorded the trademark protection; hence, there arises the conflict between the trademark right and design patent right. Such a conflict is one between the trademark right and design patent right in its true sense. Generally, the specific case is that the particular shape of a defendant's goods or the package thereof has the function to distinguishing the source of goods, and a plaintiff, enjoying the exclusive right to use a three-dimensional mark in the specific shape, alleges that the defendant's use infringes his trademark right; and directed to the allegation, the defendant argues that he enjoys the design patent right. As the above analysis shows, under the circumstance, if the design has the true function to distinguish the source of goods or services, it is usually impossible for the patentee to pose his patent right against another party's trademark right infringement claim since the design patent right does not have such a function. It should be noted, however, that a defence being not tenable does not mean that the design patentee has no way out. The particular shape of goods is, in principle, not intrinsically distinctive and it is registrable as a mark only when it becomes reputable through use and acquires a secondary meaning. For that matter, if a design patentee asserts his right in a timely manner to prohibit another party from using it when the latter begins to use his design, it is quite possible for him to inhibit another party from obtaining the trademark right registration after the design acquires a secondary meaning through use, so as to eventually avert any infringement claim.

(3) Right of personal name

Article 99 of the General Principles of the Civil Law provides that a natural person shall enjoy the right of personal

name and shall have the right to decide on using or changing his personal name in accordance with relevant provisions. Acts of infringement of the right of personal name include interference with and usurpation of another person's use of his name and forging another person's name. The element of the latter two acts is having the purposes, such as seeking illicit benefits, seeking private benefits, causing injury to another person, and circumventing the law.²⁹

The subject matter protected by the right of personal name is the corresponding relations between a natural person and a personal name. From the perspective of the use of it by the right holder, the scope of the right should mean that a right holder has the right to use his personal name in the sense of showing the relationship between the personal name and the right holder. From the perspective of infringement, another party infringes the right of personal name only when he makes use of the relationship. Thus, using "a personal name in respect of goods or services and allowing it to function to distinguish the source of goods or services through such use" falls outside the scope of the right of personal name. In case like this, if the owner of the right of personal name performs said act of using a name, and said use functions to distinguish the source of goods or services, it should be found falling within the scope of protection of another party's trademark right and infringing the trademark right no matter whether the right of name arises before the trademark right or not.

Take the registration of the "Li Kangzhao" mark (Registration No. 7492918) in respect of goods, such as sausages. If another party by the name "Li Kangzhao" uses said name in respect of the same class of goods, the use is infringing unless the user has evidence showing that the relevant sector of the public can associate it with said user on seeing the mark for the reason that such use has the function to distinguish the source of goods or services, a function not within the scope of regulation of the right of personal names. Accordingly, the user's being named "Li Kangzhao" cannot be posed against the infringement allegation by the rightholder.

But if another party's use is sufficient to allow the relevant sector of the public to associate with said user, one may draw a different conclusion. For example, Wang Duchun is a national art and craft master and heir of the "Wang's school" of handcraft skill of boxwood carving in Leqing. While someone has registered a "WANG DUCHUN" mark in respect of bamboo and wood carvings, the registration does not inhibit Wang Duchun from using the name on the carving he cre-

ates as the relevant sector of the public of the wood carving would first associate it with Wang Duchun, the national art and craft master, not the registrant of the mark on seeing the word.

2. Commercial word right conflict defence

1) Conflict of exclusive right to use registered marks

(1) Right conflict between ordinary registered marks

The principle for handling conflict of the exclusive right to use registered marks has been under constant change in the judicial practice. In the early judicial practice of handling the rights conflict, whether a defendant's act was infringing was directly determined.

For example, in the “恒升” (pronounced “heng sheng” in Chinese) v. “恒生” (also pronounced “heng sheng” in Chinese), both were marks the plaintiff and the defendant registered in respect of goods of computers, with the allegedly infringing act being the defendant's use of the latter mark on its computer products. In the case, while the defendant's mark was also a registered one, the court found it infringing.³⁰

But with the introduction of the Supreme People's Court's Provisions on Several Issues Relating to Trials of Cases of Civil Dispute over Conflict between Registered Marks, Enterprise Names and Prior Rights, the practice has correspondingly changed. Article 1 of the Provisions specifies that where a plaintiff institutes lawsuit on the ground that another party's trade mark registered in respect of the designated goods is identical with, or similar to, his or its prior registered trademark, the people's court shall, under Article 111 (3) of the Civil Procedure Law, notify the plaintiff to file a request with the relevant competent administrative authority for resolution. But where a plaintiff institutes lawsuit on the ground that another party's registered trademark that has been used in respect of goods other than those in respect of which the trade mark has been approved to be used or which he/it has used with altered distinctive character, by taking it apart or putting it together with other elements is identical with, or similar to, the plaintiff's registered trademark, the people's court shall accept the case.

