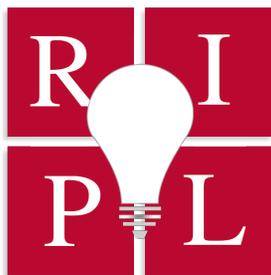


UIC

REVIEW OF INTELLECTUAL PROPERTY LAW



HOW TO IMPROVE CHINA'S APPROACH TO PARALLEL IMPORTS OF GOODS BEARING TRADEMARKS

DANNING ZHU

ABSTRACT

Parallel import, also known as grey market goods, refers to the act of importing goods to a country and selling in the country without the permission of the domestic owner of IP vested in the imported goods. The importer can obtain profits through the price differences between parallel imported products and domestic products of the same variety. China and the United States have huge differences in parallel import policies, even though both countries have participated in major international IP treaties. The United States requires that parallel imported goods bearing a genuine trademark or trade name registered in the United States will be restricted from importing if the manufacturer or the owner of such goods has no relationship with or control of the owner of U.S. trademark or trade name. Different from the United States, China's relevant laws and regulations do not explicitly limit parallel imports, including parallel imported goods that have no relationship with or control of the owner of the involved trademark registered in China. China's approach encourages parallel imports. In practice, more and more international trademark holders have filed lawsuits in China, claiming that such parallel imports are trademark infringement which damage their benefits. These cases demonstrate China's problem of the lack of regulations on restrictions of parallel imports even though such restrictions have been recognized by courts in practice. This Article recommends changes to China's current parallel import policy by referring to the relevant U.S. parallel import statutes and precedents. In considering the differences between the two countries, the Article does not recommend the adoption of the "common control" requirement.

**UIC JOHN MARSHALL
LAW SCHOOL**



Cite as Danning Zhu, How to Improve China's Approach to Parallel Imports of Goods Bearing Trademarks, 19 UIC REV. INTELL. PROP. L. 125 (2020).

HOW TO IMPROVE CHINA'S APPROACH TO PARALLEL IMPORTS OF GOODS BEARING TRADEMARKS

DANNING ZHU

I. INTRODUCTION	125
II. THE PROBLEM WITH THE LAW ON PARALLEL IMPORTS IN CHINA	126
A. Introduction to Parallel Imports	127
1. Parallel Imports of Grey Market Imports	127
2. The TRIPs Agreement's Stance on Exhaustion	128
B. Imports of goods bearing trademarks	129
1. Exhaustion and Parallel Imports under U.S. Trademark Law	130
2. Exhaustion and Parallel Imports under China Trademark Law	132
C. Problems with China's Current Approaches to Parallel Imports of Goods Bearing Trademarks	135
1. The Uncertainty of Restrictions on Parallel Imports of Goods Bearing Trademarks	136
2. Material Difference and the Likelihood of Confusion	137
III. PROPOSING CHINESE PROVISIONS ON RESTRICTIONS ON THE RULE OF INTERNATIONAL EXHAUSTION	138
A. Proposing Restrictions on the Parallel Importer of Goods Manufactured Outside China	138
1. Proposed Text of the Rule of International Exhaustion	138
2. Elements Drawing from U.S. Exceptions	139
a. Elements Referring from the U.S. Restrictions	139
b. Differences Between the U.S. Restrictions and China's Restrictions	140
B. Reasons for Adopting Proposal	141
1. Legal Certainty	141
2. Protection of Benefits of Consumers	142
3. Protection of Goodwill of Trademark Owners	142
IV. POTENTIAL CRITICISMS OF THE PROPOSED CHINESE PARALLEL IMPORTS PROVISION	142
A. Enforcement Problem	142
B. Balance of Benefits	143
V. CONCLUSION	144

HOW TO IMPROVE CHINA'S APPROACH TO PARALLEL IMPORTS OF GOODS
BEARING TRADEMARKS

DANNING ZHU*

I. INTRODUCTION

There was a news report that aroused widespread public attention in China in 2011.¹ After the repair of a maintenance problem was not properly resolved, a Chinese consumer angrily smashed his Lamborghini sports car that was valued more than 1 million yuan in public.² About one month after, the consumer purchased a second-hand Lamborghini Gallardo sports car from a distributor who parallel imported this car from Japan. The engine of the sports car broke down and could not be normally ignited.³ After the store's Lamborghini maintenance examination, the owner of the sports car was required by the maintenance store to bear the cost of repair. Lamborghini found that such second-hand sports car had been modified before being imported into China and some spare parts were non-original.⁴ However, the car owner suspected that the vehicle's damage was caused by improper operation during the consignment process, and therefore refused to pay fees for the repair. Because the requirement for free repair was not satisfied, the car owner decided to smash down the Lamborghini sports car in public.⁵ According to this news report, the car owner's reason for smashing the car in public was a protest against the differentiation of services provided by an internationally famous brand company to Chinese consumers and foreign consumers.⁶ Finally, the official Lamborghini China had to replace the bumper for the owner free of charge, and sent technical experts to participate in the comprehensive inspection to restore the trademark's goodwill.⁷ This seemingly ridiculous news reflects the adverse effects resulting from parallel imports to both consumers and trademark owners, which the consumer complained that he or she does not obtain an equal treatment

* © 2020 Danning Zhu. Attorney-at-Law, HUI YE Law Firm, P.R. China. I graduated from IIT Chicago-Kent College of Law in 2019 and obtain the Master of Laws (L.L.M) degree in International Intellectual Property. For their comments and suggestions, I would like to thank Professor Edward Lee and Professor Runhua Wang.

¹ Dangzhong Zahui Lanbojini Qingdao Zache Shijian Daodi Zashang le Shui? (当众砸毁兰博基尼青岛砸车事件到底砸伤了谁?) [Who in the Public Smashed Lamborghini?], CHINANNEWS.COM, <http://www.chinanews.com/auto/2011/03-23/2926309.shtml> (Last visited July 29, 2019) [hereinafter Dangzhong, *Smashed Lamborghini*].

² *Id.*

³ Qingdao Chezhu Zache Weiquan Lanbojini Dangjie Bei Zacheng Lantie (青岛车主砸车维权 兰博基尼当街被砸成"烂铁") [A Qingdao Car Owner Defended His Rights Through Smashing His Car, Lamborghini Was Smashed Into "Bad Iron"] BANDAOCN, http://news.bandao.cn/news_html/201103/20110316/news_20110316_1163916.shtml (Last visited July 29, 2019).

⁴ Dangzhong, *Smashed Lamborghini*, *supra* note 1.

⁵ *Id.*

⁶ *Id.*

⁷ Qingdao Chezhu Nuza 300 Wan Lanbojini (青岛车主怒砸 300 万兰博基尼) [Qingdao Car Owner Smashed Angrily a ¥ 3 Million Lamborghini], SOHU.COM, <http://news.sohu.com/20110316/n279840957.shtml> (Last visited July 29, 2019) [hereinafter *Qingdao Car Owner*].

from the trademark owner, while the trademark owners faced with the risk of goodwill damage.

Parallel imports, also called grey market, “are authentic goods that are intended for a foreign market but are diverted or imported without permission of the IP owner into a country where the IP owner has valid intellectual property rights.”⁸ As can be seen from the above definition, parallel imported products are different from counterfeit products. Products imported in parallel are recognized by the owners of intellectual property and will not be classified as counterfeit products. However, parallel importers have not obtained authorization from intellectual property owners, such as trademark owners, and their parallel importation may even be opposed by trademark owners.

