

# **The Nature of the Sale Behavior in Trademark Infringement under Chinese Trademark Law**

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## **I. Introduction**

In 2013, China has finished revising its Trademark Act<sup>1</sup> for the third time since 1980s. In Article 57, *Trademark Act 2013* lists seven different kinds of trademark infringements, they are:

- (1) using a trademark that is identical with a registered trademark in relation to identical goods without the consent of the owner of the registered trademark;
- (2) using a trademark that is similar to a registered trademark in relation to identical goods, or uses a trademark that is identical with or similar to a registered trademark in relation to similar goods, without the consent of the owner of the registered trademark, and liable to create confusion;
- (3) selling goods that are in infringement of the exclusive right to use a registered trademark;
- (4) counterfeiting, or making without authorization, representations of a registered trademark of another person, or offers for sale such representations;
- (5) changing a registered trademark and put goods bearing the changed trademark on market without consent of the owner of the registered trademark;
- (6) intentionally providing facilities to a person who infringes the exclusive right to use a registered trademark so as to help the person to execute an infringement on the exclusive right to use the registered trademark; or
- (7) causing, in other respects, prejudice to the exclusive right of another person to use a registered trademark.

According to Article 57 (3) of *Trademark Act 2013*, a trader's behavior of "selling goods that infringe the exclusive right to use a registered trademark"(I will call it "the Sale Behavior" for short thereafter in this paper) "shall be an infringement of the exclusive right to use a registered trademark". This kind of article has come into force since 1988. But as to the nature of this article, viz. the nature of the Sale Behavior in trademark infringement or the relationship with the other trademark infringement is still unsolved. To solve this problem, we should try to find out the criterion in distinguishing the indirect and indirect infringement of trademark, and think of the whole system of trademark infringement and even the scope of trademark right. All of these issues are worth some deep thinking. The core of the problem should be how to understand the meaning of "the use of trademark". During modern time, the concept of "the use of trademark" is widely discussed especially in the Internet context,<sup>2</sup> so it is very important for China to fully understand

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<sup>1</sup> Actually, the full title of the Chinese Trademark Act is *Trademark Law of the People's Republic of China*, in this paper, I shall call it *Trademark Act* for short, also, it maybe more convenient for western readers to understand what I mean when I'm refer to the statute concerning trademark in China.

<sup>2</sup> See Thomas C. Folsom, *Missing the Mark in Cyberspace: Misapplying Trademark Law to Invisible and Attenuated Uses*. 33 Rutgers Computer & Technology Law Journal 137 (2007).

the meaning of “the use of trademark”. In this paper, I’m also trying to understand why the Sale Behavior is deemed as a separate behavior of “the use of trademark”, and the influence of this mode to the understanding of “the use of trademark”.

Part II will briefly pursue the development of the rule concerning to the Sale Behavior in the Legislative History. In China, the Sale Behavior is treated as a single kind of infringement. The main reason for this is this kind of behavior happens in the field of circulation. Part III will discuss different opinions on the nature of Sale Behavior in trademark infringement among scholars; one of their focuses is on whether it belongs to the direct infringement or indirect infringement. In Part IV, I’m trying to find out the criterion in distinguishing the indirect and indirect infringement, I believe that should be whether a behavior inappropriately gets in to the scope of the exclusive rights of a trademark. To determine the scope of the trademark exclusive rights, we should choose the concept of “the use of trademarks” rather than the likelihood of confusion as the sole criterion. Based on this criterion the Sale Behavior should belong to the indirect infringement of trademark. Part V will discuss the problems arising because of the special treatment of the Sale Behavior in Chinese Trademark Law, particularly which leads to some disorders in the system of trademark infringement and trademark rights. Such as there may be some violation of the rule of Identity when we are trying to understand the meaning of “the use of trademark” in the specific articles in the Trademark Act; it tends to split the connection between sale of goods and confusion, especially in the OEM cases; thus, it is very difficult to explain the exhaustion of trademark right under this mode.

Therefore, it is better for Chinese Trademark Law to reconstitute the nature of the behavior sale of goods to “the use of trademark”.

## II. An Overview of the Legislative History

In the original version of Chinese Trademark Statue -*Trademark Act 1982*, there was no article concerning the Sale Behavior. The rule concerning this kind of behavior was introduced during the amending of the Trademark Acts and Implementing Regulations<sup>3</sup>.

### A. Implementing Regulations 1988

As sated above, there was no article concerning the Sale Behavior *Trademark Act 1982*<sup>4</sup> and neither did the *Implementing Regulations 1983*. At that time there were two opposite opinions concerning to the Sale Behavior, one deemed it as a trademark infringement while the other totally denied.<sup>5</sup> The *Implementing Regulations 1988* introduced an article to regulate this kind of behavior and deemed it as a trademark infringement. According to Article 41 (1), the behavior of

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<sup>3</sup> The full title of Implementing Regulations is *Implementing Regulations of the Trademark Law of the People's Republic of China*.

