

Whether Export Behaviour of Chinese Enterprises Constitutes Use of Trademark

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Although a trademark registration system is adopted in China, the real value of trademarks is manifested through use. Article 44, item (4) of the Trademark Law reads “where a trademark user ceases the use of the registered trademark for three consecutive years, the Trademark Office shall cancel the registered trademark.” Such cases account for a large proportion of cases involving the authorization and determination of trademarks; however, those relat-

ing to export behaviour of Chinese enterprises are seldom seen and have always been controversial in practice.

The case related to Zhenjiang Lock Factory mentioned in this article is of this kind.¹ The trademark at issue is “DCL-SA” used in connection with designated goods such as locks and owned by Zhenjiang Lock Factory, which is an exporting enterprise with all goods sold in the overseas market. During the trial, the court took comprehensive account

of the characteristics of export behaviour of Chinese enterprises, as well as relevant provisions of the International Treaties, before finally determining export behaviour of the Chinese enterprise as the use of the registered trademark under Article 44, item (4) of the Trademark Law. In addition, the court also expounded in the ruling the views with regard to the formal and substantive requirements on the evidence of use of the mark, and whether the use of the mark on part of designated goods is sufficient to maintain the registration thereof on all goods.

I. “Formal requirements” on the evidence of use of the mark under Article 44, item (4) of the Trademark Law

Generally speaking, that provision sets forth the formal requirements on the evidence of use of the mark as follows. Firstly, the evidence shall be real in form. In general, the evidence shall be the original copy unless the opposite party recognizes the authenticity of the photocopy thereof. Secondly, in terms of time, the trademark as shown in the evidence shall be used within the claimed three years; in terms of sign, the sign shown in the evidence shall be completely or substantially identical with that of the disputed trademark; and in terms of goods or services, the evidence shall prove the use of the disputed mark on the designated goods or services.

Turning to the present case, the evidence examined by the Trademark Review and Adjudication Board (TRAB) during the re-examination phase includes not only original documents but also photocopies. Since the applicant for cancellation of the mark made no explicit acknowledgement of the authenticity of the photocopies, the court would only conduct examination on the original documents, including product photos, packages, brochures, the original record of lock export inspection, and the export customs declaration of “DCLSA” products. The product photos, packages and brochures have no indication of time, the original record of lock export inspection fails to display the disputed trademark, and the export declaration has neither indication of time, nor comment from the customs. None of the above evidence meets the formal requirements under Article 44, item (4) of the Trademark Law and shall not be admitted by the court. It is impossible to prove that the disputed trade-

mark has been used within the claimed three years according to the above evidence.

In proceedings of the present case, Zhenjiang Lock Factory supplemented new evidence of use of the mark. Generally speaking, the court shall examine the decision on the basis of the evidence submitted by the parties before TRAB. However, in view that the legislative intent of Article 44, item (4) of the Trademark Law is to encourage trademark registrants to put their marks into effective use for exerting the functions of the marks and avoiding idleness and waste of trademarks, if an owner of a registered mark can submit the evidence of actual use of the mark in the proceedings, the disputed trademark shall not be cancelled in the light of the evidence filed before TRAB; otherwise it will certainly give rise to waste of social resources. To avoid such waste, the court will take into consideration the evidence of use newly submitted by Zhenjiang Lock Factory in the proceedings. Of course, even if the court revokes the decision appealed while taking the new evidence into account, it does not mean that the decision-making process is in violation of law.

Zhenjiang Lock Factory submitted two sets of product export documents in the proceedings, including, but not limited to, sales confirmation, invoices for exported products, customs declaration and cargo transportation insurance policy. Since all of the above evidence is original, the court acknowledged the authenticity of the evidence under the circumstances that the opposed party did not pose reasonable challenges to it. The evidence as mentioned above corresponds to each other and has an indication of the disputed trademark “DCLSA”. Lock products and lock accessories as shown are the designated goods, and were exported respectively in 2007 and 2008, which fell within the claimed three years. For those reasons, the evidence meets the formal requirements under that provision.

II. “Substantive requirements” on the evidence of use of the mark under Article 44, item (4) of the Trademark Law

The substantive requirements on the use of the mark under Article 44, item (4) of the Trademark Law are that the mark shall be used in the sense of the Trademark Law in Mainland China; and the use shall be real and bona fide.

