IRSTI 10.87.79

Ma Xuxia

PhD, assistant professor of Law School, Zhejiang University of Finance and Economics,
China, Zhejiang, e-mail: xuxiama3-c@zufe.edu.cn

COMPARATIVE STUDY ON JUDICIAL PRACTICES TOWARD PARALLEL IMPORTS OF EU, CHINA AND KAZAKHSTAN

Parallel importation has drawn the attention of public with the increasing of free trade zone and rising of new model of business on the E-Commerce platform. In such a context, trademark infringement concerning parallel importation is gradually rampant. Determining trademark infringement in parallel importation focuses on how to decide the existence of «likelihood of confusion». The different elements involved in the judicial practices in Europe Union, China and Kazakhstan reflects the trend of legal convergence and divergence in the context of globalization. Judicial practices of European Court of Justice toward deciding «likelihood of confusion» in parallel importation coordinates conflicts between free trade and trademark protection, further specifies the types of confusion and makes the determination more flexible. Such flexibility offers theoretical and applicable references for China and Kazakhstan to deal with the new challenge of trademark protection on the premise of promoting unimpeded trade cooperation along «one belt one road».

Key words: parallel importationtrademark infringementlikelihood of confusion;judicial protection.

Ma Xuxia

PhD докторы, Чжэцзян Қаржы және экономика университеті құқық мектебінің доценті,
Қытай, Чжэцзян, e-mail: xuxiama3-c@zufe.edu.cn

ЕО, Қытай және Қазақстанның параллельді импортқа қатысты сот тәжірибесін салыстырмалы зерттеу

Параллельді импорт еркін сауда аймағының ұлғаюымен және электрондық коммерция платформасында бизнестің жаңа моделінің өсуімен жұртшылықтың назарын аударды. Бұл тұрғыда параллель импортпен байланысты тауар таңбаларына құқықтардың бұзылуы біртіндеп өсуде. Параллельді импорт кезінде тауар белгісіне құқықтардың бұзылуын айқындау «шатасу ықтималдығының»болуын қалай анықтауға бағытталады. Еуропалық Одақтағы, Қытайда және Қазақстандағы сот тәжірибесінің әр түрлі элементтері жаһандану контексіндегі құқықтық жақындасу мен алшақтық үрдісін көрсетеді. Еуропалық соттың параллельді импорт кезінде «шатасудың ықтималдығы» ұйғарымына қатысты сот практикасы еркін сауда мен тауар белгілерін қорғау арасындағы қақтығыстарды үйлестіреді, шатасудың түрлерін қосымша нақтылайды және ұйғарымды неғұрлым икемді етеді. Мұндай икемділік Қытай мен Қазақстанға «Бір белдеу-бір жол»бойынша кедергісіз сауда ынтымақтастығына жәрдемдесу негізінде тауар белгілерін қорғаудың жаңа проблемасын шешу үшін теориялық және практикалық ұсынымдар береді.

Түйін сөздер: параллель импорт, тауар таңбасының бұзылуы, шатасу ықтималдығы, соттық қорғау.

Ma Xuxia
доктор PhD, доцент Школы права Университета финансов и экономики Чжэцзян,
Китай, г. Чжэцзян, e-mail: xuxiama3-c@zufe.edu.cn

Сравнительное исследование судебной практики в отношении параллельного импорта ЕС, Китая и Казахстана

Параллельный импорт привлек внимание общественности с увеличением зоны свободной торговли и ростом новой модели бизнеса на платформе электронной коммерции. В этом контексте нарушения прав на товарные знаки, связанные с параллельным импортом, постепенно разрастаются. Определение нарушения прав на товарный знак при параллельном импорте фокусируется на том, как определить существование «вероятности путаницы». Различные элементы судебной практики в Европейском Союзе, Китае и Казахстане отражают тенденцию правового сближения и расхождения в контексте глобализации. Судебная практика Европейского суда в отношении определения «вероятности путаницы» при параллельном импорте координирует конфликты между свободной торговлей и защитой товарных знаков, дополнительно уточняет виды путаницы и делает определение более гибким. Такая гибкость дает Китаю и Казахстану теоретические и практические рекомендации для решения новой проблемы охраны товарных знаков на основе содействия беспрепятственному торговому сотрудничеству по «одному поясу – одному пути».

Ключевые слова: параллельный импорт, нарушение товарного знака, вероятность путаницы, судебная защита.

Concept of Parallel Imports

The parallel import is also called «gray market» (Michel Waelbroeck, 1964: 333) importation. «The gray market is the innovation of the entrepreneurial arbitrageur who purchases legitimately trademarked goods at a low price in one market and then resells the same good in a higher-priced market.» (Richard M. Andrade, 1993: 4)

The parallel import is different from the infringement of intellectual property right, as the products which are parallel imported are «genuine goods» (Richard M. Andrade, 1993: 6). In my opinion, how to define «genuine goods» is the first step to understand the concept of parallel importation. On one hand, the sources of the goods are from IP (intellectual property) right holders or from those who have the license of IP right holders to legally produce their products; in other words, the distributing channel is legal. On the other hand, the parallel importing complies with the customs' supervision, which is also different from smuggling. Smuggling goes through illegal channel by escaping the supervision of customs in order to sell the illegal goods into market. (Michel Waelbroeck, 1964: 351) The parallel importing has the following characteristics (William Cornish and David Llewelyn and Tanya Aplin, Intellectual Property: Patents, Copyrights, Trademarks & Allied Rights (7th edn, Sweet and Maxwell 2010) 25):

a. It doesn't occur in single one country.

b. Imported goods are genuine goods.

c. Parallel importer is the unauthorized third party.

d. The distributing channel is legal.