In China, trademark owners may not be supported if they want to bar the parallel importation of goods bearing trademarks into China. This is because China recognizes the legal status of parallel imports, which means that goods will not be restricted from importing into China, except there are some restrictions confirmed by courts case by case. This recognition of legitimacy of parallel imports is based on the approach of international exhaustion, which the first sale doctrine can be applied to the sales outside of China.

The rationale behind adopting the international exhaustion mainly includes preventing monopoly, promoting international trade, and benefiting consumers to purchase goods at a lower price. However, the negative impacts of parallel imports are also obvious. The news described in the Introduction paragraph is a typical example of such negative impacts. These negative impacts not only damage the interests of consumers, but also have a bad influence on the goodwill of trademark owners⁹. Therefore, it is important to balance these positive and negative effects. As there are few laws and regulations with respect to parallel imports in China, it shall be the goal of legislators to figure out how to minimize negative effects while expanding its positive impact through legislation.

Part II provides an overview of the current approaches of both China and the U.S. to parallel imports and describes current specific regulations and courts’ judgments about parallel imports of trademarked goods. It also explicitly compares the difference between China and the United States, and analyses the problems faced by China caused by China’s current approaches to parallel imports. Part III provides proposals for potential parallel import problems in China. One proposal is to add the article regarding restrictions on parallel imports to Trademark Law of China. The proposed provision refers to the relevant statutes and case law of the U.S. and China’s current laws and judicial judgments. Part IV responds to potential criticisms on the proposed provisions and illustrates their respective prospects in the future.

II. THE PROBLEM WITH THE LAW ON PARALLEL IMPORTS IN CHINA

The parallel import is relevant to the rule of exhaustion of the trademark right. The United States has stipulated the specific restriction on parallel imports. As

⁸ DANIEL C.K CHOW & EDWARD LEE, INTERNATIONAL INTELLECTUAL PROPERTY: PROBLEMS, CASES, AND MATERIALS 860 (2d ed. 2012).

⁹ *Qingdao Car Owner*, *supra* note 7.

elaborated below, the main problem of the current legislation on parallel imports in China is the lack of regulations or restrictions on parallel imports, even though such restrictions do exist in practice.

A. Introduction to Parallel Imports

First, an introduction to parallel imports is provided below, including the brief overview of provisions and practice rules on parallel imports. Through such overview, this Article will explain parallel imports and reasons for its existence.

1. Parallel Imports of Grey Market Imports

Parallel imports, also called grey market goods, “are authentic goods that are intended for a foreign market but are diverted or imported without permission of the IP owner into a country where the IP owner has valid intellectual property rights.”¹⁰ For example, if Company A which has a drug patent in both Country B and Country C sells the patented drug at a lower price in C than in Country B,¹¹ then another company buys the drug in Country C at a lower price and imports it into Country B. The drugs are then distributed at a lower price than the price that Company A sells it for in Country B. This would be a parallel or grey market import.¹²

Either goods bearing trademarks or products protected by copyrights or patents may be involved in parallel imports.¹³ For example, in *K Mart Corp. v. Cartier, Inc.*, Justice Kennedy held that “a gray-market good is a foreign-manufactured good, bearing a valid United States trademark, that is imported without the consent of the United States trademark holder.”¹⁴ In *Red Baron-Franklin Park, Inc. v. Taito Corp.*, “A grey market good is a foreign manufactured good, protected by a valid U.S. copyright held by the foreign manufacturer, that is imported without the consent of the copyright holder.”¹⁵ In *BBS Kraftfahrzeugtechnik AG v. Racimex Japan Corp., & Jap Auto Products Co.*, the Supreme Court of Japan held that “parallel importation does not constitute patent infringement unless the patentee agreed or indicated on the goods that distribution into Japan was prohibited.”¹⁶

Parallel imports have close relationship with the doctrine of exhaustion¹⁷: “whether goods can be parallel imported depends on whether the intellectual property

¹⁰ *Id.*

¹¹ WORLD TRADE ORGANIZATION, *Obligations and Exceptions Under Trips* https://www.wto.org/english/tratop_e/trips_e/factsheet_pharm02_e.htm#parallelimports (Last visited May 2, 2019, 6:08 PM)

¹² *Id.*

¹³ Mary LaFrance, *Wag the Dog: Using Incidental Intellectual Property Rights to Block Parallel Imports*, 20 MICH. TELECOMM. & TECH. L. REV. 45, 49 (2013).

¹⁴ *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 285 (1988).

¹⁵ *Red Baron-Franklin Park, Inc. v. Taito Corp.*, No. 88-0156-A, 1988 WL 167344, at *1 (U.S. Dist. E.D. Virginia, Aug. 29, 1988).

¹⁶ John A. Tessensohn & Shusaku Yamamoto, *The BBS Supreme Court Case-- [A Cloth Too Short For an Obi and Too Long For a Tasuki]*, 79 J. PAT. & TRADEMARK OFF. SOC'Y 721, 722 (1997).

¹⁷ Darren E. Donnelly, *Parallel Trade and International Harmonization of the Exhaustion of Rights Doctrine*, 13 SANTA CLARA COMPUTER & HIGH TECH. L.J. 445, 458 (1997).

rights they embody were exhausted by previous sales.”¹⁸ Under the doctrine of exhaustion (also known as the first sale doctrine),¹⁹ after anyone purchases a lawfully made copy, the holder of the IP right resting in the copy will lose the authority to interfere with the resale of the copy.²⁰ In general, the exhaustion of the first sale has three types: the national exhaustion, the regional exhaustion, and the international exhaustion.²¹ Under the national exhaustion, an IP owner’s right to “control distribution of a particular copy is exhausted only within the country in which the copy is sold.”²² Under the international exhaustion, “the authorized distribution of a particular copy anywhere in the world exhausts the copyright owner’s distribution right everywhere with respect to that copy.”²³ Under the regional exhaustion, the first sale of a copy anywhere within a region, such as European Union, exhausts the IP’s distribution right throughout that region.²⁴ Specifically, if the national/regional exhaustion is applied in one country/region, the distribution of goods parallel imported outside the country/region may be rendered infringement in the country/region. On the contrary, goods can be parallel imported to a country/region if the rule of international exhaustion is applied in such country/region.

The arbitrage is the main reason that parallel imports are driven by distributors.²⁵ When prices vary in different markets, the arbitrage may occur, which means a businessman could make a profit by importing products from a low-price market and then selling such products at a high-price.²⁶ The reason that the price of the same products varies in different markets may be transport costs, taxes or currency exchange rates.²⁷

2. The TRIPs Agreement’s Stance on Exhaustion

“The relevant international treaties neither prohibit nor expressly allow parallel imports.”²⁸ The international treaties that only mention parallel imports or exhaustion of the IP rights are Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”) and Doha Declaration on the TRIPS Agreement and Public Health (“Doha Declaration”). Specifically, article 6 of TRIPS stipulates that “For the purposes

¹⁸ *Id.* at 447.

¹⁹ Michael V. Sardina, *Exhaustion and First Sale in Intellectual Property*, 51 SANTA CLARA L. REV. 1055, 1055 (2011).

²⁰ *McIntosh v. Northern California Universal Enterprises Co.*, 670 F.Supp.2d 1069, 1097 (2009) (citing *Parfums Givenchy, Inc. v. Drug Emporium, Inc.* 38 F.3d 477, 480 (1994)).

²¹ 4 WILLIAM F. PATRY, PATRY ON COPYRIGHT § 13:36.50 (2019).