Thus, in principle, the court does not deal with conflicts between trademarks in the civil infringement proceedings. Regarding conflicts of the nature, it is necessary for a trademark owner to file a trademark dispute proceedings before the TRAB. By the way, there is a precondition for the provision to apply, that is, the defendant should use its registered mark in a due manner. If not, the court may still handle the

conflict between the exclusive rights to use registered marks.

This was true in the infringement lawsuit involving the marks, such as “VERSACE” (pronounced “fan si zhe”). While the defendant had its own registered mark, the court decided that given the fact that the trademark used on the allegedly infringing garment and on the signboard of the special store was obviously different from the defendant's registered mark, the argument made by the defendant, the Shanghai Louiesberry Corporation, that the mark it used was a registered mark did not infringe the plaintiff's exclusive right to use registered mark was not tenable.³¹

The provision of the above judicial interpretation has its positive effect to an extent. That is, it is good to safeguard the authority of the trademark administrative proceedings and to keep the uniformity of the standards underlying trademark registration. Only by virtue of registration with the trademark registration authority is a mark legitimate and valid. Any mark right that is not invalidated in the statutory proceedings is susceptible to the protection under the Trademark Law. In a civil infringement suit, finding a registered mark infringing a plaintiff's trademark right is equivalent to denying the legitimacy and validity of the registered mark, or declaring it invalid. This practice obviously has great impact on the trademark administrative proceedings. From another perspective, since any court that has set up an IP tribunal therein has the jurisdiction over cases involving infringement of the exclusive right to use registered marks, if it is allowed to substantially find a mark invalid in such a case, it is objectively quite possible to render the enforcement standards inconsistent due to the multitude of courts accepting such cases. But if the courts do not handle the matter, and leave it to the TRAB to deal with is better to make the enforcement standards consistent.

It should be noted, however, that there is an implied precondition behind the provision, that is, the likelihood for a defendant's use to be infringing. In other words, it is not the case that so long as the defendant's used mark is a registered one and he used it in a due manner, a lawsuit should be rejected; the court should also consider whether the defendant's use is likely to be infringing. If it is possible to conclude that the defendant's use is not infringing from the facts of the case, the court may directly hear the case substantively.

This was exactly the way the case involving the “XU LIUSHAN” mark was handled by the court. In the case, the plaintiff registered said trademark in respect of goods of fruit

salads and jelly in class 29, and the defendant registered a service mark “XU LIUSHAN” in respect of restaurant and snack bar in class 42. The court decided that the defendant used the word “XU LIUSHAN”, of the service mark, on the signboard, menu and plastic bags of its restaurant to help consumers to identify the provider of the services, which was different from the class of goods in respect of which the plaintiff had registered its trademark. Accordingly, while marks of the plaintiff and defendant were registered marks, the court finally did not find the defendant’s use infringing.³²

Of course, the provision has some loopholes. There is preset a precondition for the practice that the issue of whether a mark in suit is valid or not can be addressed in the trademark dispute proceedings. But it should be noted that the Trademark Law has set forth some restrictive conditions for initiating the trademark dispute proceedings, such as the five-year limitation of action. There may exist the practical circumstance where a mark in suit is not registrable, but dispute cannot be raised as it does not meet the restrictive condition for raising dispute (e.g. at the expiry of the five years limitation). Such disputes should be substantially treated, and should not be rashly reject. The Supreme People’s Court’s interpretation indiscriminately requires defendants to take the approach to seek administrative relief, which would inhibit resolution of the issue of the kind.

(2) Right conflict between well-known marks and other registered marks

In the Supreme People’s Court’s Interpretation of Several Issues Relating to Application of Law to Trial of Cases of Civil Dispute Involving Protection of Well-known Marks have been set forth different principles to address right conflicts, that is, the courts may directly decide on whether a defendant’s act is infringing or not, but it is not up to a defendant to request the administrative authority for resolution. Article 11 of the Interpretation provides: “where a registered trademark used by a defendant is contrary to Article 13 of the Trademark Law as it is a reproduction, an imitation or a translation, of a plaintiff’s well-known mark constitutes an infringement of the trademark right, the people’s court shall, at the request of the plaintiff, decide under the law to prohibit the defendant from using the trademark”.

