

Study on the Legal Rights to Parallel Importation of Trademarks from a Comparative Law Perspective

Ziyi Xue^{1,*,†}, Shaotong Zhang^{2,†}

¹ School of Law, Changzhou University, Changzhou, China

² Department of Law, Macau University of Science and Technology University, Macau, China

*Corresponding author: ziyixue@nuaa.edu.cn

†These authors contributed equally

Abstract. In recent years, the number of cases of parallel importation of trademarks in China has gradually increased. Although the relevant judicial cases show that the courts have more or less the same attitude towards the legality of such acts, China's legislation has not made clear and specific provisions in this regard. This not only undermines the predictability of the law but also makes it difficult to effectively guide the various situations that may be encountered in judicial practice. Therefore, this paper will use the case study and comparative research to make some suggestions that the legislation should in principle give legal status to the parallel importation of trademarks, further clarify the obligations of parallel importers in respect of marking, clarify the elements of trademark infringement, and prohibit other possible unfair competition practices, so as to make a good connection with the Anti-Unfair Competition Law.

Keywords: Trademark rights, Parallel Import, The principle of exhaustion of rights.

1. Introduction

With the development of global economic integration and the growth of multinational enterprises around the world, more and more multinational enterprises are setting up their own subsidiaries in different parts of the world, and products bearing their trademarks are naturally brought to all corners of the world with the expansion of the enterprises in the countries of the road. In recent years, the issue of parallel importation has also received increasing attention. Parallel importation of trademarks means that the importer of goods sells the trademark goods purchased from the trademark owner across borders without permission or authorization. Parallel importation of trademarks is both an international trade issue and an intellectual property protection issue [1-2]. The contradiction between trade liberalization and intellectual property monopoly has been a major difficulty in the study of parallel importation [3].

For example, in the dispute between Michael Kors (Switzerland) International Ltd. and Xinjiang Shen's Fucheng International Trade Co. The case focused on whether the defendant company's use of the trademark in its shops constituted infringement, essentially discussing whether the defendant company's parallel importation was justified. The Chinese court held that the defendant had obtained the goods from a proper source and that its sales practices did not violate the prohibitions of the trademark laws and regulations. At the same time, its conduct did not cause consumers to confuse about different goods or mislead them into believing that there was an extraordinary connection between the defendant company and the plaintiff's company, and therefore its conduct was legitimate. Although the goods in question originated from the plaintiff's company, with the domestic distributors of the goods sold into the domestic market in a different way, the defendant company in the shop prominently advertised with the trademark in question, and did not clearly identify the specific source, with the plaintiff company's goodwill advantage, weakened the plaintiff company's legitimate sales interests, should bear the corresponding infringement liability. At the same time, because consumers will not be confused with other brands of the goods involved, it does not belong to unfair competition. Therefore, the above typical cases show that the courts have in fact formed a more stable view of this type of case. However, at the same time, the issue of parallel importation

contains a variety of situations that are reflected in the cases at the end of the day, such as if the parallel importer has made certain changes to the goods, how should the decision be made? If the domestic trademark owner has already invested a lot of publicity costs in the country and has built up a certain reputation, is it detrimental to the fairness of the market to support parallel imports? There are no clear legislative provisions on this issue, and although the academic community is mostly supportive of parallel imports, there is still no perfect solution to the infringement of the legitimate rights and interests of property owners. China is not a case law country and the lack of legislation undermines the binding and predictable nature of the law and is not conducive to legislative progress. In the future, the number of parallel importation cases in China will further increase, and there is an urgency and necessity to improve the study of parallel importation in the border protection of trademark rights.

2. Extra-territorial judicial practice of parallel importation of trademarks

2.1. Divergent views of mainstream countries under the status quo

Countries that favor the exhaustion of rights argue that the first use of a trade mark is sufficient to realize the rights of the trademark owner and that the consumer who obtains the trademark product through legal means has full control over the goods. Moreover, the price competition between goods brought about by parallel imports can provide real economic benefits to consumers. The opposing countries argue that trademark rights are absolute and that their effects extend to all aspects of trademark circulation [4]. According to the principle of state sovereignty, in international relations, states have the right to determine their own national policies independently and autonomously, free from any external interference. Therefore, the TRIPS Agreement does not provide for consistent regulation of this issue and each country has to interpret it on its own in accordance with its national law. Although practices vary from country to country, as parallel imports usually flow from low-cost countries to high-cost countries, Europe and the US usually have earlier and more experience to draw on. This article will focus on the US as an example.

