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China IP Law Update

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On March 29, 2022, the China National Intellectual Property Administration (CNIPA) released the second batch of intellectual property administrative law enforcement Guiding Cases (Guiding Cases No. 6-8). This batch of cases has general guiding significance for the identification and punishment of repeated patent infringement, how to reuse recycled beer bottles in compliance with intellectual property laws and regulations, and the judicial confirmation of the administrative mediation agreement for patent infringement disputes. In order to facilitate the correct understanding and application of local intellectual property administrative protection law enforcement agencies, and to better refer to and implement them when handling similar cases, CNIPA, on July 4, 2022, has interpreted and explained the selection process, guiding significance, and key points of the cases in detail. Discussion of Guiding Case 7 regarding trademark exhaustion follows:

On July 4, 2022, CNIPA released the following detailed explanation.
BASIC CASE

In March 2020, Tsingtao Brewery (Rongcheng) Co., Ltd. complained to the Weihai Municipal Market Supervision and Administration Bureau, reflecting that a company in Weihai (hereinafter referred to as the respondent) infringed the exclusive rights to the registered trademarks of “Tsingtao Beer” and “TSINGTAO.” It was confirmed that Tsingtao Brewery Co., Ltd. has registered No. 1304176 “Tsingtao Beer” trademark and No. 1351701 “TSINGTAO” trademark in class 32 of “beer” and other commodities. There are embossed words “Tsingtao Beer” and “TSINGTAO” on the neck of beer bottles produced by Tsingtao Brewery Co., Ltd. The respondent refilled the recycled old beer bottles with its own beer for a long time in accordance with the industry practice. Among them, the 600ml used beer bottles included the Tsingtao beer bottles with embossed characters “Tsingtao Beer” and “TSINGTAO” on the neck. The respondent used their own trademarks and packaging, but did not effectively block the embossed characters of “Tsingtao Beer” and “TSINGTAO” on the bottle neck.

In the process of beer production and sales, the respondent used recycled beer bottles with embossed texts of “Tsingtao Beer” and “TSINGTAO” as beer containers. It uses its own trademark and packaging, but fails to effectively block the embossed words “Tsingtao Beer” and “TSINGTAO” on the bottle neck, which is easy to cause the relevant public to misunderstand the source of the product, or mistakenly believe that the party is related to Tsingtao Beer Co., Ltd. The infringement of the exclusive right to use the registered trademarks of Tsingtao Brewery and “TSINGTAO” constitutes an infringement of the exclusive right to the registered trademark stipulated in Article 57, Item 7 of the “Trademark Law of the People’s Republic of China”. The case handling authority shall, according to the law, order the party against whom the complaint is filed to immediately cease the infringement, and impose an administrative penalty of 30,000 yuan on the party.

Understanding and Application

I. Selection Process and Guiding Significance

The case was settled by the Weihai City Market Supervision and Administration Bureau of Shandong Province. The case-handling authority determined that the party's behavior constituted an infringement of the right to exclusive use of a registered trademark as stipulated in Article 57, Item 7 of the Trademark Law of the People’s Republic of China, and imposed an administrative penalty on the party. After the administrative penalty decision was made, the parties did not file an administrative reconsideration or an administrative lawsuit. The case is recommended by Shandong Intellectual Property Office to the CNIPA. According to the “Regulations of the State Intellectual Property Office on the Guidance of Intellectual Property Administrative Law Enforcement Cases (Trial)”, after review and selection, expert review, and consideration by the case guidance working committee, the case involves “recycling of containers with other people’s registered trademarks for reuse.” The issue of “protection of exclusive rights to registered trademarks of recycled container has significance in guiding the handling of similar cases, and can be used as an guiding case. In March 2022, the case was reviewed and approved by the CNIPA at an executive meeting and released as the second batch of guiding cases.