Besides, regarding the circumstance where a defendant’s mark goes beyond the dispute-related limitation, the Article also specifies: “under any one of the circumstances as follows with the mark registered by the defendant, the people’s court shall not support the plaintiff’s request: (1) the

request is filed beyond the limitation to this end under Article 41, paragraph two, of the Trademark Law”. It is thus shown that if the defendant’s mark goes beyond the dispute-related limitation, the court should directly decide that the defendant’s act does not infringe the plaintiff’s trademark right, and should not reject his lawsuit.

2) Other commercial words right conflict

Other commercial words mainly refer to names, packages, trade dresses particular to famous goods (services), enterprise names and trade names having certain reputation provided for in Article 5 of the Unfair Competition Law.³³

(1) Reason for conflicts to arise

There are two reasons for the conflicts to arise:

First, such conflicts are likely to arise as the exclusive right to use registered marks and rights in other commercial word rights are generated from different channels. Within the legal framework in China, the trademark right is obtained through registration under the Trademark Law, while rights in other commercial words are mainly obtained through use under the Unfair Competition Law. Due to the two different channels, conflicts between them are inevitable.

Second, while the exclusive right to use a registered mark and the enterprise name right involve the registration or recordal procedure, whether a trademark or enterprise name infringes another party’s prior right is not examined by the relevant authority *ex officio* in the proceedings, which makes it possible for a lawfully registered or recorded trademark or enterprise name, which are legitimate in form, to substantially fall within the scope of another party’s prohibitive rights, thus causing conflicts.

(2) Principle for handling the matter: protecting the prior rights (and interests)

The principle to protect prior rights should be followed when handling conflicts between the trademark right and rights of other commercial words. That is, if a defendant enjoys his or its right in another commercial word before the trademark right is generated, then the defendant’s prior-right defence stands.

As for the conflict between a trademark right and the right in a non-commercial word, since the two are different in scope of protection, with the same carrier of rights, decision is made as to what scope of right the use falls within mainly by determining the nature of use of the right. If it falls within the scope of the trademark right, it infringes the trademark right.

But the conflict between a trademark right and a com-

mercial word right is different. The latter are substantially non-registered marks. This type of rights and the trademark rights are of the same character. Both protect the function a commercial mark performs to show the different sources of goods or services. For that matter, the two are of the same scope of protection, and it is quite possible for their scope of protection to overlap or crisscross. In case like this, one right holder of the two rights would make his or its claim against the other, and the case would be heard in the same way an infringement case is heard. But when the right holders of the two rights run into a dispute, how it is to be resolved is a matter the court cannot avoid.

As the two types of rights are of the same nature, it is impossible to handle a conflict between the two by the principle for resolving a conflict between a trademark right and the right in a non-commercial word. In case like this, it is the best way to deal with it by the principle for protection of prior right for fairness sake. To be specific, if a defendant argues that he enjoys other right in a commercial word, and makes a defence on the basis of it, the matter may be dealt with according to the following principles:

- If the defendant's other commercial word right is prior to the plaintiff's trademark right, his use of it does not fall within the prohibitive scope of the exclusive right to use the registered mark, and the trademark owner should not prohibit the use (a point that will not be elaborated here any more as it has been discussed in the earlier section on the "prior-use defence").

- If the defendant's right in any other commercial word is generated after the registered mark right, then his use falls within the prohibitive scope of the exclusive right to use the registered mark, and his defence made on the basis of it does not stand. To avoid any infringement allegation, he can do nothing but start from whether his use is sufficient to cause confusion on the part of consumers.

(3) Conflict between enterprise name (trade name) and registered trademark

In practice, the conflict of the kind is most commonly seen, in which a defendant generally makes a defence on the ground that it has registered its corresponding enterprise name, and thus argue that its act is not infringing. In some cases, the defence also involves use of a trade name. That is, a defendant believes that it is legitimate to use his or its trade names in his or its registered enterprise names.

Whether such a defence is tenable is determined, with account taken of the following circumstances.