For example, in the dispute between Michael Kors (Switzerland) International Ltd. and Xinjiang Shen's Fucheng International Trade Co. The case focused on whether the defendant company's use of the trademark in its shops constituted infringement, essentially discussing whether the defendant company's parallel importation was justified. The Chinese court held that the defendant had obtained the goods from a proper source and that its sales practices did not violate the prohibitions of the trademark laws and regulations. At the same time, its conduct did not cause consumers to confuse different goods or mislead them into believing that there was an extraordinary connection between the defendant company and the plaintiff's company, and therefore its conduct was legitimate. Although the goods in question originated from the plaintiff's company, but with the domestic distributors of the goods sold into the domestic market in a different way, the defendant company in the shop prominently advertised with the trademark in question, and did not clearly identify the specific source, with the plaintiff company's goodwill advantage, weakened the plaintiff company's legitimate sales interests, should bear the corresponding infringement liability. At the same time, because consumers will not be confused with other brands of the goods involved, it does not belong to unfair competition. Therefore, the above typical cases show that the courts have in fact formed a more stable view on this type of cases. However, at the same time, the issue of parallel importation contains a variety of situations that are reflected in the cases at the end of the day, such as if the parallel importer has made certain changes to the goods, how should the decision be made? If the domestic trademark owner has already invested a lot of publicity costs in the country and has built up a certain reputation, is it detrimental to the fairness of the market to support parallel imports? There are no clear legislative provisions on this issue, and although the academic community is mostly supportive of parallel imports, there is still no perfect solution to the infringement of the legitimate rights and interests of property owners. China is not a case law country and the lack of legislation undermines the binding and predictable nature of the law and is not conducive to legislative progress.

In the future, the number of parallel importation cases in China will further increase, and there is an urgency and necessity to improve the study of parallel importation in the border protection of trademark rights.

2.2. The United States as an example: exploring the key to trademark infringement

The United States has adopted the doctrine of substantial difference, which in principle prohibits parallel importation of trademarks. The key to determining whether a trade mark infringes is whether there is a likelihood of confusion or deception, i.e. the Lever rule [5]. Parallel imports are permitted only if there is no substantial difference between the goods imported in parallel and those derived directly from the trademark owner, and the principle of international exhaustion of rights applies. At the same time, the United States has held that parallel imports are permitted if the importer clearly identifies the difference in the goods imported in parallel so that the source of the goods can be distinguished [6]. The principle of international exhaustion of rights applies to parallel imports of imported goods only if there is no substantial difference between the goods and those originating directly from the trademark owner. Differences in the characteristics of the goods and in the supervision and management of the quality of the goods by the relevant authorities may be grounds for differences. At the same time, the United States has held that parallel imports are permitted if the importer clearly identifies the difference in the parallel imported goods so that the source of the goods can be distinguished [7].

The representative cases are *Apolinaris v. Scherer*, *Bourjois & Co. v. Katzel* and *Soap*. The plaintiff sued the defendant for infringement because the mineral water was purchased from Germany and sold in the United States without a license for the trademark. The key to deciding this case was whether the defendant's conduct caused confusion among consumers about the goods. In *Bourjois & Co. v. Katzel*, the plaintiff had exclusive distribution rights to the powdered cream in the United States and had built up a good independent reputation and a certain level of awareness in the minds of consumers. The goods imported in parallel by the defendant company were indeed goods that the trademark owner had legitimately put on the market, and it had not invested in building its own goodwill but was simply a beneficiary of the goodwill established by the plaintiff. In this case, the court held that in such circumstances, priority should be given to protecting the reputation of the domestic trademark owner in order to maintain fairness in the market. In the soap case, the plaintiff and defendant produced the same trademark goods and had a relationship of common control, but the goods produced possessed different characteristics. When the UK company imported the trademark goods it manufactured to the US plaintiff, the US company brought the case to court. The judge held that although there was a relationship of common control between the two companies, the importation of the goods manufactured by them differed in nature, efficacy, and quality and that allowing such parallel importation would cause confusion to consumers and affect the reputation of the original trademark owner and should therefore be prohibited [8].