1. Whether the use of the disputed trademark is “the use in the sense of the Trademark Law” in Mainland China

The so-called use in the sense of the Trademark Law refers to the use capable of realizing the essential function of a trademark. The essential function of a trademark is its identifying function (namely, the provider of goods or services can be identified through the trademark), which may work only when the goods enter into circulation. Thus, in principle, the use of a mark during the circulation of goods, such as marketing or advertising, pertains to “the use in the sense of the Trademark Law”. The use of a mark when the goods are not in circulation, such as when printing the mark sign or printing the mark on the product package, cannot be determined as “the use in the sense of the Trademark Law”. In addition, that provision is the requirement on the use of a mark registered in China under the Trademark Law, so the use of the mark shall, in principle, occur “in Mainland China”.

In the present case, it can be easily seen from the evidence presented by Zhenjiang Lock Factory in the proceedings that Zhenjiang Lock Factory has exported such goods as locks bearing the disputed trademark within the claimed three years, and exporting is an act that puts the goods into circulation in the market. Thus, such an act is in principle the use of the mark in the sense of the Trademark Law. However, it should be noted that the ultimate customers to which the export behaviour is directed are not located in Mainland China. As a result, the issue to be considered in the present case is whether export behaviour shall be determined as the use of the mark in the sense of the Trademark Law “in Mainland China”.

There are no explicitly worded provisions in relation to such an issue in the Trademark Law. Hence, a judgment on it shall be made by taking into account the legislative intent of that provision and the holistic legislative intent of the Trademark Law. Judging from the following analysis, the court holds a positive attitude towards such use:

Firstly, determination of export behaviour as the use of a mark is in compliance with the legislative intent of Article 44, item (4) of the Trademark Law.

The purpose for cancellation of a mark as a result of non-use for consecutive three years as provided for in the Trademark Law is to avoid idle trademarks and encourage the use of trademarks such that the trademarks can truly play a distinguishing role in the market. In determining whether the use of a mark is the use in Mainland China, the

key lies in that the mark is used to such an extent that the mark has a distinguishing function in Mainland China. As to export behaviour in the present case, although the exported goods are ultimately sold at the importing countries, it is undeniable that the selling of the goods from the exporting merchant to the importing merchant takes place in Mainland China. Meanwhile, the importing merchant can make a choice among the Chinese exporting merchants according to the different trademarks that render them distinguishable from each other. Obviously, the trademarks’ function as identifiers in that process is realized in Mainland China. Accordingly, determination of export behaviour as the use of a mark is in compliance with the legislative intent of Article 44, item (4) of the Trademark Law.

What needs to be emphasized is that Chinese enterprises may sell goods to the overseas market by way of exporting or OEM, but the two ways are completely different in nature. Chinese enterprises themselves own the trademarks attached to their exported goods, through which foreign importing merchants can distinguish them from each other. In contrast, things are totally different for OEM manufacturing, in which Chinese enterprises are only responsible for production, and the trademarks attached to the products are not owned by them at all. Under the OEM circumstances, it is improper to deem that the trademarks attached to the products certainly have a distinguishing function, and determination shall be made on a case-by-case basis.

Secondly, determination of export behaviour as the use of a mark is in compliance with the holistic legislative intent of the Trademark Law.

As known from Article 1 of the Trademark Law, it is enacted for the purpose of protecting the interests of consumers, producers and dealers and promoting the development of the socialist market economy. Thus, application of substantial provisions in the Trademark Law shall not result in consequences that are adverse to the development of the socialist market economy. There is no exception to the judgment on whether the disputed trademark violates Article 44, item (4) of the Trademark Law.

In the present case, judgment on whether cancellation of the disputed trademark affects the holistic social economy shall be made by considering whether the registrant has the mark registered in the importing countries.

If the registrant registered the mark in China, and meanwhile internationally in the importing country and other mem-

ber states in accordance with Madrid Agreement Concerning the International Registration of Marks (briefly known as Madrid Agreement) or Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (briefly known as Madrid Protocol), then the validity of the mark registered in China by the registrant will have an impact on the validity thereof in the importing country to some extent. Article 6 of the Madrid Agreement specifies that the protection resulting from the international registration, whether or not it has been the subject of a transfer, may no longer be invoked, in whole or in part, if, within five years from the date of the international registration, the national mark, registered earlier in the country of origin, no longer enjoys, in whole or in part, legal protection in that country. It can thus be seen that if a mark is cancelled because export of goods under that mark does not constitute the use of the mark, it means that the relevant enterprise loses protection for the mark under the trademark law in China, and more importantly, that mark is not entitled to protection under trademark laws in the importing countries or regions in certain circumstances, which is clearly more significant to the enterprise.