- If the enterprise name is registered first, a defendant is entitled to use it in a due manner. If its conspicuous use of the trade name is in conformity with the accepted practice of the industry, the use may be found legitimate, and the defence made is tenable.

When a defendant has registered its enterprise name, the plaintiff's mark is not registered, and it is then impossible for the former's right and interests in the enterprise name to fall within the scope of prohibition of the plaintiff's trademark right. Even after the plaintiff registers his or its trademark, the defendant still has the right to use, in a due manner, its enterprise name within the scope of its exclusive right. If use of a simplified trade name in business transaction is a common practice in the industry, the defendant's use of its trade name is not subjectively in bad faith. It is legitimate. He may pose it against the validity of the plaintiff's prohibitive right in the registered mark.

This is true in the case involving the "DELL" (pronounced "dai er" in Chinese) trademark, the plaintiff, Dell Corporation, claimed that its registered "DELL" mark used in respect of computer services constituted a well-known mark, and the defendant's use thereof in respect of the service of education provision constituted an infringement. In the case, the Beijing Haidian District Dai'er (dai er is the transliteration of "Dell" in Chinese) Training School, the defendant's enterprise name, was registered earlier than the time when the plaintiff's mark became well known. Regarding this, the court found that Dai'er Training School's use of the characters "Dai'er" within the scope of teaching and training service at its training centre, website and mass media, and in its teaching materials and on the lecture-attendance cards was the normal use of the trade name in its school name, and did not infringe Dell's exclusive right to use the registered mark.³⁴

For an industry, however, if use of a trade name alone is not a common practice, even if the defendant has registered its enterprise name first, it is obliged to make way for the registered mark. If its conspicuous use of a mark is likely to confuse consumers, the use constitutes an infringement, and a defence made against the claim is not tenable.

This is true in the case involving the "Caixiu" mark, the Shenzhen City Caixiu Science and Technology Co., Ltd., the defendant's enterprise name, was registered earlier than the registration of the plaintiff's trademark. The defendant, a network services provider, conspicuously used the "Caixiu" logo at the upper left-hand corner of its webpage. As the defendant's use of the logo alone was not a common practice in

the industry, the court found that its act of using the simple form of its enterprise name simply as “Caixiu” and conspicuous use of it should not be deemed to be legitimate use of its enterprise name.³⁵

● If an enterprise name is registered later, whether a due use of an enterprise name or conspicuous use of a trade name thereof, so long as the use is sufficient to confuse consumers, that is, it is impossible to determine the legitimacy of the use, a defence made against an infringement claim is not tenable.

As above mentioned, the right (or interest) is characterised by its exclusiveness and prohibitiveness. In exercising the exclusive right in any right carrier, it is necessary to consider whether the act falls within the scope of another party's prohibitive right. Therefore, no right is absolutely legitimate. It is possible for it to constitute infringement of another party's right. While an enterprise name is obtained through registration with the administrative authorities for industry and commerce, and the registrant thereof is entitled to the right and interest to use it in a due manner. But said name is registered later, one should make sure that its use would not create confusion with another party's prior mark on the part of consumers, otherwise, it falls within the scope of the prohibitive right in the trademark right, infringing another party's exclusive right to use the registered mark.

For the use of a trade name derived from an enterprise name, this principle should be followed in the determination of whether a defence made on the basis of it stands. Even if use of simple form of a trade name is a common practice in the industry, so long as such use creates confusion with another party's prior mark on the part of consumers, it is impossible for such defence to be tenable.

For the use of trade names, the Supreme People's Court has, in fact, made its position clear in its Judicial Interpretation of the Trademark Law, in which Article 1 provides that “following acts are acts mentioned in Article 52 (5) of the Trademark Law that cause, in other respects, prejudice to other parties' exclusive rights to use registered trademarks:

(1) prominently using words identical with or similar to another party's registered trademark as one's own enterprise name in respect of the identical or similar goods, and the use is easy to cause confusion on the part of the relevant sector of the public; ...”. The provision shows that even if a defendant has registered another party's mark as its own enterprise name, if use of the trade name is sufficient to create confusion, the use constitutes an infringement.

This practice is often followed in practice.