²² *Kirtsaeng v. John Wiley & Sons, Inc.* 133 U.S. 1351, 1383 (2013) (citing FORSYTH & ROTHNIE, PARALLEL IMPORTS, IN THE INTERFACE BETWEEN INTELLECTUAL PROPERTY RIGHTS AND COMPETITION POLICY 429, 430 (S. Anderman ed., Cambridge Univ. Press 2007)).

²³ *Id.* at 1383-1384.

²⁴ *Id.* at 1384.

²⁵ S Karjiker, *The First-sale Doctrine: Parallel Importation and Beyond*, 2015 STELL L.R. 633, 638 (2015), <http://blogs.sun.ac.za/iplaw/files/2016/04/The-first-sale-doctrine-Parallel-importation-and-beyond.pdf>.

²⁶ *Id.*

²⁷ *Id.*

²⁸ Catalin Cosovanu, *Piracy, Price Discrimination, and Development: The Software Sector in Eastern Europe and Other Emerging Markets*, 31 AIPLA Q.J. 165, 202 (2003).

of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.” 5(d) of Doha Declaration states that “The effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each member free to establish its own regime for such exhaustion without challenge, subject to the MFN and national treatment provisions of Articles 3 and 4.”

As provisions of Article 3 and 4 refer to the “national treatment” and “most-favored-nation treatment,” subject to TRIPS and Doha Declaration, members of TRIPS do not reach a unify in the exhaustion of intellectual property, and each member can carry out their own regime for such exhaustion, provided that the “national treatment” and “most-favored-nation treatment” stipulated in article 3 and article 4 of TRIPS shall be complied with. In other words, even if a country allows parallel imports in a way that another country might think violates the TRIPS Agreement, this cannot be raised as a dispute in the WTO unless fundamental principles of non-discrimination are involved.²⁹

As the Doha Declaration clarifies that members of TRIPS can choose how to deal with exhaustion in a way that best fits their domestic policy objectives,³⁰ different countries may have adopted different policies on the legality of parallel imports. Take the United States as an example. The Supreme Court of the United States in *Kirtsaeng v. John Wiley & Sons, Inc.*, held that “first sale doctrine applies to copies of a copyrighted work lawfully made abroad.”³¹ This case was cited by the Supreme Court to explain the first sale doctrine in patent law in *Impression Products, Inc., v. Lexmark International, Inc.*, which held that “an authorized sale outside the United States, just as one within the United States, exhausts all rights under the Patent Act.”³²

Based on the above holdings, we can see that the United States applies the rule of international exhaustion in the field of copyright and patent. However, parallel imports of goods bearing U.S. trademarks may face different challenges. “The Lanham Act provides strong protection against parallel imports, although it does not exclude all unauthorized imports of trademarked goods,”³³ which will be analyzed in the subsequent paragraphs.

B. Imports of goods bearing trademarks

This section provides a brief overview of provisions and practice rules on parallel imports of goods bearing trademarks both in China and the United States. Comparing the different regulations between China and the United States, I will explicitly analyze China's problem in the current provisions and practice. While the restriction of content varies by countries, both the United States and China follow the international exhaustion with restrictions in its parallel imports of goods bearing trademarks.

²⁹ WORLD TRADE ORGANIZATION, *supra* note 11.

³⁰ *Id.*

³¹ *Kirtsaeng v. John Wiley & Sons, Inc.* 133 U.S. 1351, 1352 (2013).

³² *Impression Products, Inc., v. Lexmark International, Inc.*, 137 U.S. 1523, 1535 (2017).

³³ *LaFrance, supra* note 13, at 52.

Contrary to Chinese statutes without any prohibition for parallel imports, the United States statutes stipulate specific prohibitions for parallel imports.

1. Exhaustion and Parallel Imports under U.S. Trademark Law

Different from counterfeit goods which “refers to the unauthorized copying of a trademark owned by another and placing the trademark on similar or identical goods.”³⁴ The trademarked goods involving parallel imports under U.S. Trademark Law are genuine goods bearing a legal foreign trademark that is the same mark as registered in the United States which are manufactured abroad and imported into the U.S without consent of the United States trademark holder.³⁵ Some scholars believe the United States should adopt the rule of international exhaustion of trademark with the following two exceptions; “materially different goods and identical goods and marks manufactured abroad.”³⁶ Such two exceptions will result in the adoption of national exhaustion.³⁷ While other scholars believe the United States should adopt “a hybrid approach,”³⁸ which specifically refers to that “the U.S. system was originally intended to be national in scope (i.e., the most protectionist), it provides for a broad exception that expands exhaustion to an international level in specific circumstances which have become far more frequent than when the exception was first implemented.”³⁹ The exception referred in the hybrid approach will result in the adoption of international exhaustion.⁴⁰ In fact, these two different theories are based on same statutes that exclude the parallel imports.

One of statutes that exclude the parallel imports is Section 42 of the Lanham Act.⁴¹ “It bars foreign goods bearing a trademark identical to a valid United States trademark but physically different, regardless of the trademarks' genuine character abroad or affiliation between the producing firms.”⁴²

The other statute of exclusion of parallel imports is Section 526 of the Tariff Act,⁴³ which “allows the domestic owner of a registered trademark to prevent the unauthorized importation of products bearing that trademark.”⁴⁴ Specifically, if any merchandise manufactured abroad, bears a trademark that is identical to the trademark registered in the United States, and is imported into the United States without the consent of such trademark owner,⁴⁵ the Customs Service shall seize such

³⁴ CHOW & LEE, *supra* note 8, at 784.

³⁵ Gamut Trading Co. v. U.S.I.T.C., 200 F.3d 775, 778 (1999).

³⁶ Christine Haight Farley, *Territorial Exclusivity in U.S. Copyright and Trademark Law*, WASHINGTON COLLEGE OF LAW RESEARCH PAPER NO. 2014-30 47, 59 (2014), https://digitalcommons.wcl.american.edu/facsch_legsrp/2/.

³⁷ *Id.*

³⁸ INTERNATIONAL TRADEMARK ASSOCIATION, *Position Paper on Parallel Imports*, <https://www.inta.org/Advocacy/Documents/INTAParallelImports2007.pdf> (last visited May 4, 2019).

³⁹ Kimberly Reed, *Levi Strauss V. Tesco and E.U. Trademark Exhaustion: A Proposal for Change*, 23 NW. J. INT'L L. & BUS. 139, 159 (2002).

⁴⁰ *Id.*

⁴¹ Donnelly, *supra* note 17.

⁴² Lever Bros. Co. v. United States, 877 F.2d 101, 111 (1989).

⁴³ Reed, *supra* note 39.

⁴⁴ Shaw v. Rolex Watch U.S.A., Inc., 776 F.Supp. 128, 129 (1991).