Even if the registrant has not registered the mark in the importing countries through the Madrid Agreement, exporting enterprises with marks registered in their own countries are entitled to more credibility and win more export opportunities in comparison with those having no registered marks. No matter under what circumstances, determination of export behaviour as the use of a mark will have substantial influence on the exporting enterprises, and the development of China's exporting economy. Hence, determination of export behaviour as the use of a mark is in compliance with the holistic legislative intent of the Trademark Law.

2. Whether the use of the disputed trademark is "real and bona fide"

In view that Article 44, item (4) of the Trademark Law is specified to exert the distinguishing function of the registered marks and avoid idleness and waste of trademarks, it does not mean that any "use of the mark in the sense of the Trademark Law" by the registrant is in compliance with that provision. Besides, the use of the mark shall be "real and bona fide", rather than "a token use".

"Real and bona fide use of the mark" means that the registrant uses the mark for utilizing the distinguishing function thereof. "Token use of the mark" means that the registrant uses the mark merely for maintaining the mark valid

and preventing the mark from being cancelled due to non-use for three consecutive years, instead of bona fide use purposes. Determination of "real and bona fide use of the mark" involves determination of the subjective state of a registrant, which is usually hard to be proved directly by evidence, and shall be presumed in conjunction with the specific evidence of use in most cases. Generally speaking, if the registrant uses the mark on a certain scale, it can be presumed that such use is "real and bona fide use". If not, judgment shall be made in combination with other factors to see whether it is "a token use of a mark".

In the present case, among the evidence of use presented by Zhenjiang Lock Factory, only two sets of commodity export documents can prove that Zhenjiang Lock Factory implemented the use of the mark in the sense of the Trademark Law, which is apparently far from enough to demonstrate that their export has reached a certain scale. The court, however, still found the use of the mark by Zhenjiang Lock Factory real and bona fide in consideration of the complexity of the commodity export procedure and in the absence of counter-evidence from the TRAB and the applicant for cancellation.

The ground for such a determination is that if Zhenjiang Lock Factory uses the mark merely for maintaining the disputed mark valid, it will usually select a cost-effective and easier way. From this perspective, evidence in support of the domestic use of a mark may better satisfy the needs of the registrant than the commodity export documents. In view of multiple links in the exporting procedure, if Zhenjiang Lock Factory intends to prove export in its entirety, the following documentation is usually required, including, but not limited to, sales confirmation, invoices for exported products, customs declaration and cargo transportation insurance policy. These documents are not only from Zhenjiang Lock Factory itself, but more importantly from the customs and the insurance company. Since the difficulty in obtaining such evidence is clearly much greater than that in obtaining the evidence of domestic use and sale, the court would not believe that Zhenjiang Lock Factory exported its goods just for maintaining the mark valid without support of counter-evidence or justified grounds. This explains why the court still held that the use of the mark by Zhenjiang Lock Factory was real and bona fide even if only two sets of exporting documents were presented.

In summary, the existing evidence is sufficient to prove that Zhenjiang Lock Factory had a bona fide intent to use

the mark on locks and lock accessories in the sense of the Trademark Law in Mainland China, which meets the substantive requirements as specified in Article 44, item (4) of the Trademark Law.

III. Whether the disputed trademark can be maintained valid on all designated goods

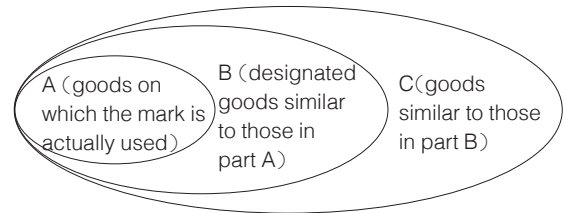
Judging from the current evidence, the mark owned by Zhenjiang Lock Factory is actually used on locks and lock accessories, whereas the disputed trademark is designated on “metallic locks (non-electric), keys, metallic locks on bags, door latches, etc.”, which include the goods that are “identical with” those on which the mark of Zhenjiang Lock Factory is actually used, as well as the goods that are “similar to” the latter. In view of this, the issue to be addressed in the present case is whether the disputed trademark shall be maintained valid just on the goods that are “identical with” those on which the mark of Zhenjiang Lock Factory is actually used, or on the goods that are both “identical with” and “similar to” them.