For example, in the case involving the “Mei'ergu” mark, the Zhejiang Mer'ergu Pipe Industry Co., Ltd, the defendant, used the word “Mei'ergu” on the package of the pipes it made and the Quality Certificate attached thereto. The court found that the defendant's conspicuous use as its enterprise name on similar goods of the word identical with the plaintiff's registered mark was likely to mislead the relevant public, and infringed the plaintiff's exclusive right to use its registered mark of “Mei'ergu”.³⁶

Of course, practice along the line varies.

This is true in the case involving the “Manhanlou” mark, in which the defendant, the Changle City Manhanlou Restaurant, registered its restaurant name later than the registration of the plaintiff's mark. Two ways of use were involved in the case: the signboard with the word “Manhanlou” indicated on was hung on the main entrance of the restaurant; and the board with the word “Manhanlou” hung right in the middle of the entrance of the restaurant. Regarding the two ways of use, the court made different decisions respectively: for the news about the defendant's use of “Manhanlou” Restaurant as a simple form of its enterprise name, and putting the board with the word “Manhanlou” indicated on the main entrance of the restaurant, the court found that the use was a proper use of the simple form of the enterprise name in the restaurant industry, and it did not constitute a conspicuous use, so did not infringe the plaintiff's exclusive right to use its trademark; for the use of the defendant's simple form of its enterprise name as the three-character word “Hanhanlou”, and hung the board right in the middle of the restaurant entrance, the court decided that the act had gone beyond the scope of proper use of the simple form of the enterprise name, so constituted an infringement.³⁷

For us, in the case, as the defendant had registered its enterprise name later, so long as the two ways of use of the trade name were sufficient to create confusion on the part of consumers, they both constituted infringement, even if such uses were a common practice in the restaurant industry.

VI. Legitimate source defence

Article 56 of the Trademark Law provides that where a party unknowingly sells goods that infringe another party's exclusive right to use a registered mark, but can prove that he or it has obtained the goods legitimately, and identify the supplier of the goods, he or it will not be held liable for the

damages.

Provisions of the sort, which are also found in the Copyright Law and the Patent Law, have been set forth to achieve one of the major aims of the provisions to safeguard business transaction. This exemption clause has been set forth in favour of distributors out of the consideration that manufacturing and marketing of goods, different phases of distribution of goods, are different in nature. Manufacturing is one of the active uses of a trademark while marketing only an act to market goods on the basis of another party's use of a mark, with no active use of a trademark involved on the party of the party doing the marketing. As the two acts are different in terms of the involved active use of a trademark, so they are different in the obligation of subjective identification. A manufacturer's active use of a trademark obliges him or it to make examination and inquiry as to whether the trademark he or it uses infringes another party's trademark right, so as to reasonably make way for another party's prior trademark. For a distributor, however, since he or it does not actively use a trademark, he or it should not be put under the same obligation as an active user of the trademark. Meanwhile, to facilitate market circulation, requiring all distributors to examine, in advance, all the goods they sell to find out whether they infringe the exclusive right to use a registered mark would naturally have great impact on the order of the distribution of goods, and it is neither reasonable, nor feasible. Accordingly, the exemption clause has been set forth in the Trademark Law in favour of distributors in good faith. To maintain the normal order of distribution of goods, it is provided that they should be liable for the damages only when they subjectively know that the goods they sell are infringing goods.

Relationship between legitimate source and subjectively unknowing

In practice, quite a lot of people believe that as long as a distributor can prove the legitimate source of his or its goods, he or it should be deemed to subjectively not know, and is exempted from the liability for the damages. Obviously, they misunderstand the relationship between the two conditions of the legitimate source and subjectively unknowing.

As Article 56 shows, there are two elements for a distributor not to be liable for the damages: legitimate source and lack of subjective knowledge that the goods sold are infringing ones. The subjective element for a distributor to be liable for the damages is that he or it should be at fault; legitimate source is only one of the ways to prove that one is not

subjectively at fault. That is, if a distributor can prove the legitimate source of his or its goods, and there is no other evidence to show that he or it is at fault, he or it is reasonably presumed not to be subjectively at fault. If, however, there is evidence to prove that a distributor indeed knows or should know about the infringing nature of goods, even if he or it proves that the goods are obtained from a legitimate source, he or it should not be exempted from the liability for the damages. It is thus made clear that whether the goods are obtained from a legitimate source is not solely corresponding to whether a distributor and user are subjectively at fault.