<sup>4</sup> According to Article 38 of *Trademark Act 1982*, the trademark infringement included: (1) using a trademark that is identical with or similar to a registered trademark in respect of the same or similar goods without the authorization from the trademark registrant; (2) making or selling counterfeited registered trademark without authorization; and (3) impairing in other manners another person's exclusive right to the use of its registered trademark.

<sup>5</sup> Guansheng Shen. *Theories and Practices in Chinese Trademark Law*, 257-258 (Beijing: People's Court Press, 1993).

“selling goods that infringe the exclusive right to use a registered trademark” belonged to the “other manners” in Article 38 (3) of *Trademark Act 1982*. The rationale of this article was that although the seller “does not produce or make the goods that infringe the exclusive right to use a registered trademark, nor dose he use the trademark that is identical with or similar to a registered trademark in respect of the same or similar goods”,<sup>6</sup> from the point of view about the results of this kind of behavior, “to sell goods with a counterfeited trademark would cause great damages to other traders’ reputation as well as the consumer’s interests”.<sup>7</sup>

### **B. Trademark Act 1993**

During the first amendment of Trademark Act, at first, there was also no article concerning the Sale Behavior in the draft act in December 1992. That might because there had already been an article in *Implementing Regulations 1988* concerning to the Sale Behavior. In the next version the draft act in February 1993, traders who was “selling goods with a counterfeited trademark knowingly” was deemed as a crime. In order to deal with the worsening of the counterfeiting of trademarks, it was necessary to stop this kind of behavior in the phase of circulation. But at that time, it was thought that “the counterfeiting behavior and the sale of counterfeited goods are totally different in nature”,<sup>8</sup> so the Sale Behavior should be treated as a separate kind of behavior distinguishing from the counterfeiting behavior. This was the first time when the rule regulating the Sale Behavior was introduced in to criminal law. The *Criminal Law 1997* retained this kind of article and it is still in force until now. Accordingly, an article concerning the Sale behavior similar to the criminal rule was introduced in to Article 38 (2) of *Trademark Act 1993*, so the behavior of “selling goods with a counterfeited trademark knowingly” was a separate kind of trademark infringement.

### **C. Implementing Regulations 1993**

Although the Sale Behavior was introduced in to *Trademark Act 1993*, the corresponding article in the *Implementing Regulations* was not cancelled; instead, it was amended into “selling goods with a counterfeited trademark knowingly (or should know)”,<sup>9</sup> and it belonged to the “other manners” in Article 38 (4) of *Trademark Act 1993*. Obviously, the rules concerning the Sale Behavior overlapped in *Trademark Act 1993* and *Implementing Regulations 1993*. But this article was preserved in *Implementing Regulations 1995* and *Implementing Regulations 1999*. So, during that period, “the trader who should know what he sold were counterfeited goods was deemed as a trademark infringer”.<sup>10</sup>

### **D. Trademark Act 2001 and Trademark Act 2013**

During the second amendment of Trademark Act, the Article 38 (2) of *Trademark Act 1993* was

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<sup>6</sup> Id, 257.

<sup>7</sup> Zhixin Hao, *Carry though the New Implement regulations, Strengthen the Protection of Trademark*. 1 Industrial Property 1, 2 (1998).

<sup>8</sup> Wei Jiang, *Research on the Criminal Protection of Intellectual Property*, 108 (Beijing: The Law Press, 2004).

<sup>9</sup> Article 41 (1) of *Implementing Regulations 1993*.

<sup>10</sup> Xujiu Zhang, *A Course of Trademark Law*, 200 (Beijing: The Law Press, 1996).

modified as “selling goods that infringe the exclusive right to use a registered trademark” in Article 52 (3) of *Trademark Act 2002* which was the same as Article 41 (1) of *Implementing Regulations 1983*. At the same time, Article 56 (3) of *Trademark Act 2002* provided “Where a person unknowingly sells goods which represent an infringement upon another person’s exclusive right to the use of a registered trademark but can prove that they are obtained by himself lawfully and can identify the supplier, he shall not bear the liability to pay compensation”. Accordingly, the *Implementing Regulations 2002* cancelled the similar rule concerning the Sale Behavior in Article 50. So, the rules regulating the Sale Behavior in civil law and criminal law were separated since 2001.

After the third amendment of Trademark Act, *Trademark Act 2013* retains this mode which treats the Sale Behavior as a separate kind of infringement from the use of trademark without authorization.

The brief legislative history of the rules concerning the Sale Behavior shows that it was deemed as a separate kind of infringement from “the use of trademark” without authorization from the beginning when it appeared in Chinese Trademark Law. According to the original records, what did the “legislators” think was that the Sale Behavior is a separate kind of trademark infringement which happens in the circulation of the goods, not in the production of goods as “the use of trademark”,<sup>11</sup> “the law should not only enjoin the counterfeit of trademark in the production of goods, but also prevent the sale of goods with counterfeited trademarks in the circulation of the goods”.<sup>12</sup>

The table below summarizes the changing and developments of the rules concerning the Sale Behavior in Chinese trademark law.