Based on the floating direction of the goods, parallel importing has different types in market, which can be divided into two groups (XU Congyin, *Intellectual Property Law* (Citic Publishing House 2002) 45):

a. Forward parallel importing. For example, Manufacturer A produces facial crème bearing a trademark «LAL» in England, it licenses B to produce its facial cream in Singapore, and that cream sold in Singapore is much cheaper than in France. A also sells its product in America through legal distributor; however, the cream is more expensive in US than in Singapore and France. An unauthorized third party imports the cream from Singapore to US, which is forward parallel importing.

b. Reverse parallel importing. In the previous example, if an unauthorized third party imports the crème from Singapore and resells it in France, this is reverse parallel importing.

Principle of Exhaustion of Right

The principle which relates closely to parallel importing is the principle of exhaustion, which is also called the exhaustion doctrine (H. Cohen Jehoram, 1999: 497,499). As mentioned earlier, a trademark proprietor has an exclusive right to use the trademark to exclude the unauthorized use by the third party (Ekaterina Shekhiman and Evgeniy

Sesitsky, <http://www.turin-ip.com/research-papers/papers-2008/shekhtman-sesitsky-final-pdf> accessed 18 May 2016), which will be an obstacle to the free movement of the market when the trademark proprietor refuses to license or raises the license expenses.

According to the principle of exhaustion, if the trademark owner agrees to put a product on the market through a third party, the right of the trademark owner on that product will be assumed as exhausted. In US, after the «first sale» of the trademark owner, the right is exhausted. Under the EC doctrine, it means that after the trademark proprietors put the goods bearing the trademark on the market, the trademark owners will lose the control of the distribution and cannot prohibit the resale of the product sold by them or with their consent (J. Rasmussen, The Principle of Exhaustion of Trade Mark Rights Pursuant to Directive 89/104 (and Regulation 40/94), at 174; F. ABBOTT – T. COTTIER –F. GURRY, International Intellectual Property in an Integrated Economy, at 270).

On the European Continent, the principle of exhaustion was first developed at the end of the nineteenth century by German scholar Joseph Kohler, who is the patriarch of modern intellectual property law (H. Cohen Jehoram, 1999: 497,499.). In 1902, the *Kölnisch Wasser and Mariani* (28 Feberuary 1902,50 RGZ 229- Kölnisch Wasser and 2 May1902,51 RGZ264- Mariani.) case formally confirmed this principle and the Supreme Court of Germany followed Kohler's theory and put it in the case law. It was applied not only in the trademark law, but also in the patent and copyright law. According to the EU's provision of Trade Marks Directive in 1989, the proprietor's consent is the precondition of exhaustion of trademark right.

Article 16 of TRIPS (Agreement on Trade-Related Aspects of Intellectual Property Rights) entitles the freedom of exhaustion of intellectual property right to members, which is excluded from dispute settlement system.(Frederick M. Abbott, 1998: 607, 636). Besides, till now there has been no decision from a TRIPS panel on the interpretation of Article 6. However, in terms of substantive trademark provisions of TRIPS, Article 16 (1) provides that «the owner of a registered trademark shall have the exclusive right to prevent all third parties not having the owner's consent from suing in the course of trade identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion. In case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed. The rights described above shall not prejudice any existing prior rights, not shall they affect the possibility of Members making rights available on the basis of use.» Under such provision, even though members have its own regime on exhaustion of right, the legality of parallel imports shall still be determined under Article 16(1) that there should be no «likelihood of confusion».

If the products concerning parallel imports are genuine, there is a legal ground to argue that gray market products will result in a «likelihood of confusion». Such legal ground for parallel imports will not exclude traders from trademark infringement in any condition such as when the original condition of products is changed. Although Article 6 grants the freedom for members to choose whichever exhaustion of right regime, the legality of parallel imports is still determined under the standards of Article 16(1) of TRIPS. Thus, such freedom not only reflects the way of balance of rights and obligations and vital public interests in different members, but also shows the different ways of reception of the standards of TRIPS, especially Article 16 under the freedom of exhaustion of right provided in Article 6.

Types of Exhaustion of Right

Different countries have different standings toward exhaustion of right. There are mainly three types of exhaustion of right in parallel imports concerning trademarks.

First, the domestic exhaustion of right means that when the first sale occurs in a domestic market, the trademark owner's right will be exhausted in the domestic market, but when it is occurred in an external market, the first sale will not exhaust the trademark owner's right to control the goods. It is clear that the domestic exhaustion is against parallel imports.

Second, the international exhaustion means that when goods bearing trademark are firstly put into the market, the trademark is exhausted and the trademark owner will not control the resale of the products. If a third party imports the goods to resell it in another country, the trademark owner cannot prohibit this resale. Thus, the international exhaustion supports parallel imports (Peter Ganea).

Third, the regional exhaustion of right will only occur in specific regions. The regional exhaustion is adopted by the EU in order to create an integrated community.(XU Congyin, *Intellectual Property Law* (Citic Publishing House 2002)103) The regional exhaustion of trademarks is stipulated

inDirective 89/104 (Trade Marks Directive) (European Economic Area (EEA) Agreement (Article 65(2) and Annex XVII, point 4). Article 5 of the Trade Marks Directive provides that «The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietors shall be entitled to prevent all third parties not having their consent from using in the course of trade: (a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered. ... The following, inter alia, may be prohibited ... (c) importing or exporting the goods under the sign; (d) using the sign on business papers and in advertising . . . .» (Article 5 is replaced by Article 10 of Directive 2015/2436.) However, Article 7 of the Trade Marks Directive stipulates that «The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the [European] Community under that trade mark by the proprietor or with his consent.»(Article 7 is replaced by Article 15 of Directive 2015/2436) The regional exhaustion of patent right was first established in *Deutsche Grammonphon v. Metro S* (Case C-78/70 Deutsche Grammonphon v. Metro SB [1971] ECR 487), and then in *Bristol-Myers Squibb v. Paranova* (Case C-429/93 Bristol-Myers Squibb and Others v. Paranova [1996] ECR I-3515) and *Eurim-Pharm Arzneimittel v. Beierdorf (*Case C-71/94 *Eurim-Pharm Arzneimittel v. Beierdorf* [1996] ECR I-3607*)*.