2.3. The EU as an example: exploring the regulation of parallel imports under the current state of International law

As an economic community, the EU Member States have frequent dealings with each other and are active in cases of parallel importation. In order to facilitate the free flow of economic resources within the Community, Article 7 of the Council Directive I on the Reduction of Differences in the Marks of the Member States provides for the principle of exhaustion of rights within the Community, i.e. the exhaustion of rights for copyrighted goods upon entry into the Community, with the exception of re-labeling and advertising under certain conditions. The jurisprudence is that it is in the interests of competition that goods entering the Community are no longer subject to copyright restrictions, in line with the main thrust of the Community's establishment [9].

There was no clear and uniform attitude of the European Court of Justice on the issue of parallel imports from outside the Community to within the Community until the case of *Sihouette v Harlauer* arose. In that case, the plaintiff company, an Austrian company specializing in the sale of spectacles,

was brought before the Court of Justice by the defendant company, which had imported a batch of inferior quality and low-priced products from other countries for sale in the EU. The plaintiff argued that the defendant had acted without its authorized consent and had tarnished the plaintiff's reputation in the EU [10]. The Court of Justice of the European Communities held that the exhaustion of international rights should be excluded for those outside of the Community, taking into account the following two main points: firstly, as the policy of intra-Community trade is free circulation, once a country has chosen to allow parallel imports, other countries will be forced to accept them, which is not only inconsistent with the legislative thrust of the Directive, but also infringes the judicial sovereignty of other countries; secondly, in terms of the understanding of the content of the provisions of Directive 1, Article Secondly, as far as the content of the provisions of Directive 1 is concerned, the provisions of Article 7 on the first entry into circulation of goods within the Community are exceptional, and the provisions of Article 5 on the right of trademark owners to import goods without their consent are provisions of principle which should be applied to the import of goods outside the Community.

3. Current status of parallel import legislation in China and the legislative attitude that should be adopted

China's Trademark Law does not specify whether parallel importation is a trademark infringement. The General Principles of Civil Law only provides for civil liability for counterfeit and substandard goods. The Civil Code only provide in principle for the enjoyment of trademark rights by civil subjects in Article 123. The Anti-Unfair Competition Law also mainly governs the counterfeiting and reverse counterfeiting of trademarks and cannot directly serve as a legal basis for regulating parallel importation. As can be seen, the lack of direct legislation has led the courts to find their own bases and perspectives for their decisions in such cases, and thus the results are not uniform, which is detrimental to the predictability of the law and the positive development of international trade.

The above positions and attitudes of different national organizations show that policy choices on parallel importation of trademarks need to take into account not only the legal theory of intellectual property but also the impact on national economic trade. The similarities between national approaches are that acts that undermine competition in the market to the detriment of trademark owners, passing off defective products as qualified products to the detriment of consumers, and improper sourcing are inevitably prohibited. Parallel importation of the remaining goods is determined by a combination of domestic jurisprudence and the economic situation of the country. In the case of China, when legislating on the parallel importation of trademarks, it is necessary to take into account not only the domestic economic environment, but also the factors of international interactions and trade, and on this basis, to draw on the advanced international legislative and judicial practices as appropriate.

4. Suggestions for the importation of trademarks in China

4.1 Parallel mouths for trademarks are permitted in principle

The regulation of parallel importation of trademarks is fundamentally intended to regulate situations where there are substantial differences between goods due to differences in origin, but different countries provide different approaches. For example, the United States prohibits parallel importation in principle, with exceptions where the goods are controlled by the same natural or legal person or where there is no substantial difference; Japan allows parallel importation in principle, with exceptions where the goods have been significantly altered, etc. The prohibition or otherwise of parallel importation of trademarks in principle highlights the behavioral tendencies that the law wishes to convey to the public. China should make its attitude clear in its legislation and judicial practice to encourage parallel importation, promote market competition and foster market prosperity [11].