**Table A** The Development of the Rules Concerning the Sale Behavior

<i>Trademark Act</i>		<i>Implementing Regulations</i>	
1982	none	1983	none
		1988	selling goods that infringe the exclusive right to use a registered trademark
1993	selling goods with a counterfeited trademark knowingly	1993	selling goods with a counterfeited trademark knowingly (or should know)
		1995	as above
		1999	as above
2001	selling goods that infringe the exclusive right to use a registered trademark	2002	none
2013	as above	2014	as above

<sup>11</sup> Xiawu Bian ed., *Interpretation of the Trademark Law of the People’s Republic of China*, 122 (Beijing: The Law Press, 2002).

<sup>12</sup> Lianfeng Wang, *Trademark Law*, 141 (Beijing: Peking University Press, 2007).

### III. Different Opinions on the Nature of the Sale Behavior

To figure out the nature of the Sale Behavior in Chinese trademark law, first of all, we have to make clear of the relationship between all the subcategories of trademark infringements in the Trademark Act. As stated above, there are seven kinds of trademark infringements listed in Article 57 of *Trademark Act 2013*, among these subcategories, the first two which concerning to “the use of a trademark” are deemed as the most basic which are the cores in the system of trademark infringements, while the others are supplements to them or derived from them.<sup>13</sup> This kind of opinion is based on the actual results or the necessities of protection of different subcategories of trademark infringements, as one scholar in China criticized that actually this mode “does not distinguish between the direct and indirect infringement, and even does not distinguish between the trademark infringement and the behavior belongs to unfair competition”.<sup>14</sup> As to the nature of the Sale Behavior in Chinese trademark law, there are different opinions among Chinese scholars; I’ll make a short introduction of them one by one.

#### A. Direct Infringement

From the point of view of the wording of Article 57 of *Trademark Act 2013*, it is said that among all of the subcategories of trademark infringements, the intent of the defendant is not required, so they are all belong to the direct infringement.<sup>15</sup> But as to whether the Sale Behavior is direct infringement or not, we cannot presume from the elements required in the article in Trademark Act, we have to find some other criteria from the behavior itself. The criteria which the opinion holding the Sale Behavior belong to direct infringement are as below:

##### a. Confusion

According to this view, “the basic function of the trademark is to distinguish the origin of the goods, so “the happen of confusion” (accurately the likelihood of confusion) is the fundamental element in establishing the direct infringement of trademark”,<sup>16</sup> the likelihood of confusion is the criterion which is used to distinguish between the direct and indirect infringement. As to the Sale Behavior, it is claimed that “because the behavior of using of a trademark that is identical with a registered trademark in relation to identical goods would usually result in the confusion of the consumer, if this kind of goods were offered for sale by the seller, it will be reasonably anticipated that it will also result in the confusion of the consumer, so,...this kind of behavior belongs to the direct infringement”.<sup>17</sup> From the point of view of the result of the specific behavior, “the seller, as the producer of the goods which are in infringement of the exclusive right to use a registered trademark, they all cause the confusion of the origin, cause damage to the trademark owner and to

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<sup>13</sup> Xiangjun Kong, *Trademark and Unfair Competition Law: Theories and Cases*, 173 (Beijing: The Law Press, 2009).

<sup>14</sup> Yang Li, *Fundamental Principles of Intellectual Property Law*, 867 (Beijing: Chinese Social Science Press, 2010).

<sup>15</sup> Qiang Wan & Linghong Wang, *Research on the Indirect Infringement of Intellectual Property*, 125 (Renmin University of China Press, 2008).

<sup>16</sup> Mingjiang Liu, *Research on the Effectiveness and Limitations of Trademark Right*, 87 (Beijing: Intellectual Property Press, 2010).

<sup>17</sup> Supra. Qiang Wan & Linghong Wang, 130.

the welfare of the consumers. So, the Sale Behavior should be an infringement to trademark ...”<sup>18</sup>

## **b. Use of Trademark**

According to this view, the criterion which is used to distinguish between the direct and indirect infringement should be if the behavior of the defendant gets into the scope of the prohibition scope of trademark right, whether it belongs to the prohibited behaviors of the defendant in “the use of trademark” according to the Trademark Act. As to the Sale Behavior, it is claimed that it belongs to “the use of trademark”.<sup>19</sup> From the point of view of the nature of the specific behavior, “this kind of behavior is someone directly uses certain mark as a distinguishing mark, and will result in the confusion of the consumer, so it influences the distinguishing function of a trademark, it can be called direct infringement of trademark”.<sup>20</sup> The Sale Behavior is a typical kind of “the use of trademark”,<sup>21</sup> so it is “the use of trademark in the circulation of goods”,<sup>22</sup> which is of the same nature as “the use of trademark” in the production of goods.