Kazakhstan once operated the exhaustion of trademark rights principle at a national level (Nick Green, 2015: 41,42). The Agreement on the EAEU however provides for a regional principle of exhaustion of rights, and according to the judicial practices in the court of Kazakhstan, a proprietor's exclusive rights of control over a trademark are now exhausted when they are lawfully introduced into any of the member states of the EAEU (Eurasian Economic Union, currently the Republics of Armenia, Belarus, Kazakhstan and the Russian Federation). The change will benefit trademark proprietors who are concerned about parallel imports undercutting prices for their goods in more favorable markets, but does restrict their ability to control the onward use of their goods throughout the considerable EAEU region. Either way though, along with the change noted above, it is a positive step for Kazakhstan in modernizing and harmonizing its IP legal regime.

This situation is similar with EU, where also adopts the regional exhaustion. However, although parallel importation is permitted inside EU, there are complex situations to determine whether the parallel imported products are legally distributed and don't cause the «likelihood of confusion». Therefore, Kazakhstan also needs to pay attention that even though inside EAEU the trademark right is exhausted, these genuine products also would cause «likelihood of confusion» and lead to trademark infringement.

Determination of «likelihood of confusion» in Parallel Imports: Theories and Practices in EU

Legislations and Judicial Practices in EU

This section will focus on the interpretation of Article 7 of Council Directive (TMD) 89/104 in ECJ and combine the case studies to analyze the trademark protection in parallel imports in the EU in the context of globalization of intellectual property law.

The Council Directive (TMD) 89/104 (Now it is replaced by DIRECTIVE (EU) 2015/2436 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16 December 2015) became effective as one secondary law of the EU. In its primary law, the Treaty on Functioning the European Union (TFEU) also stipulates some regulations concerning parallel imports. Articles 34 and 35 of TFEU provide that «Quantitative restrictions on imports and all measures having equivalent effect shall, without prejudice to the following provisions, be prohibited between Member States.». This article reflects the spirit of promoting free movement of goods and eliminating the tariff barriers. Article 36 of Treaty on Functioning the European Union (TFEU) provides that «The provisions of Articles 34 to 35 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic historic or archaeological value; or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.»

According to both articles, quantitative restrictions on imports should be prohibited to encourage the free movement of goods and the integration of one single market, which will affect the interest of industrial and commercial properties (Case C-78/70 *DEUTSCHE GRAMMOPHON v METRO GmbH* [1971] ECR 487, paragraph 11, 12).

In the *Consten SARL & Grundig-Verkaufs-GmbH v. Commission,* Grundig GmbH wished

to distribute its goods in France and authorized Consten SARL as an exclusive distributor in France to make sure that there are no other parties to sell their goods. In the judgment, Paragraph 8 states that «an agreement between producer and distributor which might tend to restore the national divisions in trade between Member States might be such as to frustrate the most fundamental objectives of the Community» (Case C-56 and 15/64 *Consten SARL & Grundig-Verkaufs-GmbH v.Commission* [1966] ECR 299). In paragraph 10, «Articles 36 (now Article 30), 222 (now Article 295) and 234 (now Article 307) of the EEC (European Economic Community) Treaty do not exclude any influence whatever of Community law on the exercise of national industrial property rights.» ECJ (European Court of Justice) held that the exclusive distribution agreement is illegal as it established «the prohibition of the disputed agreement under Article 85 (1) on the restriction on competition created by the agreement in the sphere of the distribution of Grundig products alone.» The ECJ found that the Commission's criticism of the contract concluded between the parties did not affect the existence of trademark rights but only their exercise (C.W. Bellamy, 1993: 491).

In *Deutsche Grammophon Gesellsschaft v. Metro -SB-Grobmarkte GmbH* (Case C-78/70 *Deutsche Grammophon Gesellsschaft v. Metro -SB-Grobmarkte GmbH* [1971] ECR 487) case, the distinction between the exercise of IPR (intellectual property right) and existence of IPR was clearly indicated in the judgment; the exercise of IPRs can only be justified «if it is for the purpose of safeguarding rights which constitute the specific subject-matter of such property». However, the ECJ did not give a convincing definition of «specific subject-matter», which means whether parallel imports fall within the scope of prohibition by the treaty is unclear (Thomas Hays, 2004: 289).

Gradually, the principle developed in case law by ECJ was coded into Article 7 of Council Directive (TMD) 89/104. The interpretation of Article 7 was made in the famous case «*Silhouette*» (Case C-355/96 *Silhouette International v. Hartlauer* [1998] ECR I-4825) by ECJ and founded the position of regional exhaustion of right in the EU.

The Interplay between EU Primary Law, Secondary Law and TRIPS on Trademark Protection in Parallel Importation

In spite of being restricted by the supremacy of EU law, the TRIPS agreement nevertheless shares some identical aspects with the provisions in the secondary law, the Trade Marks Directive.

In Article 5, «rights conferred by a trade mark», the provisions are basically identical with the requirements of Article 16, paragraph 1 of TRIPS, and Article 5 offers even more concrete situations: «…the proprietor shall be entitled to prevent all third parties not having his consent from…where the latter has a reputation in the Member State and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.» Such a provision aims at guaranteeing the essential function of trademark and complies with the spirit and standards of TRIPS. Article 5 also says that export and import of products which are against the above provision are prohibited. To my understanding, this provision allows the trademark proprietors inside the EU to go against parallel imports bearing their trademarks whether they are from other EU member states or from outside of the EU.