Determination of legitimate source

By the legitimate source is meant that a distributor or user can prove that the goods he or it sells are obtained from the normal channel of market distribution or circulation at a normal price, and the form of goods conforms to the provisions of the laws and regulations of the relevant industry. That is, it is necessary for a distributor to prove not only the source of his or its goods, but also the legitimacy of the source. The later is the key element of the exemption clause.

In the case involving the "Shuangchen" mark, the court found that the evidence about the source of the goods the defendant presented was not legitimate. The case involved the goods of drug "ginseng and Chinese angelia Moisturising Liniment". The court took the view that, as a medical institution, the Gutiantia Clinic, the defendant, was obliged to know and observe the relevant provisions relating to drug-procurement as set forth in the laws and regulations. If its procurement did not conform to the provisions set forth in the laws and regulations relating to the administration of drugs, it cannot be proved that the relevant drugs have been lawfully obtained. It could be seen from the evidence the defendant furnished that the specifications and the inner package of the "ginseng and Chinese angelia Moisturising Liniment" procured was clearly not in conformity with what is stated in the relevant data reviewed, nor did the defendant give the court any authentic, complete record of the drug-procurement. The Gutiantai Clinic, as a medical institution, did not perform its legal obligation to pay its attention it should have according to the law when procuring drugs, and it failed to prove that the drugs that had infringed the exclusive right to use a registered mark were lawfully obtained, so should not be exempted from liability for the damages.³⁸

Determination of subjectively not knowing

Subjectively not knowing covers subjectively knowing and having reasonable ground to know. A distributor should

be held liable for the damages if he or it knows or has reasonable ground to know what he or it sells are infringing goods. Generally speaking, if a trademark owner does have solid evidence to prove that a distributor indeed knows that the goods are infringing, the distributor is held to subjectively know about it. If, with reference to other evidence, people in the industry may make reasonable presumption, and on the basis of their understanding of the industry and normal way of perception, they know sufficiently that the products are indeed infringing goods, they should be held to subjectively know.

Determination of knowing should be supported by solid evidence. So long as a trademark owner can adduce evidence (the most common evidence of the kind is the trademark owner's notification about infringement), generally there are no differences in the final determination. But it is relatively more complicated to determine that one should know. Determination of the kind, which is a presumption of an actor's subjective state, is made on the basis of objective facts. Therefore, it is usually necessary to take account of both the specific circumstances of a case and the distributor's subjective perception when making the determination.

It should be noted that determination of a distributor's perception does not mean to specifically determine a particular distributor's perception; it is one of a distributor's perception in its common sense.

For example, in the case involving infringement of the "CROCODILE" mark, one of the major grounds on which the court found the defendant, the Chengxiang Corporation, be exemptible from liability for the damages was that said mark was a registered one with relatively high repute, and the Chengxiang Corporation, whose clothe sales accounted for considerable sales, should have known that the "CROCODILE" mark was a famous mark. Accordingly, the court found that the defendant's marketing of the goods similar to those of the plaintiff constituted an infringement, and the defendant was liable for the damages therefor.³⁹

Besides, in the case involving the "Puma" and "the device" marks, the court made the same decision, holding "that the defendant, as a large supermarket, should have known about the plaintiff's registered mark", and accordingly, found the defendant liable for the damages.⁴⁰

In addition to considering the common perception of the businesses, some other factors may have some substantial impact on the determination of some particular distributors' subjectively having the reason to know.

For example, in the case involving infringement of the "ARM & HAMMER and the device" trademark, the defendant, the Yushi Fuxiang Corporation "simultaneously" marketed two kinds of starch, on which "ARM & HAMMER and the device" mark was used with the substantially identical outer package. One was the goods made by the plaintiff, and the other by the Guangtai Foodstuff Plant. The court held that this circumstance was sufficient to warn the defendant, the Yush Fuxiang Corporation, which was a business specially dealing in seasoning products. But the business did nothing about the distribution of the goods in the market which likely infringed another party's exclusive right to use a registered mark. For that matter, the court found the defendant liable for the damages.⁴¹

In the case involving infringement of the "Yanghe" trademark, the court found that the defendant, the Xincheng Corporation, a wine and liquor wholesaler dealing in Yang He Zhenhuang Jiabin Liquor and Laojiao liquor in the region of Shanghai, was obliged to examine the trademarks used on the goods. The defendant failed to perform its obligation of examination, and sold by wholesale the goods bearing the mark obviously infringing the plaintiff's registered "Yanghe" mark; it was thus held civilly liable for ceasing the infringement and for paying the damages.⁴²

The author: Judge of the Beijing No. 1 Intermediate People's Court

¹⁸ See the Beijing No. 2 Intermediate People's Court's Civil Judgment No. Erzhangminchuzi 10067/2008.