## **B. Indirect Infringement**

It is also held that, the rule concerning the Sale Behavior “is very important in enjoining this kind of indirect infringement”.<sup>23</sup> The criteria which the opinion holding the Sale Behavior belong to indirect infringement are as below:

### **a. The Stage when the Infringement Happens**

According to this view, all the behaviors which happen beyond the production of goods belong to the indirect infringement. It is held that in Article 57 of *Trademark Act 2013*, the first two clauses which are about the infringements by “the use of trademark” “usually happen in the production of goods, so they belong to the direct infringement...the others are derived from these clauses”.<sup>24</sup> The Sale Behavior happens in the circulation of goods, “this kind of behavior is not involved in the use of trademark, so it is just an indirect infringement of trademark”.<sup>25</sup> This view is in line with the rationale as stated above in the legislative history of the rules concerning the Sale Behavior Chinese Trademark Law. This view was extended by some scholar to claim that although the Sale Behavior does not belong to “the use of trademark”, but it does contribute to the direct infringer, that is the producer of goods with counterfeited trademarks, to achieve their goals.<sup>26</sup> Therefore, the Sale Behavior belongs to the contributory infringement which is a subcategory of indirect infringement of trademark.

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<sup>18</sup> Supra. Xiawu Bian ed., 122.

<sup>19</sup> Hui Huang, *Trademark Law*, 114 (Beijing: The Law Press, 2004).

<sup>20</sup> Hongguang Deng, *Foundation of Trademark Law: On the Distinctiveness of Trademark*, 188 (Beijing: The Law Press, 2008).

<sup>21</sup> Liang Li, *Cognizance of Trademark Infringement*, 120 (Beijing: Chinese Procurators’ Press, 2009).

<sup>22</sup> Id., 125.

<sup>23</sup> Kaizhong Hu, *A Course of Trademark Law*, 175 (Beijing: Renmin University of China Press, 2008).

<sup>24</sup> Jiagui Zhu, *Theories and Practices of Trademark Infringement*, 26 (Beijing: The Law Press, 2010).

<sup>25</sup> Id., 18.

<sup>26</sup> Lizhao Ge & Zaoyu Xing, *Intellectual Property Law*, 382 (Hangzhou: Zhejiang University Press, 2008).

## **b. The Function of Trademark**

According to this view, not all the behaviors which do not fall in the scope of “the use of trademark” belong to the indirect infringement. “The so called ‘use of others’ trademark as the defendant’s trademark’, means that the defendant should use the others’ trademark as a sign of indication of the origin of its goods or distinguishing its goods in the market, viz. to use the others’ trademark in the sense a trademark as a indicia of origin”.<sup>27</sup> Because the “indication of origin is the fundamental function of a trademark, and the natural quality of a trademark”,<sup>28</sup> only the behavior which is the use the others’ trademark as a sign of indication of the origin of its goods belongs to the direct infringement of trademark, while the others belong to the indirect infringement. The Sale Behavior is a “Quasi-Infringement of Trademark”, which refers to not use the trademark as indicia of origin in the sense state in Article 57 of *Trademark Act 2013*, but use in the other sense and may cause damage to the trademark owner.<sup>29</sup> So the Sale Behavior belongs to the indirect infringement.<sup>30</sup>

All the chaos on the nature of the Sale Behavior among Chinese scholars reminds us that there is no consensus about the concept of direct infringement and indirect infringement, the core in this issue is there are different opinions on the criteria of the distinction between the two. So, first of all, it is necessary to discuss the real or appropriate criterion of the distinction between the direct and indirect infringement of trademark which forms the premise of understanding the nature of the Sale Behavior.

## **IV. The Distinction between the Direct and Indirect Infringement**

Essentially, Intellectual Property is “a right to monopolize the customers to prevent the competitors selling the same kind of goods”.<sup>31</sup> So, “based on the absoluteness of the ‘exclusive right’, to anyone who gets into to scope of the exclusive right without the authorization of the trademark owner or by law is liable for directly infringing this right”;<sup>32</sup> while the indirect infringement mainly refers to anyone who “...knowingly induces other people behaving as direct infringement, or contributes to the direct infringement when he knows or should have know that someone is going to infringe or is infringing others’ trademark right”.<sup>33</sup> The indirect infringement is a inducement or contribution in essence, this kind of behaviors would cause damages to trademark owner, but they are beyond the scope of the exclusive right of trademark, this concept is just opposite to the direct infringement. The criterion to distinguish direct infringement from indirect infringement should be if the defendant's behavior gets into the scope of the exclusive right of Intellectual Property. In the dimension of trademark, such problem can be decomposed into two questions below: (1) how to draw out the scope of the exclusive right of trademark, the right to use or the right to prohibit; and (2) how to judge if one specific behavior gets into the

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<sup>27</sup> Supra. Yang Li, 12.

<sup>28</sup> Defen Zhang, *The Reconstruction of the Criterion of the Use of Trademark*, 3 Intellectual Property 11, 12 (2012).