I believe that in the context of globalization, the legal regime in intellectual property tends to be convergent. When the Trade Marks Directive went into effect in 1989, neither the WTO nor the TRIPS was established. In such a background, the GATT played an important role in unifying the rules of international trade. Influenced by the unified norms in the GATT and the accelerated speed of globalization, the protection of intellectual property tends to be globalized. Among the member states of EU, the developed intellectual property legal institutions are mutually transplanted. While such transplantation also comes from outside of the EU, which reflects the reception of foreign laws into EU, such as the reception of American laws in the EU, it is mostly because of the exchange of legal education between EU member states and America, the arising of multinational lawsuits, and the exchange of lawyers between EU and America (Peter De Cruz, 2007: 501). In such a context, there must be some common aspects between EU members and foreign countries. These common aspects offer references in the drafting of EU secondary law, such as the Trade Marks Directive (After discussion and consultation of citizens, interest groups, experts, Commission makes formal proposal, Parliament and Council of Ministers decide it jointly, National or local authorities implement the EU law,Commission and Court of Justice monitor implementation). Therefore, at the end of the Uruguay Round, the conclusion of TRIPS was largely based on the common legislations and judicial practices in the developed countries such US and many EU member states. Therefore, it is not surprising that before the conclusion of TRIPS, the Trade Marks Directive in 1989 had provided stan-

dards which were subsequently stipulated in TRIPS. In such a context, the strict standards would be adopted by the EU according to Article 5 of the Trade Marks Directive (article 10 of Directive 2015/2436) on protection of trademark right in parallel imports concerning products manufactured outside the EU.

However, things become complicated in dealing with the first sale within the EEA. From the previous case studies, it is clear that the Trade Marks Directive is not enough to deal with trademark protection concerning exhaustion of right without interpreting the ECJ preliminary rulings case by case. These rules were also modified by later cases. However, from my observation, even with so many limitations and conditions imposed by the ECJ through case law, parallel imports are still largely encouraged inside the EEA to guarantee the EU's market integration.

When the trademark protection in parallel imports inside the EEA guarantees the free movement of goods in the TFEU, any restrictions which can artificially partition the market or bar the free movement of goods will be prohibited by the ECJ. From this perspective, parallel imported products will have more chances to flow throughout EEA. However, when it comes to the interpretation of Article 7 of the TMD (article 15 of Directive 2015/2436), things will become complex according to judicial practices of the ECJ. Though keeping free movement of goods is one basic principle of the primary law, parallel imported products are not legal in all the situations.

First of all, consent is necessary according to Articles 5 and 7 of the TMD and the EU. On one hand, an implied consent is not valid, as mentioned by Laddie J in the *Davidoff* (Case C-414/99 TO C-416/99 ZINO DAVIDOFF AND LEVI STRAUSS [2001] ECR I-8754, «consent must be expressed positively and that the factors taken into consideration in finding implied consent must unequivocally demonstrate that the trade mark proprietor has renounced any intention to enforce his exclusive rights») case, and parallel importers shall bear the burden of proof that the trademark proprietor has explicitly allowed the parallel imported products to be manufactured. On the other hand, consent should be given by the trademark proprietor on «each individual item of the product».

In addition, to prevent parallel imports inside the EEA, a trademark proprietor should have a «legitimate reason» (Article 7(2) of Trade Marks Directive), as indicated in Article 7(2) of Trade Marks Directive, to believe that «. . . condition of the goods is changed or impaired» by the parallel importers. In the *Hoffman* case (Case C- 102/77 *Hoffmann-La Roche v Centrafarm* [1978] ECR I-1166), the ECJ established a guideline for parallel importers to follow to legally market the gray-marketed products inside the EEA. This guideline later evolved into the «Paranova Guidelines» which clearly provides legal conditions for importers to market repackaged parallel imported products inside the EEA. One point worth noting is that the guideline provides that «the name of the manufacturer in print such that a person with normal eyesight, exercising a normal degree of attentiveness, would be in a position to understand; the presentation of the repackaged product is not such as to be liable to damage the reputation of the trade mark and of its owner». I believe this is one way of reception of «likelihood of confusion and damages of goodwill of trademark» provided in Article 16(1) of TRIPS and Article 6 quarter (1) of Paris Convention in EU law.

From my observation, the TRIPS standards were more and more adopted by national legislations and judicial practices in court. For example, in the *Tesco v Sony (*No. MC1999 No. 3983, *Sony Computer Entertainments Inc. v Tesco Stores Ltd* [1999] High Court of Justice (Chancery Division) and *London Borough Council v Cedar Trading Ltd* (London Borough Council v Cedar Trading Ltd.QBD 30 APR 1999) cases, to determine whether a third party's marketing of parallel imported products without the trademark proprietor's consent constituted a trademark infringement, the judges tried to know whether there was «likelihood of confusion and injury to the goodwill of trademark», which are the standards of trademark protection in TRIPS. However, as I previously mentioned, the hierarchy of norms inside the EU has to some extent restricted the reception of TRIPS in the member states. It is true that sometimes national legislations and judicial practices comply with the TRIPS standards, but when such legislations conflict with EU law which is the supreme source of national legislations, national legislations will probably make a concession to EU law after preliminary ruling from the ECJ. Besides, under the pressure of state liability, the enforcement of the ECJ is stronger than that of TRIPS in EU member states. In that way, the TRIPS agreement is indirectly blocked from becoming internalized into the EU as a whole entity and into individual EU member states.

Moreover, the TRIPS agreement is the product of globalization of intellectual property law, but it is still limited by local conditions of the EU members. The agreement aims to «protect and enforce intellectual property rights», which will inevitably conflict with the free trade principle of promoting

one single market inside the EU. Even though the TRIPS agreement aims to protect the intellectual property right «in a manner conducive to social and economic welfare, and to a balance of rights and obligations», such a balance of interests depends heavily on the national courts or the regional courts of the EU member states.