⁴⁵ 19 U.S.C. § 1526(a) (1996).

merchandise.⁴⁶ However, such importation ban does not apply to products bearing a trademark of the United States that are manufactured abroad by the owner of the trademark of the United States or by any party who is subject to common ownership or common control with the United States trademark holder.⁴⁷ Common ownership refers to the United States trademark holder owning individually or aggregately more than 50 percent of the manufacture of the imported products;⁴⁸ Common control refers to that the United States trademark holder effective controls in policy and operations in the manufacture of the imported products.⁴⁹ This exemption from importation ban is also called as “the affiliate exception”.⁵⁰

These statutes that exclude parallel imports are “embodied in the Restrictions on Importation of Gray Market Articles Rule, 19 C.F.R. § 133.23 (2005).”⁵¹ There are three circumstances which parallel imported goods bearing a genuine trademark or trade name will be restricted: (1) the parallel imported goods that manufactured or owned by an Independent licensee without the relationship with or control of the U.S. owner;⁵² (2) the parallel imported goods that owned by a foreign entity other than the U.S. owner or its affiliated entity, or a party otherwise subject to common ownership or control with the U.S. owner, provided that the foreign entity sold the domestic title(s) of the trademark to the U.S. owner, or the U.S. owner sold the foreign title(s) to the foreign entity;⁵³ or (3) “Lever-rule”. The parallel imported owned by “the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner”, but the Customs Service has determined that the parallel imported goods are physically and materially different from the goods imported to or sold in the U.S. with the consent of the U.S. trademark owner.⁵⁴ Under the Lever-rule, parallel imported goods can be imported into the United States if the parallel imported good or retail package or container is attached by a “conspicuous and legible label” stating that: “This product is not a product authorized by the United States trademark owner for importation and is physically and materially different from the authorized product.”⁵⁵ Such label shall not be removed until “the first point of sale to a retail consumer in the United States.”⁵⁶

⁴⁶ 19 U.S.C. § 1526(b) (1996).

⁴⁷ See *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 294 (1988) (the court held that “the Customs Service regulation is consistent with § 526 insofar as it exempts from the importation ban goods that are manufactured abroad by the “same person” who holds the United States trademark, 19 C.F.R. § 133.21(c)(1) (1987), or by a person who is “subject to common . . . control” with the United States trademark holder, § 133.21(c)(2).”).

⁴⁸ 19 C.F.R. § 133.2(d)(1) (2007).

⁴⁹ 19 C.F.R. § 133.2(d)(2) (2007).

⁵⁰ Farley, *supra* note 36, at 55.

⁵¹ Jeremy Wooden, *The Eleventh Circuit's Maltreatment of Gray-Market Case Law: Davidoff & Cie V. Pld International Corp.*, 2006 UTAH L. REV. 573, 589 n.156 (2006).

⁵² 19 C.F.R. § 133.23(a)(1) (2012).

⁵³ 19 C.F.R. § 133.23(a)(2) (2012).

⁵⁴ 19 C.F.R. § 133.23(a)(3) (2012).

⁵⁵ 19 C.F.R. § 133.23(b) (2012).

⁵⁶ *Id.*

2. Exhaustion and Parallel Imports under China Trademark Law

Either Chinese laws or administrative regulations⁵⁷ including the Trademark Law address the exhaustion of trademark. In practice, parallel imports are not rendered illegal activities by the governments or courts, which means, China implements the rule of international exhaustion of trademark.

The Supreme Court of the PRC directly confirmed that the parallel imports do not constitute trademark infringements, but nevertheless figured out the specific basis behind such confirmation. The Supreme Court commented on *Victoria's Secret Stores Brand Management, Inc. v. Shanghai Jintian Clothing Limited Company* regarding trademark infringement and unfair competition by stating that:

A foreign trademark owner has registered its trademark in China but has authorized a third party to distribute the goods bearing its trademark (such authorization occurred outside China). A domestic distributor imported the genuine products bearing the trademark from such authorized party through formal channels, and then resold such genuine products bearing the trademark in China. According to the principle of exhaustion of trademark rights, such importation and reselling of genuine products would not cause confusion or misunderstanding of the source of the goods sold by the relevant public consumers, which does not constitute trademark infringement.⁵⁸

A local court adopted the principle of *nulla poena sine lege* (Latin for "no penalty without a law"). In *Atlantic C Trading Consulting Co., Ltd. v. Beijing Sihai Zhixiang International Trade Co., Ltd.*, the defendant legally imported "KOSTRITZER" beer from Holland into China without any consent of the owner or the exclusive user of the trademark at issue. The plaintiff claimed that the defendant's sales activities constituted trademark infringement. Beijing Municipal High People's Court held that:

Whether to prohibit the parallel import of trademarks shall be determined in accordance with the provisions of the current laws and regulations of China. Since the Trademark Law of the PRC and other laws do not explicitly prohibit the parallel import of trademarks, Sihai Zhixiang Company (the defendant) imports the KÖSTRITZER beer

⁵⁷ See generally P.R.C. Laws. According to the Constitution Law of the PRC and the Legislation Law of the PRC, laws can only be made by the National People's Congress and its Standing Committee, and the power of interpretation to laws belongs to the Standing Committee. The administrative regulations refer to those regulations made by the State Council. Local laws and regulations must not contravene laws and administrative regulations. http://www.npc.gov.cn/npc/xinwen/2018-06/29/content_2057107.html (China).

⁵⁸ Weiduoliya de Mimi Shangdian Pinpai Guanli Youxian Gongsi Su Shanghai Jintian Fushi Youxian Gongsi (维多利亚的秘密商店品牌管理有限公司诉上海锦天服饰有限公司) [*Victoria's Secret Stores Brand Management, Inc. v. Shanghai Jintian Clothing Limited Company*], <http://gongbao.court.gov.cn/Details/8627d98ac47e7bbe4b37d01416eb79.html?sw=> (China).

legally sold in the European market to China for sale, which does not violate the Trademark Law of the PRC and provisions of other laws.”⁵⁹

The same principle can be found in *Prada S.A v. Xinjiang Shenshi Fucheng International Trade Company*, in which the judge from Xinjiang Uygur Autonomous Region Urumqi intermediate people's court held that:

The plaintiff neither questions the authenticity of the product at issue, nor made the defense that there were material differences in the respective of the quality grade and character between the products sold by the defendant and the products sold by the plaintiff in China. In addition, the defendant imported the PRASA products at issue by legal transactions and fulfilled the import declaration procedures for goods sold by them. The defendant's distribution of the goods at issue which were obtained through parallel imports in the domestic market does not violate any prohibition stipulated in our country's laws.⁶⁰

From the above holdings, we can infer that the High People's Court believed that if the parallel import is forbidden by applying the rule of national exhaustion, the relevant law shall express clearly, otherwise the rule of international exhaustion shall be applied in China automatically. In *Victoria's Secret*, “the principle of exhaustion of trademark rights” mentioned by the Supreme Court in its comment can be referred to the rule of international exhaustion through inferring from the context of such comment.

Beside courts' judgments, some departments of the State Council also have issued administrative rules concerning the parallel imports of automobiles, such as *Several Opinions of the Ministry of Commerce, the Ministry of Industry and Information Technology, the Ministry of Public Security and Five Other Departments on Promoting the Pilot Work of Parallel Import of Automobile*⁶¹ (“*Opinions on Promoting the Pilot Work of Parallel Import of Automobile*”), which aims to restrict the parallel import of

⁵⁹ Daxiyang C Maoyi Zixun Youxian Gongsu Su Beijing Sihai Zhixiang Guoji Maoyi Youxian Gongsu (大西洋 C 贸易咨询有限公司与北京四海致祥国际贸易有限公司) [Atlantic C Trading Consulting Co., Ltd. v. Beijing Sihai Zhixiang International Trade Co., Ltd.], 2015 Gao Min (Zhi) Zhong zi, No. 1931, <http://wenshu.court.gov.cn/content/content?DocID=2dc70f9d-ecad-46e2-9cf9-f5c52cbe35d4&Keyword=KOSTRITZER> (China).