<sup>29</sup> Supra. Yang Li, 869.

<sup>30</sup> Id.

<sup>31</sup> Tetsuo Tomita, *Intellectual Property in the Competition in Market*, translated by Zhengheng Liao, 13 (Beijing: The Commercial Press, 2000).

<sup>32</sup> Supra. Qian Wang & Linghong Wang, 98.

<sup>33</sup> Id, 3.

scope of the exclusive right, “the likelihood of confusion” or “the use of trademark”.

### A. The Scope of the Exclusive Right in Trademark

In trademark law, the scope of the right to use trademark (the right to use) and the right to prohibit others to use trademark (the right to prohibit) are not exactly the same.

The scope of the right to use a registered trademark is limited to “trademarks which have been approved for registration and to commodities on which the use of a trademark has been approved”.<sup>34</sup> If we choose the right to use to draw out the scope of the exclusive right, the concept of direct infringement would be very narrow; alternatively, the concept of indirect infringement would be too broad.<sup>35</sup> Take Japan for example, according to Article 25 of *Japanese Trademark Act*, “The holder of trademark right shall have an exclusive right to use the registered trademark in connection with the designated goods or designated services”. Only such behaviors listed above are infringements of trademark. But according to Article 37, several kinds of behaviors do not appear in Article 25 are deemed as infringement, viz. indirect infringement.<sup>36</sup> So, in Japan, the Trademark Act treats the use of trademark on the appointed kind of goods as the object of the trademark right, anyone who use the trademark in this sense without the authorization of the trademark owner would be liable as this behavior is the direct infringement of trademark. The other behaviors which fall into the scope of the right to prohibit are also deemed as infringement of trademark, they are called indirect infringement.<sup>37</sup> Whereas, if we do a detailed review of all the behaviors listed in Article 37, we can put them in the categories below: the first clause is the infringement of the right to prohibit; clauses 2 to 6 are behaviors that preparing to infringe the right of trademark;<sup>38</sup> clauses 7 and 8 are the inducement and contribution of infringement. This mode which only treats infringing the right to use as direct infringement causes the meaning of indirect infringement becoming so broad that there is no coherent logic in it. So, it is not appropriate to choose the right to use to draw out the scope of the exclusive right.

Differing from the property in tangibles which is a right to control, the Intellectual Property is a right to prohibit in the first sense.<sup>39</sup> So, the scope of the exclusive right should be drawn from the perspective of the right to prohibit.<sup>40</sup> In trademark law, the scope of the right to prohibit is broader than the right to use, “the reason why the law gives broader protection in the right to prohibit lies in the consideration of the protection of the fair competition in trade”.<sup>41</sup> The right to use is only part of the effect of trademark right; the scope of the trademark right should be defined by the right to prohibit. One scholar points out that “except for the direct infringement derived from the

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<sup>34</sup> See Article 56 of *Trademark Act 2013*.

<sup>35</sup> See Chenmingru Zeng & Mingcheng Cai, *Theories of Trademark Law*, 123 (3<sup>rd</sup> ed. Taipei: Xinxuelin Press Co., 2007).

<sup>36</sup> Chikako Mori etc., *Practices of Trademark Law in Japan*, 106 (Beijing: Intellectual Property Press, 2012).

<sup>37</sup> Nobuo Monya ed., *50 Lectures on trademark Law*, translated by Qixue Wei, 215-216 (Beijing: The Law Press, 1987); Toshio Egvchi, *Interpretations on Trademark Act in Japan*, translated by Qixue Wei, 186-187 (Beijing: Patent Information Press, 1982).

<sup>38</sup> Id., Toshio Egvchi, 188.

<sup>39</sup> Sanqiang Qu ed., *Modern Intellectual Property Law*, 8 (Beijing: Peking University Press, 2009).

<sup>40</sup> Chuntian Liu ed. *Intellectual Property Law*, 209 (Beijing: Higher Education Press & Peking University Press, 2007).

<sup>41</sup> Xinliang Tao & Zhenfu Yuan, *Pandect of Intellectual Property Law*, 213 (Beijing: Intellectual Property Press, 2005).



right to use, which kinds of behaviors can be direct infringement all depend on the scope of the right to prohibit according to the trademark acts".<sup>42</sup> In Japan, some scholar doesn't agree with the distinction stated above, and claims that "it is necessary to treat the use of similar mark or on similar goods as direct infringement either ...and the others as indirect infringement".<sup>43</sup> In the US and EU, it is of the same opinion that the criterion of defining the scope of the exclusive right of trademark should be the right to prohibit.<sup>44</sup>

## **B. "The Use of Trademark" Criterion and the Scope of Trademark Right**

As stated above, there are two alternative criteria which are possible in judging whether the defendant's behavior traps into the scope of the exclusive right of trademark, one is the likelihood of confusion; the other is the use of trademark.