When the ECJ judges interpret the EU laws, the common interests of the EU as a whole entity outweigh the individual intellectual property rights. Thus, the EU internal policies and economic conditions restrict the reception of TRIPS to some extent. For example, in the *Boehringer*, *Wellcome Foundation*, *Orifarm* case, the judges justified the situations of repackaged parallel imported products when it was necessary for those products to enter the internal market of the EEA. But I believe they made a wider interpretation of «condition of the goods is changed or impaired» provided in Article 7(2) of the Trade Marks Directive than in the previous cases, although they claimed to base their interpretation on the doctrine of consistence. However, one interesting thing is that in these three cases, the judges complied with the obligations concluded in the Doha Declaration on TRIPS on public health and to some extent, promoted a wider access of pharmaceutical products inside the EEA.

Prevention of «Likelihood of Confusion» in Parallel Imports in Chinese Courts

Initial Stage

In the initial stage of judicial practices in court, as there were no clear provisions in trademark law of PRC concerning exhaustion of right, and the judges had little room to use discretion, the Chinese courts strictly observed the provisions of statutes with few interpretations of law by judges. The first parallel import case, the «LUX» case, occurred in 1998 before China's entry into WTO, when the trademark legal regime was not complete and waited to be reformed. In the «LUX» case, there were no previous trials for the judges to refer to; therefore, according to the existing trademark law at that time, the exclusive right to use the trademark of the proprietors would be protected under any conditions. Besides, the court did not focus on whether the products were genuine, because of the strange, new concepts involving parallel imports.

Without clear provisions on the exhaustion of right in Trademark Law amended in 2001 at that time, the court first used the standard of «physical and material differences» to determine whether parallel imports infringed the trademark right of the proprietor in the *AN'GE* (XIA Fan, 2018) case in 2000. The court also mentioned the appropriate labeling which would not cause consumer confusion (XIANG Yu, 2004: 106-107). With the integration of global market and the trend of globalization of intellectual property laws and with china's open-door policy, the Chinese courts had more and more chances to interact with the judicial practices in developed countries. I assume that these foreign judicial practices became good learning references for Chinese judges to deal with new types of trademark cases, including parallel imports.

In the AN'GE case, the first trial court held that the products at issue were genuine; therefore, there was no infringement of the trademark right of the plaintiff. On the second trial, however, the court focused on the defendant's behavior according to the Law against Unfair Competition. The court used the concept of «physical and material differences» to determine whether there is an unfair competition and an infringement of the exclusive right to use the trademark under Article 38 of Trademark Law of 1993 and whether consumers would be misled according to articles 5 and 21 of Law against Unfair Competition law of 1993. However, the AN'GE case also reflected the position towards parallel imports in China at that time: parallel imports were basically legal and they did not violate the unfair competition law. At that time the trademark law had been through the second amendment, and the provisions were still not concrete. Furthermore, China's primary task was to promote economic development and parallel imports fitted the domestic economic circumstances at that time. Therefore, the Chinese courts took a weak position on the protection of trademark right in parallel importation cases at the expense of the private interests of the trademark proprietors.

With its rapid economic development and its entry into WTO, and under the influence of TRIPS, China amended its trademark law in 2001. In order to comply with the minimum standards of TRIPS, China had to make adjustment not only on legislations but also on judicial practices. Reception of TRIPS in the Chinese court on trademark protection would play a more important role in the internalization of TRIPS.

In the Michelin case, the influence of TRIPS on trademark protection was obvious. The court affirmed the likelihood of confusion which was caused by the defendant's repackaging and false labeling, and held that the goodwill of trademark was damaged. This case occurred in 2009 when the domestic intellectual property legal regime was gradually be-

coming complete. However, when there were still no clear provisions, the court tried to interpret the law based on the function of the trademark. The court believed that one important function of a trademark is to distinguish the origin of the products. Once the product bearing the trademark was put on the market by the trademark proprietor, the registered trademark, the goodwill developed by the trademark proprietor and the products are closely linked with each other, changing any part of them would lead to the damage of the function of the trademark. Therefore, consumers would be confused about the origins of the products when any of them was changed (Hu Yaping, 2018).

Article 16(1) of TRIPS provided that the exclusive right of a registered trademark owner was infringed if there was a likelihood of confusion. Compared to the two previous cases, the judge in the Michelin case successfully applied the «likelihood of confusion» standard to determine the infringement of the plaintiff's exclusive right to use the registered trademark. Moreover, the goodwill of trademark holder was introduced in the trials of parallel imports involving trademarks. As the plaintiff was a famous multinational corporation, in order to enforce the trademark protection, the court took into account the private interests of the trademark proprietors. Even though the goodwill was not provided in the Trademark Law of 2001, the Regulations on Implementing Trademark Law and the Law against Unfair Competition of PRC, the court still made a judgment involving the goodwill of trademark, which was not only an evolution of judicial practices but also a reflection of the influence of globalization of intellectual property law (the US and the ECJ all have the same approach).

Progressive Stage

In the progressive stage, the verdicts of Chinese domestic courts on trademark disputes became more and more complete and precise than before. Even though the reasoning process was not shown in the verdicts, the contents of the verdicts in Chinese courts were not just facts involving the application of statuettes law, there were also judges' analysis of the facts and the logic of application of law, especially in parallel import cases.

After the *Shanghai Jintian* case (HU ER ZHONG MIN WU (ZHI) CHUZI, 2012), the procedures in the trial of parallel imports involving trademarks became standardized. Basically the domestic distributor would claim the infringement of trademark right and unfair competition by parallel importers. Whether the function of trademark is damaged was the first and primary element for Chinese court to consider in determining the legality of parallel imports involving trademarks. In *Shanghai Jintian* case, the court recognized the genuineness of the goods at issue through affiliate relationship between the seller of the products at issue and the plaintiff. After recognition of the legal source of the products, the court concluded that selling the genuine would not make consumers confuse with the origins of the products, and the exclusive right to use the registered trademark of the plaintiff would not be infringed as provided in Article 52 of Trademark Law of PRC of 2001. To determine whether plaintiff's corporate name fell within the scope of Article 5(3) of Law against Unfair Competition, the judges pointed out that there were no mortar stores of the plaintiff in domestic market, which suggested that the plaintiff's trademark could not acknowledged by the public as was provided in Article 6 of *Interpretation of the Supreme People's Court on Some Matters about the Application of Law in the trial of Civil Cases*.