The case involves the protection of the exclusive right to use registered trademarks in the field of recycled containers bearing the registered trademarks of others for reuse. In recent years, there has been a trend of frequent occurrence of such cases. Although both administrative and judicial practices consider it constitutes trademark infringement, there is a problem that the basis for determining the case is unclear. According to the national resource recycling policy and industry practice, glass containers are allowed to be recycled and reused, but the reuse should also be in compliance with laws and regulations. The products that are refilled and sold by recycling other people’s containers are often the same or similar products as the right holder’s products. If the embossed characters and other signs that are difficult to remove from the container or are not effectively blocked and they are put on the market again, it will easily make the relevant public
Article 57 of the “Trademark Law of the People’s Republic of China” stipulates seven acts of infringing the exclusive right.

(4) Application of specific terms

The characterizations of the issues involved in this case is a difficult problem in the protection of trademark exclusive rights. The focal issues of this guiding case include: 1. Whether the embossed characters of “Tsingtao Beer” and “TSINGTAO” on recycled beer bottles that cannot be removed constitute trademark use; 2. Whether the trademark registrant has the right to prohibit others from recycling beer bottles; 3. Whether the use of the original trademark on the recycled beer bottle is an infringement; 4. The application of specific articles.

(1) Whether it constitutes trademark use

Article 48 of the “Trademark Law of the People’s Republic of China” stipulates that the use of trademarks refers to the use of trademarks on commodities, commodity packaging or containers, and commodity transaction documents, or the use of trademarks in advertising, exhibitions and other commercial activities to identify a source of a product. “Trademark Infringement Judgment Standards” Article 4, Paragraph 1 stipulates that the specific manifestations of trademarks used on commodities, commodity packaging, containers and commodity transaction documents include but are not limited to direct attachment, engraving, branding or weaving and attaching directly to commodities, commodity packaging, containers, labels, etc., or used on commodity labels, product manuals, introduction manuals, price lists, etc. According to the above regulations, the embossed characters of “Tsingtao Beer” and “TSINGTAO” engraved on the beer bottle are trademarks regardless of the form of expression or function. There are unremovable trademark logos of the original owner on the recycled beer bottles, such as the embossed characters of "Tsingtao Beer" and "TSINGTAO". If they are not effectively covered, they can still be used as commercial logos to identify the source of the goods. Although the recycled beer bottles are marked with the trademarks of other manufacturers, it cannot be denied that even if the relevant public can identify the real source of the goods through the trademarks of other manufacturers attached to the beer bottles, consumers may still have the perception that there is a specific connection with Tsingtao Brewery Co., Ltd. Therefore, in this case, the original “Tsingtao Beer” and “TSINGTAO” logos on the alleged infringing products still played a role in distinguishing the source of the goods, constituting trademark use.

(2) Whether there is right to prohibit

Under normal circumstances, when the trademark registrant sells the goods with the trademark to the market, the property rights obtained based on the value of the trademark have been realized, and the exclusive right to use the trademark is regarded as “exhausted” for the “trademark” on the goods. The buyer of the commodity, that is, the owner of the property right of the commodity, has the right to resell the commodity, so as to achieve the purpose of “making the best use of the commodity”. However, if the content of the commodity changes substantially, so that the commodity that continues to circulate is no longer the same commodity that the trademark registrant or licensee originally put on the market, it will easily lead to confusion and hinder the function of the trademark to distinguish the source of the commodity. In this case, the principle of “exhaustion of rights” should not apply and should be prohibited.

In this case, Tsingtao Brewery Co., Ltd. sold the products with the embossed characters “Tsingtao Beer” and “TSINGTAO” on the bottle body. In the case of the trademark, the respondent bottled the beer and sold it without removing the embossed characters. Although the respondent has affixed its own trademark on the beer bottle, the embossed characters of "Tsingtao Beer" and "TSINGTAO" are highly recognizable, which easily led to confusion and impeded the performance of the trademark’s function of distinguishing the source of commodities.