The criterion of the likelihood of confusion is not an appropriate one. The indirect infringement refers to "although the defendant's behavior is not a direct infringement it may cause damage to the plaintiff and the consumers".<sup>45</sup> The distinction of the direct and indirect infringement lies in the difference of elements required during the action, which is the basic goal of this distinction. But this is the result of the distinction not the criterion to make the distinction. Logically, the criterion of the distinction should be the behavior itself, viz. whether the defendant's behavior traps into the scope of the exclusive right of trademark. It is the nature of the defendant's behavior determines the different elements required in the litigation. Generally speaking, the likelihood of confusion is one of the elements of trademark infringement, and is the most important one.<sup>46</sup> So, if we choose the likelihood of confusion as the criterion in the distinction between the direct and indirect infringement, we would mistaken the result with the causation in logic.

We should choose the use of trademark as the criterion in this distinction. In the structure of trademark right, both the right to use and the right to prohibit are designed to control the use of trademark, "the dimension of trademark protection should be defined by the use of trademark, any other behaviors beyond the use of trademark does not belong to the trademark infringement, although it may be an unfair competition or even a fair use which is do an infringement".<sup>47</sup> It has been pointed out that "although the defendant uses the trademark, not in the sense of trademark use (use as a trademark), but as a descriptive of the name, place, quality, quantity and function etc., or as a trade name, get-up, domain name etc., it may be applied to the law of unfair competition, but not the infringement of trademark".<sup>48</sup> The *Lanham Act* in the US only lists the behaviors which belongs to the direct infringement,<sup>49</sup> according this act, to establish a litigation against the defendant the plaintiff should prove (1) the plaintiff owns and uses the trademark; (2) the defendant uses the trademark without the consent of the plaintiff; and (3) the defendant's behavior

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<sup>42</sup> Supra. Qian Wang & Linghong Wang, 100.

<sup>43</sup> Supra. Nobuo Monya, 216.

<sup>44</sup> See *Lanham Act* Article 32 and *Implementing Council Regulation (EC) on Trademark* Article 5.

<sup>45</sup> Supra. Yang Li, 869.

<sup>46</sup> Yumin Zhang, *Application of Rules in the Trademark Infringement Case concerning OEM*, 4 Intellectual Property 70, 72 (2008).

<sup>47</sup> He Guo, *A Course of Trademark Law*, 151 (Beijing: Intellectual Property Press, 2004).

<sup>48</sup> Supra. Yang Li, 853.

<sup>49</sup> See *Am. Tel. & Tel. Co. v. Winback and Conserve Program, Inc.*, 42 F.3d 1421, 1429 (1994).

causes confusion of the consumers and damages to the plaintiff.<sup>50</sup>

### C. The Sale Behavior should be Included in “the Use of Trademark”

As opposed to copyright law and patent law which list all the different rights the trademark law only summarizes the right of the trademark owner as “the use of trademark”. This mode causes a mess in the understanding of the meaning of “the use of trademark”. Most of the Trademark Acts in different countries list all the different kinds of trademark use in detail.

Differing from China, the *Lanham Act* in the US defines the use of trademark in Article 45 that the “use in commerce” includes the use “(1) on goods when—(A) it is placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto, or if the nature of the goods makes such placement impracticable, then on documents associated with the goods or their sale, and (B) the goods are sold or transported in commerce...” The courts in the US tend to explain the trademark use in a broader sense, in determine whether the defendant's behavior is the use of trademark is “... whether it involves ‘commerce’ in the dictionary sense - offering goods or services to the public”.<sup>51</sup> So, the essence of the use of trademark is offering goods to the public and the Sale Behavior definitely within this concept. The Article 9 in *Implementing Council Regulation (EC) on Trademark* provides in the first section that “...The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade”, in Section 2, the use of trademark includes “(a) affixing the sign to the goods or to the packaging thereof; (b) offering the goods, putting them on the market or stocking them for these purposes under that sign, or offering or supplying services thereunder; (c) importing or exporting the goods under that sign; (d) using the sign on business papers and in advertising”. There are similar articles in Trademark Acts in UK and German.<sup>52</sup> According to Article 2 of *Japan Trademark Act*, the behavior “to assign, deliver, display for the purpose of assignment or delivery, export, import or provide through an electric telecommunication line, goods or packages of goods to which a mark is affixed” belongs to the use of trademark. In these countries, the Sale Behavior belongs to the use of trademark.

Although in Article 48 of *Trademark Act 2013*, “The use of trademarks referred to in the Trademark Law and these Regulations include, among other things, the use of trademarks on goods, Packages or containers thereof and commodity trading instruments, or use of trademarks in advertisements, exhibitions and other commercial activities...” But if the Sale Behavior belongs to the use of trademark is not beyond any doubt. This mess derives from the mode of Chinese Trademark Act introduced above. We have to face up the awkward in using the criterion to decide the nature of the Sale Behavior based on Chinese Trademark Law. If we treat the Sale Behavior as one way of using of trademark and come to the conclusion that it is a direct infringement, we have to harmonize the different meaning in different clauses in *Trademark Act 2013*, I’ll discuss this issue in the next section; and if we do not treat the Sale Behavior belonging to the use of

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<sup>50</sup> See *Star Fin. Servs., Inc. v. AASTAR Mortgage Corp.*, 89 F.3d 5, 9 (1st Cir. 1996); *Venture Tape Corp. v. McGills Glass*, 540 F.3d 56 (1st Cir. 2008); *Hearts on the Fire Company, LLC v. Blue Nile, INC.*, 603 F. Supp. 2d 274, 280 (Dis. Mass., 2009).