Conclusion on that issue cannot be directly drawn in accordance with Article 44, item (4) of the Trademark Law, therefore we need to make a judgment based on comprehensive analysis of legal consequences of the two approaches and the legislative intent of Article 44, item (4) of the Trademark Law.

The legal consequences of the two approaches are mainly manifested as the exclusive right to use a mark (hereinafter referred as “exclusive right”) and the right to prevent others from using the mark (hereinafter referred as “prohibitory right”). In terms of the exclusive right, if the former approach is adopted, the scope of the exclusive right of Zhenjiang Lock Factory to the mark is only confined to the goods that are “identical with” those on which the mark is actually used (namely, part A in the following drawing); and if the latter approach is adopted, the scope of the exclusive right of Zhenjiang Lock Factory to the mark covers not only the goods that are “identical with” those on which the mark is actually used (namely, part A in the following drawing), but also other goods that are “similar to” those on which the mark is actually used (namely, part B in the following drawing).

In terms of the prohibitory right, the difference of two

approaches is subject to regulation of Article 28 of the Trademark Law as of 2001 (Article 30 of the Trademark Law as of 2014), indicating that where a later filed mark and other’s mark preliminarily approved or registered earlier are found identical or similar marks for use on the same or similar goods, the registration of the later filed mark will not be approved of. Accordingly, if the former approach is adopted, the scope of the prohibitory right of Zhenjiang Lock Factory covers the goods that are identical with those on which the mark is actually used (namely, part A in the following drawing) and similar goods (namely, part B in the following drawing, and other goods that are similar to those on which the mark is actually used); and if the latter approach is adopted, the scope of the prohibitory right of Zhenjiang Lock Factory covers not only the goods that are identical with or similar to those on which the mark is actually used, but also the goods that are “similar to” “similar designated goods” (namely, part C in the following drawing).



Through comparison, it is found that the latter approach entitles Zhenjiang Lock Factory to a broader scope of the exclusive right and prohibitory right. If the latter approach is adopted, the scope of the exclusive right of Zhenjiang Lock Factory to a mark will include part B, and the scope of the prohibitory right of Zhenjiang Lock Factory will include part C. If the former approach is adopted, the scope of the exclusive right and prohibitory right owned by Zhenjiang Lock Factory does not include the above parts.

Under the circumstances that there are no explicitly specified provisions in the law, judgment on which approach has more reasonable legal consequences shall be made in conjunction with the legislative intent of Article 44, item (4) of the Trademark Law. As to the legislative intent, Article 1 of the Trademark Law specifies that in addition to protection of the interest of consumers, promotion of the development of the socialist market economy is also one of the legislative intents of the Trademark Law. Since Article 1 of the Trademark Law is stipulated to generalize the holistic legislative intent of the Trademark Law, promotion of the development of the socialist market economy shall also be

considered to be one of the legislative intents of Article 44, item (4) of the Trademark Law. Moreover, that provision also has another legislative intent, that is, to avoid waste of marks, promote actual use of marks, realize the genuine market value of marks, and avoid non-use of registered marks which engross limited trademark resources and improperly affect registration of others' marks.

In consideration of the legislative intent, the court held that the latter approach seems more reasonable in terms of the scope of the exclusive right to the mark, that is to say, the exclusive right of Zhenjiang Lock Factory to the mark includes not only the goods on which the mark is actually used (namely, part A) but also similar designated goods (namely, part B). The reason for inclusion of similar goods (namely, part B) lies in that in the business operations, the registrant does not necessarily use the registered mark on all the designated goods within a short period of time owing to factors, such as financing, production capacity and market conditions. Instead, it is very likely that one or a few products are sold or manufactured under that registered mark for the sake of reducing business risk. Only when the product is sold well may the registrant consider expanding the business to other similar goods or services. In view that similar goods or services share greater commonality in hard conditions like production conditions and business sites and soft conditions like sales channels, the registrant does not need a large investment for an expansion of businesses. Thus, that is the common way for business operators to expand their scale of operations, which means that if the exclusive right to the mark within the part B is reserved for the registrant, it is highly likely to promote social and economic benefits.