This case showed that the judges made their decision according to the different facts. It also reflected the attitude of the Chinese court toward the trademark proprietors in parallel imports, especially those multi-national corporations: with the opening of the Chinese domestic market, these multi-national corporations wanted to use their trademark rights to defeat small domestic corporations and pursue more economic benefit from developing countries. Such abuse of intellectual property right in parallel imports would prevent the free movement of goods in domestic market. Article 7 of TRIPS emphasizes that «the protection and enforcement of intellectual property rights in a manner conducive to social and economic welfare, and to a balance of rights and obligations.» According to Article 8(2), «Appropriate measures may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade.» To promote domestic economy and offer more channels for consumers to purchase products, parallel imports were permitted by Chinese courts with some restrictions. In this way, the protection of the trademark right of the domestic trademark proprietors would be established on not intervening with Chinese domestic economical development.

In Article 16(1) of TRIPS, the consent is required to protect the exclusive right of trademark proprietor, while TRIPS does not clearly mention whether only an explicit consent can be accepted. TRIPS left the freedom for each member state to choose a way to implement the international treaty according to its national economic situations and

policies. Promoting free trade was encouraged in China, and it was easy to understand why an implied consent should be accepted: to offer more chances to parallel importers and prevent multi-national big corporate controlling the domestic market through protection of intellectual property.

In this case, the court also denied the claim of unfair competition caused by the defendant's parallel import, because the products sold by the defendant were genuine which would not mislead consumers. Article 16(1) of TRIPS provided the standards of infringement of exclusive right of trademark proprietors. While in the trademark law of 2001, Article 52 did not involve «likelihood of confusion», Article 5(2) of Law against Unfair Competition of PRC mentioned one situation of unfair competition which would «confuse consumers distinguishing the commodities to the famous or noted commodities», which was different from the standard of Article 16(1) of TRIPS: «In case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed». Also Article 21 of Law against Unfair Competition of PRC provided that «. . . if the manager uses the special name, package, decoration of the famous or noted commodities …make the commodities confusing to the famous or noted commodities.» To my understanding, the confusion was required to not be presumed but actual. According to these provisions and the sufficient proof for the genuineness of the products sold by the defendant, the court excluded the likelihood of confusion caused by parallel imported products.

In contrast, the court denied the genuineness of parallel imported shoes in the *DESCENTE* case (DESCENTE Co,.Ltd v. Shenzhen Zouxiu Network Science and Technology Limited Company and Beijing JIN RI DU SHI Information Technology Co.(2011) ER ZHONG MIN CHU ZI No.11699). The court recognized that the products at issue sold by the plaintiff were not authorized to be manufactured by the plaintiff. Unable to prove the legal source of the shoes at issue, the defendant was found liable for infringing the exclusive right of the plaintiff to use the registered trademark under Article 52 of Trademark law of PRC. In this case, the court acknowledged that the plaintiff had established a reputation in the domestic market by setting up joint-venture companies and shops and doing a lot of marketing.

In the *Shanghai Jintian* case and the *DESCENTE* case, the genuineness of products was the key element which the court used to determine whether parallel imports constituted infringement of trademark right. The products in both cases were not repackaged by parallel importers.

In the *Absolute* case, the defendant labeled the Chinese character «绝对» behind the trademark of the imported vodka, and rubbed off the lot code on the original package (*The Absolut Company and Pernod Ricard (China)* Co., Ltd. *v. Suzhou LONG XIN YUAN Alcohol Co., Ltd* (2013) SU ZHONG ZHI MIN CHU ZI DI No.0175). Whether the function of trademark was damaged by the parallel imported product was considered by court as the main issue to determine the justification of the parallel import. To determine that issue, the court applied the concept of «physical and material differences» as applied by the US courts, and held that when the differences between parallel imported products and domestic authorized distributed ones reached to certain extent which would lead to likelihood of confusion among consumers, the function of trademark to distinguish the origin of product would be damaged. In this case, the judge interpreted law by identifying the material differences which were sufficient to confuse the consumers and affect the plaintiff's reputation. When there was a likelihood of confusion, such differences would damage the primary function of trademark which was to distinguish the origin of the products. At that time, the third amendment of Trademark Law of PRC hadn't entered into force and therefore, the likelihood of confusion was not involved in the conditions constituting the infringement of exclusive right to use a registered trademark provided in Article 52 of Trademark law of 2001. However, the «likelihood of confusion» standard was still applied by judges to determine whether the repackaged parallel imported products constituted an infringement of the exclusive right of the trademark proprietor.

From my perspective, with the influence of globalization and fast development of domestic economy, new types of cases will flow into judicial practices of Chinese court. The existing legislations will not be suitable for such cases, and new standards will be needed to protect the intellectual property right. As Pitman said, «the reception of international norms all depends on the extent to which these respond to social and economic need»; (Pitman B. Potter, 2001:6) «Local acceptance of imported law norms may depend on a process by which traditional norms that are unresponsive to new realities are discarded and replaced by new norms as part of evolving belief system.» (O.Seliktar, 1986: 321,322)

The Chinese domestic legal reform on legislations to comply with the standards of TRIPS tended to be formal in the initial stage of judicial practices toward parallel imports. The standards of TRIPS were hardly internalized into judicial

practices at once. In the initial stage, the trials of parallel importation focused not on the function of the trademark, but on whether the exclusive license agreement was breached or whether the parallel imported products constituted unfair competition. This reflected that the protection of intellectual property was not the economy's priority, such as in «*LUX*» and «*AN'GE*» cases. With domestic legal reform and domestic economic construction after entry into WTO, the protection of intellectual property was gradually accepted by Chinese public and the understanding of TRIPS became gradually deep the Chinese court, such as in the *Michelin* case.

