Amendments to the Chinese Trademark Law will affect the role of customs officials in preventing piracy of original equipment trademarks, say Nikita Xue and Xu Zhang.

STOPPING INFRINGING GOODS AT THE BORDER: A DOUBLE-EDGED SWORD?

Since 1994, the China customs authority has been vigilant in its commitment to enforcing intellectual property rights. Statistics show that, by 2010, its efforts to seize infringing goods had led to approximately 120,000 cases, with a seizure value of RMB2.4 billion ($386 million). More recently, in 2011 and 2012, the amount of infringing merchandise detained by customs totalled around RMB190 million, mainly consisting of goods due for export.

Among the seizures, goods in breach of trademark rights have accounted for the vast majority. In this respect, border protection has contributed greatly towards combating transnational infringement. What remains unclear is whether such protection should extend solely to manufactured goods made in China for export. There have been many conflicting opinions on this issue.

The controversy exists because the current Trademark Law is silent on whether the manufacture of trademarked goods should be

deemed 'infringement'. Opinions have varied among courts in different local jurisdictions. In the *Nike* and *RBI* cases, and in administrative litigation *Hong Xin Trading Co, Ltd v Guangzhou Customs*, the Guangdong and Zhejiang courts held that, without the consent of the registered trademark holder or other proprietor, applying a mark identical or confusingly similar to a domestically registered trademark shall constitute infringement under Article 52.1 of the Trademark Law.

Shanghai People's Court, by contrast, ruled in the *Julida* case that the products involved, which were intended for export to the US, were not likely to cause confusion or be mistaken by the general consuming public on Chinese soil. In the *Crocodile Garment* case, Shandong High Court maintained that production by an original equipment manufacturer (OEM), is not considered trademark 'use'. Worse still, Beijing High Court stated in *Interpretation of Relevant Issues on Trying Trademark Civil Dispute Cases*, "… if a manufacturer, unaware that the goods violate exclusive registered trademark rights, is able to specify the client and supply trademark right certification, that manufacturer is not liable for remedies or damages on account of such conduct for a violation of any right".

These differing judgments and regulations mentioned above could have catastrophic impacts on some rights holders, as the infringer could export around the world after registering a mark identical or similar to a famous brand in jurisdictions with less-developed trademark registration schemes.

Despite brand owners' continuous and ongoing efforts, the legislature has not stated explicitly in China's new Trademark Law whether the manufacture of original equipment constitutes trademark 'use'. The underlying reason is that such manufacturing for export has played an important role in China's economy, particularly in creating jobs.

If the conflicts between OEMs and domestically-registered Chinese marks are termed to be infringement as a whole, original equipment manufacturing will be at high risk. Years of legal practice have seen a growing trend towards courts deeming original equipment manufacturing to be non-infringement. In fact, small and medium-sized proprietors from abroad will not find it acceptable either, if such conflicts are together classified as trademark infringement.

Despite suffering from squatting and losing the right to use relevant trademarks in the Chinese market, they have full rights to original equipment manufacturing in China of goods destined for their home countries or other parts of the globe. As it is, original equipment manufacturing is seen as infringement without distinction: foreign rights holders have to reconsider and redeploy their global supply chain strategy.

"THE INFRINGER COULD EXPORT AROUND THE WORLD AFTER REGISTERING A MARK IDENTICAL OR SIMILAR TO A FAMOUS BRAND IN JURISDICTIONS WITH LESS-DEVELOPED TRADEMARK REGISTRATION SCHEMES."

Legislative change

Given mounting worries and disputes, industry players and IP rights holders are longing for a definitive answer from the law. The amended Trademark Law, as scheduled to take effect on May 1, 2014, defines "trademark use" in Article 48: "The use of a trademark as stipulated in this Law refers to the affixation of a registered mark to goods, packages or containers, as well as transaction documents or the use of trademarks in advertisements, exhibitions, and for other commercial activities, in order to identify the source of the goods."

Such a provision can serve as the legislative basis for determining whether original equipment manufacturing amounts to bad faith infringement. In the context of the Trademark Law, the use of a trademark is connected with commodity distribution and circulation. In that sense, original equipment manufacture does not constitute trademark 'use' because the products or services do not enter or are not offered in the Chinese marketplace.

Pursuant to Article 59: "Where an identical or similar trademark has been used in connection with the same goods or similar goods by others before the registrant's application, the exclusive right holder of said registered trademark shall have no right to prohibit other people from using the aforesaid trademark from continuous use of such trademark within the original scope, but may request its users to add proper marks for distinction." Such a provision appears to be a solution for small and medium-sized rights holders affected by squatting.

In response to increasing worries from some proprietors, especially large multinational corporations, the Supreme People's Court is now working diligently to provide more precise and consistent guidance in the judicial interpretation of the new China Trademark Law for court trial and customs enforcement. ■

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