<sup>51</sup> Mary LaFrance. *Understanding Trademark Law*, 178 (2nd ed. LexisNexis, 2009).

<sup>52</sup> See Trademark Act in UK Article 10 and Trademark Act in German Article 14.

trademark and come to the conclusion that it is an indirect Infringement, then we cannot explain that the intent of the defendant is not essential in the litigation based on the theory of indirect infringement.

## **V. Disorders in Trademark Infringement and Trademark Rights**

For a long time, the Trademark Acts treat the Sale behavior as a separate kind of infringement; this mode causes a narrowly understanding of “the use of trademark” which limits it in the production of goods.<sup>53</sup> Although this mode shows that the Trademark Act in China treats the Sale behavior as one of the most important kind of trademark infringement, but this simple idea neglects the whole system of trademark rights and trademark infringements, “the use of trademark” is divided into two different areas, one happens in the production of goods, the other which is the Sale behavior happens in the circulation of goods.

### **A. The Conflict Meaning of “the Use of Trademark”**

Logically, “the concept is the minimum unit of thought, so to keep the concept identified with itself is the foundation of the stable thought and the pre-condition of the effective argument”.<sup>54</sup> This is the rule of identity in logic. But in Article 57 of *Trademark Act 2013* could not obey this rule especially concerning the concept of the use of trademark. According to Article 57 (3), the Sale behavior is a “trademark infringement”, but it is based on another kind of “trademark infringement”. Obviously, these two terms are not the same in their meaning. And according to Article 56, the use of trademark should include the Sale Behavior by the trademark owner, but in Article 57, the same term has different meaning which is not include the Sale Behavior of the defendant. So, there are some difficulties in the interpretation of the Trademark Act.

### **B. Separate the Sale Behavior form Confusion**

The mode concerning the Sale behavior of Trademark Act in China treats it different from the use of trademark. In the decisions, the courts in China tend to deal with the issue of if there is the use of trademark therefore causes confusion of consumers at first, and then deal with if there is a Sale behavior. This kind of routines separates the Sale Behavior form confusion.

First, the sale of goods infringing the trademark rights which are manufactured by the defendant is divided into two distinct issues, one is the use of trademark; the other is the sale of goods. For example, in *Guangdong Eyu Co. v. Lacoste C.*, the court pointed out that the defendant “has sold one ‘FALIE T-shirt’...this is similar with the plaintiff’s trademark... and the sale of ‘FALIE T-shirt’ is a trademark infringement”.<sup>55</sup> This distinction is meaningful in Criminal Law, because they are treated as different criminals according to *Criminal Act 1997*; but it is not an appropriate distinction in Civil Law, because in essence they are all of the same nature.

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<sup>53</sup> Benschubianxiez, *The Interpretation and Application of Trademark Law*, 421 (Beijing: Industrial and Commercial Press, 2008).

<sup>54</sup> Qi Yong, *Logic in Law*, 352-352 (Beijing: The Law press, 2004).

<sup>55</sup> (2012) GAOMINZHONGZI No. 1235.

Second, the sale of goods infringing the trademark rights which are manufactured by the other person who is not the defendant is deemed as a separate behavior which is not relevant to confusion. For example, in *Guangdong Moumou Culture Co. v. Liu Moumou*, the court claimed that “the goods which are in the same category with the goods which the plaintiff’s trademark have been registered on... and the mark used on the goods are similar with the plaintiff’s trademark as a whole, so it may definitely cause confusion of the origin. The defendant who sell this kind of goods... is liable for infringing the plaintiff’s trademark right”.<sup>56</sup> In *Sichuan Lingong Co. v. Chongqing Huabo Co. etc.*, the court held that “the defendant – DUKANG Co. – uses ‘BAISHUIDUKANGHONGAITOUJIU’ as the name of its products which is not similar to the defendant’s trademark, so DUKANG Co. is not liable for infringement of the plaintiff’s trademark... So, the Sale Behavior of Huangmajia Co. and Huabo Co. – the other two defendants – is not liable for infringement of the plaintiff’s trademark, too”.<sup>57</sup> As a result, the confusion is caused by the producer not by the seller of the goods.