⁶⁰ Pulada Youxian Gongsu Su Xingjiang Shenshi Fucheng Guoji Maoyi Youxian Gongsu (普拉达有限公司诉新疆沈氏富成国际贸易有限公司) [*Prada S.A v. Xingjiang Shenshi Fucheng Guoji Maoyi Ltd., Co.*] 2015 Wu Zhong Min San Chu Zi, No. 201, <http://wenshu.court.gov.cn/content/content?DocID=a6ffeb51-6c8d-4658-afc3-2f40228cd55a&Keyword=%E6%96%B0%E7%96%86%E6%B2%88%E6%B0%8F%E5%AF%8C%E6%88%90> (China).

⁶¹ Shangwu Bu Gongye he Xinxihua Bu Gonganbu Huanjing Baohubu Jiaotong Yunshu Bu Haiguan Zongshu Guojia Zhiliang Jiandu Jianyan Jianyi Zongju Guojia Rengzheng Rengke Jiandu Guanli Weiyuanhui Guanyu Cujing QiCHE Pingxing Jinkou Shidian de Ruogan Yijian (商务部 工业和信息化部 公安部 环境保护部 交通运输部 海关总署 国家质量监督检验检疫总局 国家认证认可监督管理委员会关于促进汽车平行进口试点的若干意见) [*Several Opinions of the Ministry of Commerce, the Ministry of Industry and Information Technology, the Ministry of Public Security and Five Other Departments on Promoting the Pilot Work of Parallel Import of Automobile*], <http://www.mofcom.gov.cn/article/b/g/201604/20160401307036.shtml> (China) [hereinafter *Opinions on Promoting the Pilot Work of Parallel Import of Automobile*].

automobiles and strengthen the supervision of such imports. This shows that administrative authorities also have a positive attitude toward parallel imports.

Among the judicial cases concerning parallel imports, not all judgments of cases are in favor of the parallel importers. Under certain circumstance, the parallel importer may be rendered trademark infringement. The famous cases are *Lihua v. Business Trading Co.* and *Michelin Group v. Tan Guoqiang and Ou Can*, in which the courts formulated two requirements for the parallel imports.

The first requirement that is formulated in *Lihua* is that the goods of parallel imports have a legal resource. More specifically, the goods of parallel imports shall be purchased outside China legally before imported into China, of which the burden of proof is the accused infringer. In *Lihua*, the plaintiff Shanghai Lihua entered into a trademark licensing agreement with Unilever, the owner of the registered trademark in China, for the use of the trademark "Lux," used for soaps, and its Chinese trademark "Lishi" (a transliteration of Lux) in China. On October 5, 1998, the plaintiff entered into a revised agreement, under which the licensee acquired exclusive rights to use the trademarks in China.⁶² Unilever applied for customs intellectual property protection from the State Customs Administration on the trademark at issue. In June 1999, the Custom detained 895 boxes of soap made in Thailand, which was allegedly infringed by the defendant's trademark rights. The "LUX" trademark was used on the surface and packaging of the soap.⁶³ The court "accepted plaintiff's argument that the unauthorized importation and sale of the trademarked goods was an infringement of the plaintiff's exclusive license to the marks."⁶⁴ However, the court held that the defendant's argument of parallel import was incorrect as the evidence was insufficient to prove that the soaps at issue were from the trademark owner or were obtained with the trademark owner's permission. Therefore, the defense was not upheld.⁶⁵ We can't infer from this case that if the defendant had provided enough evidence to prove that the soaps at issue were from the trademark owner, the court would have made a judgment in favor of the defendant. However, the court in this case give us an obvious hint that proving the goods' resource is essential to the recognition of parallel imports.

The second requirement, which is formulated in *Michelin*, is that the goods of parallel imports shall be consistent with mandatory regulations of the quality pertain to the imported goods.⁶⁶ In *Michelin*, the court found that the tires imported by the defendants had not obtained a Chinese compulsory product certification (the so-called 3C certification), even though the imported tires from Japan complied with all mandatory laws and regulations of Japan. Therefore, the court held the distribution of

⁶² Daniel Chow, *Exhaustion of Trademark and Parallel imports in China*, 51 SANTA CLARA L. REV. 1283, 1290 (2011).

⁶³ Zhu Jianjun (祝建军) Pingxing Jinkou Shangping Goucheng Shangbiao Qinquan-Shanghai Lihua Youxian Gongsu Yu Guangzhou jingji Jishu Kaifaqu Shangye Jinkou Maoyi Gongsu "LUX" Shangbiao Qinquan Jiufeng An (平行进口商品构成商标侵权—上海利华有限公司与广州经济技术开发区商业进出口贸易公司"LUX"商标侵权纠纷案) [Parallel Import Commodities constitute Trademark Infringement - Shanghai Luxi Co., Ltd. and Guangzhou Economic and Technological Development Zone Commercial Import and Export Trading Company "LUX" Trademark Infringement Dispute Case], (August 11, 2012, 6:17 AM), http://www.cnipr.net/article_show.asp?article_id=7306 (China).

⁶⁴ Daniel Chow, *supra* note 62.

⁶⁵ Zhu Jianjun, *supra* note 63.

⁶⁶ Miqiling Jituan Zonggongsi Su Tan Guoqiang, Ou Can (米其林集团总公司诉谈国强、欧灿) [*Michelin Group v. Tan Guoqiang and Ou Can*], 2009 Chang zhong Min San Chu Zi, No. 0073, http://ip.hzlawyer.net/article/detail_260.html (China).

these imported tires in China was illegal, and there probably is risk of function and security in such products, which has destroyed the trademark's function that ensures the quality of the goods bearing the trademark and the reputation of the goods' provider, and has caused actual damage to the plaintiff's exclusive right to use the registered trademark, hence such distribution infringed the trademark at issue.⁶⁷

The second requirement can also be seen in *Opinions on Promoting the Pilot Work of Parallel Import of Automobile*. The Opinions require that when handling the registration of imported automobiles, local public security departments must strictly implement the national safety technical standards such as "Safety Technical Conditions for Motor Vehicle Operation" (GB7258), and focus on the inspection of parallel imported automobile vehicle identification codes, product signs, odometers, external lamps and signals. Device, etc. Registration of parallel imported automotive products that do not meet national standards will not be registered.⁶⁸

From the context of the restrictions on parallel imports, the views between China and the United States are quite different. The restrictions of the United States for parallel imports focus on the "materially different" and the relationship between the parallel importer and the trademark owner (common ownership); while China's restriction on parallel importation, based on the judgments made by the courts, focus on the legal source of the imported goods and the quality of the imported goods.

To a certain extent, the "physical difference" restriction of the United States overlaps with two restrictions of China, even though each of three requirements has its own different meaning. If the imported goods have no physical differences with the goods provided by the trademark owner, the basic requirement is that the imported goods are genuine, which is also one reason that the importer shall provide the legal source of the imported goods in China. In addition, the requirement that the imported goods shall conform with Chinese mandatory regulations of the quality may reduce the difference between the imported goods and the goods provided by the trademark owner in China.

As for the restriction to the common ownership, China has not imposed any restriction so far. On the contrary, from the regulations concerning parallel import of automobiles, China allows those automobile companies that have no relationship with the trademark owners to engage in parallel imports of automobiles.

C. Problems with China's Current Approaches to Parallel Imports of Goods Bearing Trademarks

As analyzed above, China applies the rule of international exhaustion of trademark rights with exceptions (restrictions), which are formulated by existing judgments. However, the existing judgments show problems with China's current approaches to Parallel imports of trademarked goods.

⁶⁷ *Id.*

⁶⁸ Donnelly, *supra* note 17.