¹⁹ See the Beijing Chaoyang District People's Court's Civil Judgment No. Chaominchuzi 02356/2008.

²⁰ See the Hunan Province Changsha City Intermediate People's Court's Civil Judgment No. Changzhongminsanchuzi 0073/2009.

²¹ See the Beijing Haidian District People's Court's Civil Judgment No. Haiminchuzi 511/2005.

²² Huang Hui: Trademark Law, the Publishing House of Law, 2004, P. 115 and 117.

²³ The Beijing Haidian District People's Court's Civil Judgment No. Haiminchuzi 511/2005.

²⁴ Li Mingde: Intellectual Property Law, P. 35, the Publishing House of Social Sciences and Documentation, 2007.

²⁵ For example, Article 10 of the Copyright Law provides that the copyright includes the following personal and property rights (provision on the exclusive rights). Article 47 provides that anyone who commits any of the following acts of infringement should, depending on the circum-

stances, bear the civil liabilities, such as ceasing the infringement, eliminating the bad effects of the act, making an apology or paying for the damages (provision on prohibitive right). In the same manner, Article 51 of the Trademark Law provides that the exclusive right to use a registered trademark is limited to the trademark that has been approved for registration and to the goods in respect of which the use of the trademark has been approved (provision on the exclusive right). Article 52 provides that any of the following acts is an infringement of the exclusive right to use a registered trademark (provision on the prohibitive right).

²⁶ Wang Qin: A Course on Intellectual Property, the Remin University of China Press, 2007.

²⁷ The Department of Legal Affairs of the State Intellectual Property Office (Ed.) Guided Reading of the Third Amendment to the Patent Law, the Publishing House of Intellectual Property, 2009, P.56.

²⁸ See the Beijing Chaoyang District People's Court's Civil Judgment No. Chaominchuzi 17930/2005.

²⁹ Lian Huixing, General Introduction to the Civil Law, the Publishing House of Law, 2007.

³⁰ See the Beijing No. 1 Intermediate People's Court's Civil Judgment No. Yizhongminchuzi 343/2001.

³¹ See the Beijing No. 1 Intermediate People's Court's Civil Judgment No. Yizhongminchuzi 4003/2007.

³² See the Shanghai Pudong New District People's Court's Civil Judgment No. Puminsan(zhi)chuzi 51/2008.

³³ Article 6 of the Supreme People's Court's Interpretation of Several Issues Relating to Application of Law to Trial of Civil Cases of Unfair Competition The name of an enterprise that has been registered with the competent enterprise registration authority according to law and the name of a foreign enterprise commercially used within the territory of China shall be determined as the "name of enterprise" provided for in Article 5 (3) of the Unfair Competition Law. The trade name in an enterprise name having certain reputation in the market or known to the relevant sector of the public may be determined as an "enterprise name" as provided for in Article 5 (3) of the Unfair Competition Law.

³⁴ See the Beijing No. 1 Intermediate People's Court's Civil Judgment No. Yizhongminchuzi 10221/2005.

³⁵ See the Beijing No. 1 Intermediate People's Court's Civil Judgment No. Yizhongminchuzi 11717/2005.

³⁶ See the Shanghai Pudong New District People's Court's Civil Judgment No. Puminsan(zhi)chuzi 478/2009.

³⁷ See the Fujian Province Higher People's Court's Civil Judgment No. Minminzhongzi148/2009.

³⁸ See the Beijing No. 1 Intermediate People's Court's Civil Judgment No. Yizhongminchuzi 2489/2006.

³⁹ See the Beijing No. 1 Intermediate People's Court's Civil Judgment

No. Yizhongminchuzi 10201/2006.

⁴⁰ See the Shanghai No. 2 Intermediate People's Court's Civil Judgment No. Huerzhongminwu(zhi)chuzi 406/2008.

⁴¹ See the Beijing No. 1 Intermediate People's Court's Civil Judgment No. Yizhongminchuzi 11854/2007.

⁴² See the Shanghai Pudong New District People's Court's Civil Judgment No. Puminsan(zhi)chuzi 54/2009.