

Exhaustion of Trademarks and Parallel Imports in China

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Introduction

- China is a developing country with low labor costs and is a net exporter; imports of parallel trademarked goods due to price are rare but will increase as China develops
- Only 3 court cases decided; Lux, 1999, Ange, 2000, Michelin, 2009
- No explicit reference in PRC Trademark Law or Trademark Law Implementing Regulations to parallel imports although some indication in recent case law (Michelin) and commentary that parallel imports may be allowed

Relevant Legislation

Trademark Law, Art. 52:: Any of the following acts shall be an **infringement** of the exclusive right to use a registered trademark:

- (1) to use a trademark that is identical with or similar to a registered trademark in respect of similar or identical goods without authorization from the trademark registrant.
- (2) to sell goods he knows bears a counterfeit trademark

- (4) to replace, without the consent of the trademark registrant its registered trademark and market again the goods bearing the replaced trademark; or
- (5) **to cause, in other respects, prejudice to the exclusive right of another person to use a registered trademark.**

Recent Case Law

Michelin Case decided in 2009 by Intermediate People's Court of Changsha

- Michelin had registered trademark in China for “Michelin and device” and sought to bar importation of Michelin branded tires made under license from Michelin in Japan and intended for export to Brazil
- Court held that goods could not be imported because they had not obtained 3C certification (China Compulsory Product Certification, a set of safety standards) and, as a result, the importation constituted an infringement of plaintiff's registered trademark under Trademark Law Art. 52(5) by causing prejudice to plaintiff

Practical Implications of Michelin

Some experts have read Michelin to indicate that importation have been allowed if importer had obtained 3C certification and that China permits parallel imports but

- Importers of parallel goods may find it difficult to get certifications for parallel products as a practical matter because PRC authorities are reluctant to act without a clear basis of authority for parallel imports
- China has many statutory requirements for products (3C for many categories of products and many other certification requirements) that importer will need to obtain
- Any parallel imports that are physically different may be deemed to violate TL, Art. 52(5)

Policy Issues

China

- depends heavily on FDI and wants to create a favorable environment for multinational brand owners so they will continue to invest in China
- is under international pressure to alleviate world's most serious counterfeiting problem and allowing parallel imports may lead to greater quantities of counterfeits and substandard products being imported (or re-imported) into China
- wants to encourage exports, not imports
- wants to protect domestically manufactured goods against competition from foreign imports
- wants to harmonize its laws with international standards and many countries allow parallel imports

Conclusion

This is how China often handles controversial IP issues: While law in China might indicate that importation of parallel goods is possible, a number of hurdles, both practical and policy-based, may prevent the importation of parallel goods into China.