4.2 Importers should do their full marking obligations

In order to avoid ambiguity and confusion between the trademarks of parallel imported goods and those of the trademark owner, importers should, on the one hand, make clear the origin of the goods in advertising and publicity and in the packaging of the goods. The quality standards, attributes and after-sales service of the same goods vary from country to country and are clearly marked so that consumers can freely choose according to their actual needs. On the other hand, if the importer has made changes to the properties, shape and structure of the product, and the product differs from the product that the consumer is aware of, the changes should be clearly marked in order to protect the right to information and the freedom of choice of our consumers.

4.3 Clarifying the elements of parallel import infringement

With reference to the elements of general infringement, the following elements should be present in order to determine that the parallel importation of a trademark constitutes infringement: first, the existence of illegal acts. As such, parallel importation constitutes infringement when the goods are imported for sale without authorization or permission and the difference is not clearly marked. Secondly, there is the fact of damage. The damage includes the loss of commercial reputation and economic interests of the owner of the trademark and the right to use the trademark, as well as the loss of personal and property rights and interests of consumers. First, there was a causal link between the importer's sales practices and the fact that the plaintiff had suffered economic damage. As a result, the importer's conduct confuses the source of the goods, causing the trademark owner or the consumer to suffer a loss of interest. Fourthly, the importer was subjectively at fault, and the subjective state of mind that existed in relation to his confusion was deliberate.

4.4 Better coordination with the Anti-Unfair Competition Law

The Anti-Unfair Competition Law has an important synergistic effect on the Trademark Law, preventing regulatory conflicts and even regulatory gaps between laws. The Anti-Unfair Competition Law should be consistent with the Trademark Law in terms of principles. At the same time, certain criteria should be established, such as the number of damages, in order to determine whether the parties' actions only infringe on the trademark owner, or whether they have an impact on the whole industry or market. Depending on the nature of the legal matter, different remedies and penalties should be set up in order to reasonably evaluate and regulate the conduct and to bring the law into play.

5. Conclusions

With the increase in cross-border trade, the parallel importation of trademarks in China will become more and more common in the future. Under the general trend of trade liberalization, an active policy on parallel importation of trademarks in border protection will be conducive to eliminating trade barriers to the flow of goods, increasing the mobility of goods internationally, improving the specialization and efficiency of the flow of goods, promoting the upgrading of product quality, enabling the overall development of our economy and the ultimate benefit of consumers. The legislation and the judiciary should clarify the attitude as soon as possible, unify the application and concretize the enforcement and judicial measures, so as to fundamentally solve the problem of parallel importation of trademarks.

References

- [1] Siyu Ruan, SINCE TECHNOLOGY AND LAW, Legal analysis of limitations on intellectual property rights, [D] 2007 (3).
- [2] Herbert Hovenkamp, Mark D. Janis, Mark A. Lemley, IP and Antitrust Analysis of Antitrust Principles Applied to Intellectual Property Law, [D] Aspen Law &Business, 2002.

- [3] Alison Firth, Ellen Gredley, Spyros M. Maniatis, Shapes as Trade Marks: Public Policy, Functional Considerations and Consumer Perception, E.I.P.R. 2001.
- [4] Harold R. Weinberg, Is the Monopoly Theory of Trademarks Robust or a Bust?, [D] Journal of Intellectual Property Law, fall, 2005.
- [5] Dina Kallay, The law and economics of Antitrust and Intellectual Property, [D] 15th ed. Edward Elgar, 2004.
- [6] Section of Antitrust Law, Intellectual Property Misuse Licensing and Litigation American Bar Association, [D] 2000.
- [7] Robert P. Merges, Peter S. Menel, Mark A. Lemley , Intellectual Property in the New Technological Age (Second Edition) (2)
- [8] Xiang Yu, INTERTRADE, Evolution of the law and current guidelines for the exhaustion of trademark rights and parallel imports in the United States , 2001(3): 46-69.
- [9] Guy Tritton, Intellectual Property in Europe, Sweet & Maxwell, [D] 2008.
- [10] Fenglin Yi, Xianjue Luo The rules of parallel importation in the trademark field in Europe and the United States and the construction of the relevant system in China [J]. 2011,99-105.
- [11] Guizhen Yan, Journal of Tongji University (Social Science Section), On China's legal response to parallel importation of trademarks, [J] 2012(3): 116-124.