1. *The Uncertainty of Restrictions on Parallel Imports of Goods Bearing Trademarks*

Unlike the United States, which has clarified the restrictions on parallel imports by statutes and precedents, the main problem of the current legislation on parallel imports in China is the lack of regulations or restrictions on parallel imports even though such restrictions do exist in practice. Such restrictions can be found in existing judgments, such as the *Lihua* case, which requires that the goods of parallel imports shall have a legal resource, and the *Michelin* case, which requires that the goods of parallel imports shall be consistent with mandatory regulations of the quality pertaining to the imported goods. However, such restrictions are made by judges based on judges' discretion without any supporting statutes.

The above restrictions made by judges in judgments are not binding. As China is a country that applies the system of the civil law rather than the common law, there are no binding cases, only guiding cases which are designed by the Supreme Court as an exception.⁶⁹ However, none of the above cases which create restrictions to parallel imports is designed to be a guiding case. Therefore, we are not sure whether such restrictions would be introduced in the next analog case regarding parallel imports.

In the absence of corresponding statutes and guiding cases, these restrictions which are scattered in different judgments of different courts are erratic and do not apply any uniform standard. As mentioned before, these restrictions are subject to judges' discretions, however, normally Chinese judges do not explain their intentions when they use their discretions to make a verdict. Some scholars think judges may refer to policies of local governments, some of which have goals to protect local benefits. Therefore, some of these restrictions may be made by the intention of the local protectionism, but some may not, which result in the confusion of judicial decisions.⁷⁰ For example, judgments of several cases indicate that there is no material difference between the parallel imported products at issue and the domestic trademarked products when they are discussing the legitimacy of parallel imports,⁷¹ whether this means that these judgments think no material difference shall be one of elements of the legitimacy of parallel imports.

In short, there is an uncertainty that parallel importers cannot predict whether either the activity of parallel imports or the imported goods of parallel may violate any law or regulation, which leads to be trademark infringements. Such uncertainty increases the risk of parallel imports and will not be conducive to the stability of market transactions.

⁶⁹ Guanyu Anli Zhidao Gongzuo de Guiding (关于案例指导工作的规定) [Provisions on Case Guidance] (promulgated by Sup. People's Ct., Nov. 26, 2010, effective Nov. 26, 2010), art.7, <http://fgcx.bjcourt.gov.cn:4601/law?fn=chl381s995.txt> (China) [hereinafter *Provisions on Case Guidance*].

⁷⁰ Chen Yue (陈岳), Shangbiao Pingxing Jingkou Falv Shiyong Tanjiu (商标平行进口法律适用探究) [Exploring the Law Application for Parallel Imports of Trademarked Products], 26 GUANGDONG KAIFANG DAXUE XUEBAO (广东开放大学学报) [Journal of the Open University of Guangdong] 60, 62 (2017) (translated by Danning Zhu).

⁷¹ Pulada Youxian Gongsu Su Xingjiang Shenshi Fucheng Guoji Maoyi Youxian Gongsu (普拉达有限公司诉新疆沈氏富成国际贸易有限公司) [Prada S.A v. Xingjiang Shenshi Fucheng Guoji Maoyi Ltd., Co.] 2015 Wu Zhong Min San Chu Zi, No. 201, <http://wenshu.court.gov.cn/content/content?DocID=a6ffeb51-6c8d-4658-afc3-2f40228cd55a&KeyWord=%E6%96%B0%E7%96%86%E6%B2%88%E6%B0%8F%E5%AF%8C%E6%88%90> (China).

2. Material Difference and the Likelihood of Confusion

As for those parallel imported products which may be different with the products sold by the trademark owners in the domestic market, whether this kind of difference causes consumer confusion even though these parallel imported products are authentic? We do not find the Chinese judges or governmental departments discuss this issue either in *Micheline* case or in *Opinions on Promoting the Pilot Work of Parallel Import of Automobile*. Additionally, the latter allows material difference between the parallel imported automobiles and the automobiles sold by the trademark owner in the domestic market provided that these parallel imported automobiles conform to mandatory regulations.⁷² Therefore, the likelihood of consumer confusion seems not to be considered when there is material difference between those parallel imported products and the products sold by the trademark owners in the domestic market. One reason might be that Chinese courts think that if the goods are genuine and come from the trademark owner or the distributor designed by the trademark owner, there is no issue concerning distinguishing the source of goods.

However, if there is material difference between products sold by trademark owners in the domestic market and parallel imported goods bearing identical trademarks, there is a showing of the likelihood of confusion over the source of the products,⁷³ as one of functions of the trademark is to guarantee the quality of the products in which bear such trademark.⁷⁴ Such confusion may also cause damage of reputation and goodwill of trademark owners.⁷⁵ The different products sold in different markets may be manufactured based on different designs or standards,⁷⁶ which is the reason why there may be differences between the parallel imported goods and the goods sold by trademark owners or their licensees, even though they may bear the same trademark. Such differences include the qualities, packages or after-sale services. First, consumers may not pay attention to such difference when they purchase any parallel imported product bearing the exact same trademark. Second, such parallel imported product bearing the exact same trademark may not be expected by consumers to appear lower qualities or after-sale services than those goods sold by trademark owners or their licensees. Therefore, if consumers purchase the parallel imported goods while expecting to obtain the quality or after-sale services with the domestic goods bearing the trademark, consumer confusion occurs. On the contrary, if there is no difference, there is no consumers' confusion.⁷⁷ Hence, the basic problem of parallel importation is "not whether the mark was validly affixed, but whether there are differences between the foreign and domestic product and if so whether the

⁷² *Opinions on Promoting the Pilot Work of Parallel Import of Automobile*, *supra* note 61, at 2.

⁷³ *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 68, 73 (1987).

⁷⁴ *K Mart Corp. v. Cartier, Inc.*, 108 U.S. 1811, 1829 (1988) (the court held that "Not until the 1930s did a trend develop approving of trademark licensing—so long as the licensor controlled the quality of the licensee's product—on the theory that a trademark might also serve the function of identifying product quality for consumers.").

⁷⁵ *Provisions on Case Guidance*, *supra* note 69, at 2.

⁷⁶ *Corporate Counsel's Guide to Unfair Competition*, November 2018 Update, § 15:1.

⁷⁷ *Coca-Cola Co. v. V.R. ProduceSaved to FolderNote Added*, 2010 WL 11596744 ("confusion ordinarily does not exist when a genuine article bearing a true mark is sold."). *See NEC Elects. v. Cal Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir. 1987)].

differences are material.”⁷⁸ Therefore, we cannot ignore the problem of material difference and the likelihood of confusion in cases concerning parallel imports.

III. PROPOSING CHINESE PROVISIONS ON RESTRICTIONS ON THE RULE OF INTERNATIONAL EXHAUSTION

To avoid the uncertainty of provisions on restrictions of parallel importation and the likelihood of confusion, this comment proposes to issue new statutory provisions on such restrictions like exceptions for the international exhaustion in the United States stipulated in the Lanham Act and the Tariff Act (“U.S. Exceptions”). The new provisions will make the restrictions on parallel importation clear and transparent, which not only regulates the legitimacy of parallel imports, but also protects the interests of consumers. In addition, the new provisions are supposed to provide ways of relief to trademark owners if distributors of parallel imports are found to violate any restriction provisions.

A. Proposing Restrictions on the Parallel Importer of Goods Manufactured Outside China

To resolve the problems discussed in Part II, this Article proposes that the restriction on parallel importation be clear and transparent. This requires that the new provisions be specific, which will help related parties, including consumers, distributors and trademark owners protect their interests.