In the progressive stage, the statutes fell behind China's rapid domestic socio-economic development, and Chinese judges had to use their discretion to reason and interpret the existing laws to make appropriate judgments in specific cases, even if the discretion was very limited. During this process, the judges consulted the international treaties to fill in the blanks in the domestic statutes. However, the provisions of TRIPS were abstract. In my opinion, in order to understand the standards of TRIPS, Chinese judges may refer to the interpretations of the foreign courts according to their own logic reasoning. Reception of foreign case laws by Chinese judges should comply with the current legislations and socio-economic needs. From this perspective, reception of TRIPS in Chinese court is determined by local socio-economic situations. As China doesn't have case laws, the judgments of subsequent cases will not be bound by previous cases. The statutes, such as the Trademark Law and the Law against Unfair Competition of PRC, are the main references for Chinese judges during a trial.

In the *LES GRANDS CHAIS DE FRANCE* case, Tianjin High Court listed elements to determine whether the parallel import infringed the exclusive right to use a registered trademark. The concepts of «material differences», «likelihood of confusion» and «injury to the goodwill of trademark» were included in the final verdict of the High Court. This final trial of High Court established the standards for lower courts to refer to, which play the role of guidance in the later trials involving parallel imports.

The trial also reflected the Chinese court's value-oriented, balanced approach: 1) to promote the free trade and prevent artificially partitioning the market in the name of protection of intellectual property, and 2) to add restrictions to parallel imports in order to protect the trademark right.

In the *Atlantic C trade case*, Beijing High People's Court showed its position towards territoriality of trademark right and exhaustion of rights in parallel imports. Compared to Tianjin High Court, Beijing High Court did not list the elements to determine the infringement of the exclusive right in parallel imports. After recognition of genuineness of products at issue, the court held that there would be no likelihood of confusion, and the function of trademark to distinguish origins of products and services would not be damaged. The court of the first trial, Beijing Third Intermediate Court, used the concept of international exhaustion of rights in the verdict, supported the rewarding theory, and concluded that the plaintiff had obtained enough rewarding after the first sale of products on the market. Therefore, the plaintiff could not control the resale of the products by the third party. It was the first time that the Chinese court applied the principle of international exhaustion of rights in a trial of parallel imports concerning trademarks.

Position toward Trademarked Parallel Importation in Kazakhstan

The principle of exhaustion of trademark rights is implemented in order to improve the conditions of competition inside Eurasian Economic Union, it is also incorporated in clause 16 of Annex No 26 to the Treaty on the Eurasian Economic Union, which was entered into force on 1 January 2015 (Alexander Bondar,2015: 237-246). The Treaty confirms «the creation of an economic union that provides for free movement of goods, services, capital and labor and pursues a coordinated, harmonized and single policy in the sectors determined by the document and international agreements within the Union» (V.I. Lysakov, 2014: 8-13).

Under paragraph 16 of Part V of Appendix No 26 (Protocol on the security and protection of intellectual property), if goods are legally distributed inside EAEU with the consent of the trademark proprietor, others lawfully buying these goods and reselling them inside the Union no longer infringes the exclusive right of the trademark proprietor, which also reflects that EAEU adopts regional exhaustion of right. As a result, once products legally entering into the territory of the Russian Federation, Kazakhstan, Belarus, Armenia or Kyrgyzstan, the exclusive rights of the owner of the trademark is exhausted, and such goods can be further resold freely inside the EAEU. In this context, the Treaty on the EAEU is pre-emptive to the Agreement on Unified Principles of Regulation in the Spheres of Intellectual Property Rights Protection that was in effect before (Alexander Bondar,2015: 237-246).

The recent decision of the appellate judicial

board on civil and administrative cases of the Almaty City Court of 12 November 2014 No 2a-7865-2014 showed that the courts of Kazakhstan are inclined to allow parallel imports in the territory of the state. The specialized inter-district economic court of Almaty dated 4 August 2014, found in favor of Nissan Jidosa Kabushki Kaisha and prohibited the limited liability partnership (LLP) Carlux Company from importing, storing, offering and selling of Nissan cars carrying the Nissan trademark, the court also stop Carlux Company using NISSAN trademark in advertising and more.

Carlux Company appealed the decision of the court of first instance and pointed out that the court did not take into account the paragraph 16 of Part V of Appendix No 26, they have lawfully obtained these cars bearing 'NISSAN' at Kazakhstan legal entity 'Alem Prom Business' LLP in the territory of the Customs Union, which officially brought them to the territory of the Republic of Kazakhstan, and, therefore, did not violate the exclusive right to the trademark 'NISSAN'. On 11 December 2014, the Almaty City Court in case No 2-6492/2014 considered the appeal against this decision, cancelled the decision of the specialized inter-district economic court of Almaty on the grounds that it violated substantive and procedural law, and required the case to be reconsidered.

EAEU treaty seems to have a similar effect with EU treaty and also guarantees the free movement of goods, service, capital and labor inside the Union. However, Kazakhstan had entered WTO since 2015 and she has to comply with TRIPS as well. Dealing with the hierarchy of TRIPS, EAEU treaty and national law is also an important step for the reception of TRIPS and trademark protection in Kazakhstan. Besides, even though parallel importation is permitted inside EAEU members, there is still a risk for trademark infringement when the imported products cause «likelihood of confusion» to the consumers. For example, if a trademark owner licensed his or her right to different manufacturers in two different countries, while these two countries have different environment, which leads to the result that the products produced in these two places would have different ingredients to meet requirements of targeted consumers, will such non-physical differences cause «likelihood of confusion»? As previously mentioned, the scope of elements to determine «likelihood of confusion» relates closely to the range of application of discretion among judges, during which, foreign judicial practices would be referred but also be selected and adapted.