Influenced by this kind of logic, the Chinese courts tend to focus on the similarity between the goods and trademarks, and do not care if the good have been put into the markets. This is obvious in the OEM (Original Equipment Manufacture) cases.<sup>58</sup> Based on the presumption that the infringement of the use of trademark is limited in the production of goods, the defendants attached the trademark onto the good without the authorization of the trademark owner but upon the request the other person, most of the courts tend to come to the decision that the defendant have infringed the plaintiff’s right although the goods are not sale in China.<sup>59</sup> There are some critics about this logic, from the point of view of the effect of OEM, “the goods are all sold abroad and not in the home market, the OEM company is not in the competition with the trademark owner in China”,<sup>60</sup> and it is impossible to cause confusion of consumers. So, “some courts begin to hold that the function of trademark is to help the consumers figure out the origin of the goods sold in the market, so the confusion of the consumers is the presumption in deciding if there is a trademark infringement. The OEM goods are not offered for sale in China, there is not issue of if it infringes the trademark right”.<sup>61</sup>

Based on the function of trademark, the use of trademark in Trademark Law should be referred to the use which can achieve to goal to use a trademark as the indication of origin of the goods it attached to.<sup>62</sup>

### C. Narrowing the Space of Interpretation of Trademark Act

The logic which limits the use of trademark in the production of goods and treats the Sale Behavior as a separate kind of infringement narrows the space of interpretation of Trademark Act.

<sup>56</sup> (2011) CHANGZHONG MINWUCHUZI No. 0652.

<sup>57</sup> (2011) YU GAOFA MINZHONGZI No. 00280.

<sup>58</sup> Original Equipment Manufacture(OEM) refers to a mode that manufactures products or components that are purchased by another company and retailed under that purchasing company’s brand name.

<sup>59</sup> Jianxiong Yi, *Chioce of Atitude to Disputes About the Infringement of Trademark in OEM*, 3 Intellectual Property 23, 25 (2009).

<sup>60</sup> Id., 27.

<sup>61</sup> Yurui Zhang, *The Confusion of Consumer is not the Presumption of Trademark Infringement*, Interllectual Property in China, 14 Sep. 2014.

<sup>62</sup> Supra. Yumin Zhang, 73.

That is how to interpret the word “sale” in Article 57 (3). Such as if tying belongs to “sale”, some courts held that it is “sale” under Article 57 (3).<sup>63</sup> The others are, for example, whether the “sale” includes offering for sale, exchange, export, or even exhibit as advertisement, etc.<sup>64</sup> Besides, if import of goods can be interpreted into the “sale” clause of Article 57 (3). These are all the difficulties caused by use the single word “sale” in Article 57 (3).

#### **D. Difficulties in the Explaining of Exhaustion of Trademark Right Doctrine**

The Exhaustion means that “the good which can obtain the protection of intellectual property can be used and transferred without limitation after the first sale with the authorization of the right owner or the licensor”,<sup>65</sup> it is also call the First-to-Sale Doctrine. The aim of the Exhaustion of Trademark Right Doctrine is to prevent the trademark owner control the sale of good through their rights, and block the ways of the circulation of goods.<sup>66</sup> The presumption of the Exhaustion of Trademark Right is that the goods which come into the market with the legal authorization, on the contrary if there is no authorization, the trademark owner can control the sale of these goods because there is an infringement. This is the evidence that there is a right to sale in the trademark right.<sup>67</sup>

Generally speaking, Article 57 prescripts the trademark right by listing the infringements of trademark.<sup>68</sup> By separating the Sale Behavior form the use of trademark, there comes an issue that whether the trademark right includes the right to sale. Most of the scholars tend to use Article 57 (1) and (2) to define the scope of the right to prohibit of trademark, but as stated above, in these clauses, the use of trademark does not include the Sale Behavior, so the use of trademark in Article 56 dose not include the Sale Behavior, too. Obviously, there is a contradiction in the explaining of Exhaustion of Trademark Right Doctrine.

### **VI. Conclusion**

The categories of trademark infringement listed in the Trademark Act should be based upon the system of trademark right and trademark protection. The separation of the Sale Behavior from “the use of trademark” in Chinese Trademark Law reflects the simple idea concerning in which phase of circulation this kind of behavior usually happens, but it causes many issues about the system of trademark right and trademark protection. So, it is better for Chinese Trademark Law to reconstitute the nature of the behavior sale of goods to the use of trademark.

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<sup>63</sup> Geng Zhang ed. *The Law of Trade Symbols*, 234 (Xiamen: Xianmen University Press, 1006).

<sup>64</sup> Id., 234.

<sup>65</sup> Supra. Sanqiang Qu, 247.

<sup>66</sup> Ying Du, *The Social Progress and the Idea of Trademark: The Past, Present and Future of Trademark Law*, 23 (Beijing: Peking University Press, 2012).

<sup>67</sup> Liang Li, *Exhaustion or Limitation of Rights in Trademark Law?* 1 Research on Rule of Law 73, 76 (2008).

<sup>68</sup> Qibin Zheng, *The Nature of the Trademark Right*, 44 (Beijing: People’s Court Press, 2009).