1. Proposed Text of the Rule of International Exhaustion

As the proposed provisions are to limit the parallel imports of distributors which do not obtain consents of the relevant trademark owners, such proposed provisions could be rendered the conditions of violate the exclusive right of trademark owners. Therefore, the proposed provision would fit in Chapter 7 of the Trademark Law of China, which include the circumstance of infringement and dispute resolution.

The distribution of the product bearing trademark, without the permission of the trademark owner or the designated authorizer, shall be rendered as the provision of Article 57 (7) of this Law, unless such distribution conforms with the following conditions:

- (1) The sold product shall be provided by the trademark owner or its licensee, or bought abroad legally;*
- (2) The quality and package of the sold product shall comply with the mandatory laws, regulations and standards; and*
- (3) if there is any physically or materially difference in any relevant matter, including but not limited to the design, quality, warranty protection, after-sales service, package, between the sold products*

⁷⁸ Gamut Trading Co. v. U.S.I.T.C., 200 F.3d 775, 779 (Fed. Cir. 1999).

and the products sold authorized by the trademark owner in China, such difference shall be clearly noticed to the consumers before the sale by being labeled conspicuously in the product or its packages or other reasonable ways by distributors.

Article 57 of this Law lists activities that are rendered as infringement of trademarks, and Section Seven stipulates that “causing other damage to the exclusive right of registered trademarks of others”⁷⁹, which is a miscellaneous provision. Hence, the proposed provision as the additional activity of infringement will not lead to amend Article 57, which minimize the scope of the amendment. In addition, trademark owners are able to against the distributors of parallel importations by using the method of relief set up for infringement stipulated in Article 57, if distributors fail to conform with the proposed provision.

2. Elements Drawing from U.S. Exceptions

In order to achieve the goal of the proposed provision, the experience of the United State, including statutes and common law cases are referred. However, considering the difference of legislations between the United States and China, the proposed provision only refers to part of the statues and cases of the United States.

a. Elements Referring from the U.S. Restrictions

The proposed provision mainly refers to 19 C.F.R. § 133.23 (hereinafter “the reference provision”) which has been analyzed in Part II.B.1. One element from the reference provision is the “Lever-rule”, which indicates that the parallel imported goods may be determined to be physically and materially different from what the U.S. trademark owner authorized for importation or sale in the U.S.⁸⁰ As analyzed in Part II.B.2, based on the case law of the United States, materially different normally refers to differencing in packaging, warranty protection, quality control procedures.⁸¹ Referring to both 19 C.F.R. § 133.23 (a)(3) and the corresponding case law of the United States, the proposed provision not only simply points out “physically and materially difference” but also indicates the specific examples of such difference, such as the difference in the design, quality, warranty protection, after-sales service, package. In addition, physically and materially difference is not limited to above examples.

Another element from the proposed provision is the Labeling of physically and materially different goods stipulated in 19 C.F.R § 133.23 (b), which focuses on the labeling of “physical and material difference between the specific articles authorized

⁷⁹ Shangbiao Fa (商标法) [Trademark Law] (promulgated by the Standing Comm. Nat'l People's Cong., Aug. 23, 1982, rev'd by the Standing Comm. Nat'l People's Cong., Aug. 30, 2013 effective Mar. 1, 1983), art.57(7), http://www.npc.gov.cn/npc/xinwen/2013-09/02/content_1805267.htm (China) [hereinafter *Trademark Law of the PRC*].

⁸⁰ 19 C.F.R. § 133.23(a)(3) (2012).

⁸¹ *Dan-Foam A/S v. Brand Named Beds, LLC*, 500 F.Supp.2d 296, 313-316 (S.D.N.Y. 2007).

for importation or sale in the United States and those not so authorized”.⁸² As discussed in Part II.C.2, Such difference is the main reason that will be possible to trigger the likelihood of confusion. Therefore, how to deal with such differences is the key to solve the problem of the likelihood of confusion.⁸³ In order to solve the problem, 19 C.F.R. § 133.23 (b) adopts the way of Labeling of physically and materially different goods, which required that the labeling on the merchandise or packaging must be conspicuous, legible and remain on the product until the first point of sale to a retail consumer in the United States.⁸⁴ Through such labeling, consumers will be expected to fully understand the differences between the parallel imported goods they bought and the domestic goods bearing the same trademark. Compared with the reference provision, the proposed provision adopts more broader ways to inform consumers of such difference. Except for the labeling, other adopted ways include but not limited to instructions and verbal notices, which can be proved that consumers are expected to avoid the likelihood of confusion. The reason that the proposed provision allows distributors to adopt other ways except for the labeling is that sometimes the labeling may not be appropriate for the product or its package if such product or the package is small.

b. Differences Between the U.S. Restrictions and China’s Restrictions

The biggest difference of the proposed provision from the reference provision is that the proposed provision does not require the relationship of the distributors and the trademark owners, such as a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner.⁸⁵ As the reference provision described, independent licensees and foreign owners are restricted in the parallel importation.⁸⁶ However, according to these Chinese cases involving parallel imports discussed in Part II, Chinese legislature intends to encourage the development of Parallel importation rather than limiting the qualification of the parallel importer. Hence, the proposed provision only requires the parallel imported goods to be genuine goods with legal resource. As to how to prove the sold goods are obtained by a legal resource, the distributors can provide correspondent contracts, invoice, delivery documents, etc.⁸⁷

The other difference focuses on the relief. According to the reference provision, parallel imported goods “subject to the restrictions of this section shall be detained for 30 days from the date on which the goods are presented for Customs examination”.⁸⁸ The proposed provision does not adopt the detain way. As mentioned above, the

⁸² Geoffrey M. Goodale, *The New Customs Gray Market Regulations: Boon or Bust for U.S. Trademark Owners?* 28 AIPLA Q.J. 335, 351 (2000).

⁸³ *Gamut Trading Co. v. U.S.I.T.C.*, 200 F.3d 775, 778 (Fed. Cir. 1999).

⁸⁴ 19 C.F.R. § 133.23(b) (2012).

⁸⁵ 19 C.F.R. § 133.23(d)(2) (2012).

⁸⁶ 19 C.F.R. § 133.23(a)(1)(2) (2012).

⁸⁷ Shangbiao Fa Shishi Tiaoli (商标法实施条例) [*Regulation on the Implementation of the Trademark Law*] (promulgated by the St. Council, Aug. 3, 2001, rev’d by the St. Council, April 29, 2014, effective Sep. 15, 2002) art.79, http://www.sipo.gov.cn/zcfg/zcfgflfg/flfgsb/xzfg_sb/1063526.htm China.

⁸⁸ 19 C.F.R. § 133.23(a)(1)(2) (2012).

proposed provision is supposed to be rendered as the provision of Article 57 (7) of the Trademark Law, which led to trademark owners being able to guard against the distributors of parallel importations by using the method of relief set up for infringement stipulated in Article 57—if distributors fail to conform with the proposed provision.

In addition, the proposed provision has two elements that refer to China's existing judgments and regulations. The first element concerns the source of parallel imported products. The proposed provision requires that “the sold product shall be provided by the trademark owner or its licensee, or bought abroad legally”, which means that the parallel imported products shall be obtained by the distributor through a legal source. This element not only refers to the *Lihua* case but also refers to article 60 of Trademark Law which stipulates that the distributor of infringing products can be exempted from paying damages provided that the distributor who is not aware of such infringement before his distributions obtains the infringing products from a legal source and indicates the provider of such infringing products.⁸⁹ The other element is concerning the quality of the parallel imported products. The proposed provision requires the quality and package of the sold product shall comply with the mandatory laws, regulations and standards. Such element refers to the *Micheline* case which requires the goods of parallel imports shall be consistent with mandatory regulations of the quality pertain to the imported goods,⁹⁰ and the identical requirement can also be found in *Opinions on Promoting the Pilot Work of Parallel Import of Automobile*.⁹¹

B. Reasons for Adopting Proposal

The proposed provision is to make the restriction on parallel importation clear and to avoid the likelihood of confusion. As there are restrictions on parallel importation in practice even though restriction provisions cannot be found in the relevant laws and regulations, the proposed provision comes up with the previous courts' opinions, legislative intention and the advantage of approaches in the United States.

