

China Newsletter  
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Intellectual Property

## PROTECTION AGAINST PARALLEL IMPORTS IN CHINA

Parallel imports have historically been difficult to protect against due to the authenticity of the goods. Due to the lack of clarity of the state of the law, trademark owners have rarely chosen to litigate on the matter. The *Michelin* judgment, handed down in April 2009, casts light on the court's perspective in dealing with such cases.

### APPLICABLE LEGISLATION

The PRC Trademark Law, together with its Implementing Regulations, were last amended in 2002. Although the legislation does not specifically mention parallel imports, domestic trademark proprietors may try to rely on Article 50(a) of the Regulations and Article 52(1) of the Trademark Law for protection. Article 50(a) of the Regulations provides that it is an infringement of the trademark proprietor's exclusive right to use a registered mark by:

“using [the mark] on identical or similar commodities or using a sign which is identical or similar to the registered trademark of other people as the name of commodity or as the decoration of commodity so that the general public are misled.”

The Regulations supplemented Article 52(1) of the Trademark Law which states that it is an infringing act to:

“us[e] a trademark that is identical with or similar to a registered trademark in connection with the same or similar goods without the authorization of the owner of the registered trademark.”

Both of these clauses, however, only protect trademark owners with registered trademarks in China.

### CONFLICTING CASE LAW?

The *Lux* case (1999) was the first ever case decided on parallel imports. The plaintiff was the Chinese exclusive licensee of the trademark “Lux”, which was originally registered in China by the foreign trademark owner. The defendant in this case parallel imported genuine “Lux” soaps made in Thailand.

The Guangzhou Intermediate People's Court held that the plaintiff had exclusive rights of the “Lux” trademark, which included the exclusive right to import, and that such a right should be protected. Without the authorization of the foreign trademark owner, the importation of the soaps was an infringement. The defendant was ordered to cease the importation.

This decision, welcomed by trademark owners, was however not followed by *An'ge* in 2000. In *An'ge*, the plaintiff argued that the two defendants infringed his exclusive right as an exclusive licensee to sell the products, and violated the business principle of honesty and credit. The plaintiff advocated therefore that it was unfair competition. The defendants argued that their activities were legal because the parallel imports followed the formal import procedures.

At first instance, the judge held that the defendants' behavior constituted legal business operations. The judge opined that parallel importer's resale activity was permissible, because contractual rights between two parties could not directly be

asserted against a third party. There were also no statutory restrictions stipulating that the buyers who bought the products must be direct consumers or users. This decision was upheld by the appeal court.

**An' ge** is a disappointing departure from **Lux**. It can however be distinguished as the plaintiff in this case did not own a registered trademark. Article 50(a) of the Regulations and Article 52(1) of the Trademark Law therefore could not apply. The plaintiffs had to rely on the Unfair Competition laws for protection. **An' ge** is therefore arguably not a departure from the **Lux** case. The latest decision in **Michelin** further affirms this position.

## THE MICHELIN DECISION

The Michelin Group brought a lawsuit against two tire dealers engaged in the unauthorized sale of authentic, Michelin-branded tires in China. Here, the tires had not been approved under the China Compulsory Product Certification (3C) system, which is a statutory system to safeguard consumers' rights and interests.

The Changsha Intermediate People's Court found in favour of Michelin Group. It held that since the products in question were subject to the inspection required by the 3C system before importation, the tires had not been legally imported into China and should not have been sold in the Chinese market.

The court also noted that because the tires had not been inspected under the 3C system, certain quality and safety issues may arise, and it is foreseeable that consumers will attribute any such problems to the Michelin Group as the manufacturer. Consequently, the standard of quality denoted by the Michelin trademark and plaintiff's reputation as a leading tire manufacturer could be substantially damaged. The court therefore found that even though the products were not counterfeit, the defendants' sales of the tires without Michelin's approval and without 3C certification constituted an infringement of the trademark owner's rights.

## SIGNIFICANCE OF MICHELIN

**Michelin** affirms the courts' approach in **Lux**, which is favourable to trademark owners. No doubt a stricter read of the case would be to interpret it as only protecting the owners where the goods are subject to the 3C certification system, or some sort of statutory quality control measure. Even then, the 3C certificate system is a very broad statutory measure covering more than 20 groups of products, including household electrical appliances, information technology equipments, telecommunication equipments, motor vehicles, etc.

**Michelin**, together with **Lux** can therefore be used as a persuasive precedent for trademark owners who are facing parallel importation by unauthorized distributors and especially where the goods are subject to statutory quality control measures.

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Should you have other enquiries, please feel free to contact us.

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