In contrast, if the former approach is adopted, that is, the exclusive right of Zhenjiang Lock Factory to the registered mark in that scope (namely, part B) is not maintained, it may easily give rise to waste of registered marks. The reasons are that even if Zhenjiang Lock Factory is not entitled to the exclusive right to the mark in part B, it still enjoys the prohibitory right in part B, which means the general public can, by no means, enjoy the exclusive right to the mark in part B. In such a case, if Zhenjiang Lock Factory is prohibited from enjoying the exclusive right to the mark in part B, no one can be granted the exclusive right to that mark in part B, thereby rendering the registered mark idle and no social benefits produced accordingly, which is obviously contrary to the legislative intent of Article 44. In summary, the latter

approach better satisfies the legislative intent in terms of the scope of the exclusive right to the mark.

In terms of the scope of the prohibitory right, the two approaches differ from each other in whether the goods (namely, part C) that are similar to "other similar designated goods" fall within the scope of the prohibitory right of Zhenjiang Lock Factory. The court ruled that in principle, the scope of the prohibitory right of Zhenjiang Lock Factory shall be judged on the basis of the goods on which the mark is actually used. In the light of Article 28 of the Trademark Law as of 2001 (Article 30 of the Trademark Law as of 2014), the scope of the prohibitory right covers the goods on which the mark is actually used, as well as goods similar to those on which the mark is actually used (namely, part B), instead of part C. However, it shall be noted that the scope of the prohibitory right should not be determined separately without taking into account the scope of the exclusive right to the mark. The prohibitory right in part C originates from the exclusive right to the mark in part B. If the scope of the prohibitory right of Zhenjiang Lock Factory does not include part C, it implies that Zhenjiang Lock Factory is not entitled to the exclusive right to the mark in part B. As analyzed in the previous text, if the court expands the scope of the exclusive right of Zhenjiang Lock Factory to the registered mark to part B, it will be more conducive to the realization of the legislative intent of Article 44. For that reason, expanding the scope of the prohibitory right of Zhenjiang Lock Factory to part C would be more reasonable and better meet the legislative intent of Article 44.

On account of the above factors, the court held that the use of the disputed trademark can not only maintain the registration of the mark on the designated goods which are "identical with" the goods on which the mark is actually used, but also suffice to expand the right to the registered mark to other "similar" designated goods.

However, the court pointed out that if the goods on which the disputed mark is "actually used" does not fall within the scope of "designated" goods, even though the goods on which the mark is actually used are similar to the designated goods, it is still impossible to maintain the disputed mark valid on the grounds that the designated goods are one of the necessary constitutive components of a registered mark, and in view that the requirements for use as specified in Article 44, item (4) of the Trademark Law are set for a registered mark, only the use of the mark on the designated goods can be considered as the use of the reg-

istered mark, and the use of the mark on other goods out of that scope shall not be considered as the use of unregistered mark and does not satisfy the requirements of Article 44.

Conclusion

The formal requirements for the evidence of use of marks as stipulated in Article 44, item (4) of the Trademark Law are listed as follows: the evidence shall be authentic in form and be original documents in principle; the use of the mark as shown in the evidence shall be conducted within the claimed three years; the evidence shall indicate the sign that is completely or substantially identical with the disputed mark; and the goods indicated in the evidence shall be designated goods. The substantive requirements for the use of marks as stipulated in Article 44, item (4) of the Trademark Law are listed as follows: the use shall be the one in the sense of the Trademark Law in Mainland China;

and the use shall be real and bona fide. Export of commodities of Chinese enterprises is the use of the mark in the sense of the Trademark Law in Mainland China. The evidence of use of the mark in conformity with the above requirements can maintain the validity of the mark on the designated goods that are "identical with" the goods on which the mark is actually used, as well as on similar designated goods. ■

The author: Judge of the Beijing Intellectual Property Court

¹ The Beijing Intellectual Property Court's Administrative Judgment No.Jingzhiminchuzi 408/2015.