Conclusion

With globalization of law, there is a trend of convergence in the legal regimes of different countries. Legal scholars who support economic globalization advocate that the integration of world market requires the establishment of legal norms to adapt to global economic situation and global political structure; otherwise, it would be impossible to realize cross-border transactions in an orderly manner. Under the trend of integration of global market, legal philosophy, legal values, legal enforcement standards, the principles and the rule of law are moving in the convergent direction worldwide (DENG Jianzhong, 2004). The economic integration will eventually lead to the convergence of different national legal institutions and regulations in the international community while this trend merges multilateral treaties of international community into each member state's domestic social and legal system (CHEN Jian, 2001). In such context, the «convergence theory has served as the driving force behind the move to bring about uniformity and predictability in IP cases throughout the member nations of the WTO»(Anselm Strauss, 1998: 10-11).

We can find commons between ECJ and Chinese courts on determination of «likelihood of confusion» in cases concerning trademarked parallel imports. China did not regard the likelihood of confusion as a criterion to define infringement until 2013. In *Interpretation of the Supreme People's Court Concerning the Application of Laws in the Trial of Cases of Civil Disputes Arising from Trademarks*, article 9, paragraph 2 mentions the importance of using the likelihood confusion to determine trademark right infringement. In terms of judicial practices, through application of the likelihood of confusion with flexibility, the objects of trademark right under protection can be extended into a wider range. However, according to the judicial practices in ECJ courts, the identification of «likelihood of confusion» is based on some quantitative requirements, which means that a disputed trademark is enough to confuse consumers to establish a link with the trademark proprietor or distributor. This doesn't mean that there should be evidence to prove the actual confusion, as it is very difficult to get evidence to prove that the actual confusion has been caused, especially because the environment for social investigation in China is difficult. In current Chinese society, it is hard for the plaintiff to collect trustful evidence to prove such likelihood of confusion. In addition, such likelihood of confusion

must be strong enough for the courts to determine the infringement. Thus, when using discretion to determine the «likelihood of confusion», the judges need to be cautious and rational.

To Kazakhstan courts, how to use discretion to determine «likelihood of confusion» is also a tough task for local judges, regional exhaustion doesn't totally exclude any risks of trademark infringement by parallel imports. Furthermore, how to reconcile the conflicts between TRIPS, Union treaty and national law meanwhile complying with the minimum standards of trademark protection among WTO member plays an important role on reception and localization of TRIPS in Kazakhstan.

The issue concerning infringement caused by parallel importation is on the basis of requirements of domestic market, the interest orientation and some other political and legal elements (KONG Xiangjun, 2015: 3-10). As big trading power in global market, continually improving the standards of IP protection is a crucial initiative for both China and Kazakhstan to participate in economic globalization; therefore, the integration of domestic IP standards with international standards is more and more focused by domestic courts. This also reflects that China now highly emphasizes the international influence, the international recognition of domestic trials and its international image. Although legal globalization is inevitable, identifying which field needs to strictly follow international rules is one important task for local courts. Thus, judges need to selective adapt to foreign or international judicial practices in case of becoming maverick in the context of globalization of intellectual property law.

References

Anselm Strauss & Corbin Juliet, Basic of Qualitative Research: Techniques and Procedures for Developing Grounded Theory (Sage Publications 1998).

Alison Slade, 'Articles 7 and 8 of the TRIPS Agreement: A Force for Convergence within the International IP System' (2011) The Journal of World Intellectual Property Vol. 14 No. 6 413.

Alexander Bondar, 'Regulation of Parallel Imports in the Eurasian Economic Union: Any Competition Tends to Monoploy' (2015)16 Bus. L. Int'l 237.

Bellamy C.W. and Child G.D., The Common Market Law of Competition (Sweet and Maxwell 1993).

CHEN Jian, 'Discussion of Legal Globalization' (2001) International Economic Review Volume 4 Legal Publisher Press. (陈建,法律国际化探,国际经济法评论)

Christopher Stothers, 'Parallel Trade in Europe: Intellectual Property' Competition and Regulatory Law (Hart Publishing 2007).

H. Cohen Jehoram, 'Prohibition of Parallel Imports Through Intellectual Property Rights' (1999)30 IIC 497.

DENG Jianzhong, LIU Pan, 'Globalization and Thinking of Legal Discovery in Common Law' (October 28 2004) Legal Daily. (邓建中,刘磐:法律全球化与共同法发现的思考,法制日报)

KONG Xiangjun, 'Several Issues Concerning IPR Judicial Protection in China---Rethink on Judicial Policies on IPR Protection and Its Orientation' (2015) No.1 Intellectual Property Right.(孔祥俊,当前我国知识产权司法保护几个问题的探讨–关于知识产权司法政策及其走向的再思考,知识产权)

Lysakov V.I., (2014) 'Parallel import – a thermometer of the free market. Antitrust activity of a single economic space' The Eurasian Economic Commission . No 4, 8.

Michel Waelbroeck, 'Trademark Problems in the European Common Market'(1964) 54 TRADEMARK REP.333.

Nick Green, 'Modernization of Kazakhstan's Intellectual Property Legislation' (2015)13 Int'l J. Franchising L. 41.

Phillip Areeda and Louis Kaplaw(eds), Antitrust Analysis: Problems, Text, and Cases (5th edn, Asepen Publishers 1997).

Thomas Cottier , 'The Agreement on Trade-related Aspects of Intellectual Property Rights' in Macrory Patrick FJ, Appleton AE, Plummer MG (eds) The World Trade Organization: Legal, Economic and Political Analysis(Vol. I, Springer Press 2005).

Thomas Hays, Parallel importation under European Union Law (Sweet &Maxwell 2004).

William Cornish and David Llewelyn and Tanya Aplin, Intellectual Property: Patents, Copyrights, Trademarks & Allied Rights (7th edn, Sweet and Maxwell 2010).

XU Congyin, Intellectual Property Law (Citic Publishing House 2002) .(徐聪颖,知识产权法,中信出版社)