1. Legal Certainty

One problem to be solved is the uncertainty of provisions on restrictions on parallel importation. The certainty of restrictions will help to promote the development of international trade and regulate the legalization of activities of international trade. In current practice, parallel importers may be at risk as they are not sure whether their imported goods violate Chinese laws and regulations and how to avoid such risks. After such restrictions on parallel imports have been made, everyone who intends to parallel import goods from abroad will be more confidential in their trade activities.

⁸⁹ *Trademark Law of the PRC*, *supra* note 79, art.60 at 7.

⁹⁰ *Miqiling Jituan Zonggongsi Su Tan Guoqiang, Ou Can* (米其林集团总公司诉谈国强、欧灿) [*Michelin Group v. Tan Guoqiang and Ou Can*], (2009) Chang zhong Min San Chu Zi No. 0073, http://ip.hzlawyer.net/article/detail_260.html (China).

⁹¹ *Opinions on Promoting the Pilot Work of Parallel Import of Automobile*, *supra* note 55, at 2.

2. Protection of Benefits of Consumers

The proposed provision intends to avoid the likelihood of confusion. It requires consumers to be informed of the physical and material difference between the parallel imported goods and the domestic goods of the trademark owners. Such notice will help consumers know more about the information of product on which its trademark is not able to figure out. In the Lamborghini case described in the introduction, the imported Lamborghini car was different than the Lamborghini cars sold by Lamborghini company or its agencies in China. If the proposed provision is applied, such materially and physically difference shall be labeled by the distribution, which will protect the benefits of consumers.

3. Protection of Goodwill of Trademark Owners

The proposed provision also intends to avoid the damage of goodwill of trademark owners caused by parallel imports. As analyzed in Part III.C.2, if there is material difference between parallel imported products and the domestic trademarked products, the reputation and goodwill of trademark owners may be damaged.⁹² In the Lamborghini case described in the introduction, the owner of “Lamborghini” trademark thought their goodwill had been damaged.⁹³ In such circumstance, if the proposed provision is applied, the parallel importation of the Lamborghini car is infringement of trademark because of the lack of labeling of materially and physically difference, so the owner of trademark can take actions to stop such importation and require the distributor to pay damages.

IV. POTENTIAL CRITICISMS OF THE PROPOSED CHINESE PARALLEL IMPORTS PROVISION

Critics might object that the proposed provision might be difficult to be enforced and argue that if the distributor does not follow the requirement of the proposed provision, there is no punishment for such violation. In addition, critics may also think that the proposed provision would increase the burden on the distributors of parallel imported goods, which may undermine the balance of benefits of trademark owners, distributors and consumers.

A. Enforcement Problem

The enforcement of the proposed provision may be questioned as the proposed provision does not provide any method to guarantee the distributor of parallel imported goods to follow the obligation under the proposed provision. For example, some criticisms may argue that the distributors of parallel imported goods may be more likely to violate the obligation of notice required by the proposed provision as such

⁹² Original Appalachian Artworks, Inc. v. Granada Electronics, Inc., 816 F.2d 68, 73 (2d Cir. 1987).

⁹³ *Qingdao Car Owner*, *supra* note 7.

notice will obviously increase the cost of the distributors. Meanwhile, some criticisms may further argue that there is no any liability found in the proposed provision if distributors violate their obligation of notice.

However, the enforcement of the proposed provision can be governed by other provisions of Trademark Law of the PRC. As mentioned in Part IV, the proposed provision would fit in Chapter 7 of the Trademark Law of China. In addition, the proposed provision explicitly expresses that except distributors of goods of parallel imports follow the requirement mentioned in the proposed provision, the parallel importation is the supplementary for the provision of Article 57 (7) of Trademark Law, which stipulates that "causing other damage to the exclusive right of registered trademarks of others."⁹⁴ Therefore, we can make a conclusion that articles of liability of trademark infringement which apply to Article 57 will also apply to the proposed provision if the distributors fail to requirement of the proposed provision.

Subject to relevant articles of Trademark Law, there are two main ways to enforce the proposed provision, one way is the civil litigation brought by trademark owners who is the trademark holder of goods of parallel imports or consumers who purchase goods of parallel imports;⁹⁵ the other way is the investigation and prosecution made by the Administration for Industry and Commerce.⁹⁶ If the relevant administration finds or acknowledges through the complaint by any others that distributions violate the obligation stipulated in the proposed provision, the administration shall investigate such violation.⁹⁷ If there is evidence proving that the product involves in trademark infringement, the administration has the right to seal or seize such product.⁹⁸

B. Balance of Benefits

The other matter which may be questioned by critics is that the proposed provision is likely to over protect consumers of parallel imports while weaken the relevant rights of the distributors of parallel imports. They further argue that consumers should be able to figure out whether the goods they purchase are parallel imported into China or not as any products distributed in China shall be conformity with the regulations of labeling which is stipulated in Product Quality Law of the PRC.⁹⁹ Such labeling on goods or their packages shall clearly indicate the basic information of the manufacturer and product specifications.¹⁰⁰

However, as mentioned above, one of main goals of the proposed provision is to diminish the likelihood of confusions caused by parallel imports. As the requirement of Product Quality Law as to labeling does not involve in parallel imports, consumers can only infer whether goods are imported parallel from the implication in labeling. For example, if the manufacture of a product is different from that sold by the

⁹⁴ *Trademark Law of the PRC*, *supra* note 79.

⁹⁵ *Trademark Law of the PRC*, *supra* note 79, art. 60.

⁹⁶ *Trademark Law of the PRC*, *supra* note 79, art.61.

⁹⁷ *Id.*

⁹⁸ *Trademark Law of the PRC*, *supra* 79, art. 62.

⁹⁹ Chanping Zhiliang Fa (产品质量法) [Product Quality Law of the PRC] (promulgated by the Standing Comm. Nat'l People's Cong., Dec. 29, 2018, effective Dec. 29, 2018), art. 36, http://www.npc.gov.cn/npc/xinwen/2019-01/07/content_2070255.htm (China).

¹⁰⁰ *Id.* at art. 27.

trademark holders within the territory of China, that means, it is possibly imported parallel. The problem is that it is difficult for customers to compare the product consumers plan to purchase and the product sold by the trademark holders if consumers do not possess such two kinds of products simultaneously. Therefore, the current labeling stamped on goods may not help consumers avoid the likelihood of confusion. In order to reach such goal, the self-disclosure of distributors of parallel imports may be an effective way.

V. CONCLUSION

With the prosperity of China's international trade, the uncertainty of restrictions on parallel imports of trademarked goods in China may increase the risk of parallel imports and will not be conducive to the stability of international transactions. Under the proposed provision, restrictions on parallel imports have been determined and could be an effective instruction for international transaction. In addition, the proposed provision can also avoid the likelihood of confusion by noticing consumers of physical and material difference between parallel imported products and the domestic trademarked products. After the certain regulation is established, parallel imports would become the motivation to increase international transactions.