(3) Whether it constitutes infringement

The used bottle is recycled and reused, and the original trademark on the used bottle is usually displayed in three ways. The first is to paste a label with the trademark logo on the bottle. After the label is removed, other manufacturers can continue to use it. The second is that in addition to the label in the first case, the beer bottle also has the trademark embossed imprint of the original trademark registrant, such as the embossed characters of “Tsingtao Beer” and “TSINGTAO” in this case. If these embossed characters are not effectively covered during recycling, they will be within the visual perception range of consumers. Even if the trademarks of other manufacturers are marked, consumers may still mistakenly believe that the product has a specific connection with Tsingtao Brewery Co., Ltd., affecting the brewery’s product reputation and brand image. Therefore, this kind of reuse actually destroys the identification function of the original trademark, which easily leads to confusion among consumers about the source of the goods, which constitutes trademark infringement. The third is that the beer bottle itself has been registered as a three-dimensional trademark. In this case, if other manufacturers recycle and fill the same or similar products and sell them, it is trademark infringement.

(4) Application of specific terms

Article 57 of the “Trademark Law of the People’s Republic of China” stipulates seven acts of infringing the exclusive right
to use a registered trademark. One is to use the same trademark as its registered trademark on the same commodity without the permission of the trademark registrant; Second, without the permission of the trademark registrant, using a trademark similar to its registered trademark on the same commodity, or using a trademark that is the same or similar to its registered trademark on similar commodities, may easily lead to confusion; the third is to sell products that infringe the exclusive right to use a registered trademark; fourth is forging or manufacturing others’ registered trademarks without authorization or selling forged or unauthorized registered trademarks; fifth is changing the registered trademark without the consent of the trademark registrant and putting the goods with the replaced trademark on the market again; Sixth, intentionally providing conditions for infringing the exclusive right to use a trademark of others and helping others to infringe the exclusive right to use a trademark; seven, causing other damage to the exclusive right to use a registered trademark of others.

The main point of contention in this case is whether item 1 of the article applies or item 7. In the administrative law enforcement, because in accordance with the provisions of Article 61 of the Trademark Law of the People’s Republic of China, Article 213 of the Criminal Law of the People’s Republic of China and the relevant criminal judicial interpretations, and item (1) of Article 57 of the Trademark Law of the People’s Republic of China is applicable, if the amount of illegal business operations or illegal proceeds reaches the statutory amount, the administrative authority shall transfer the relevant case to the judicial authority to investigate criminal liabilities. Considering the private property of intellectual property and the principle of “compassion” in criminal law, the penalty should be used only when exhausting administrative and civil non-penalty means which are still insufficient to suppress certain illegal acts and protect the legal rights and interests of right holders. Therefore, administrative organs generally determine that the act is one that causes other damage to the exclusive right of others to use a registered trademark so as to achieve the organic unity of legal effects and social effects.

On October 19, 1995, the former Trademark Office of the State Administration for Industry and Commerce specified in the Reply to the Request for Instructions on Whether the Sale of Beverages Filled with Old Glass Containers Constitutes Trademark Infringement 1995373 that, for various glass beverage containers with usable value but with indelible trademark designs, if any other person fills the beverage produced by himself after purchase, the trademark designs shall be completely covered. If a registered trademark is not covered by another person’s trademark, or the main part of the pattern of the trademark is still exposed after being covered, the acts shall be the acts of trademark infringement which cause other damages to the right to exclusive use of another person’s registered trademark. On November 20, 2019, the State Intellectual Property Office (“SIPO”) indicated in the Official Reply on Whether the Use of Recycled Old Beer Bottles for Filling and Sale of Beer Constitutes Trademark Infringement 2019231 that “Tsingtao Brewery” and “TSINGTAO” embossed characters are the intrinsic signs of recovered bottles, and such characters shall be used to indicate whether the use of such bottles constitutes trademark infringement. In addition, “Tsingtao Brewery” trademark was administratively determined to be a well known trademark in 1991, which was well known to the relevant public. Although others used their own trademark logo on bottles, consumers would pay attention to the highly recognizable “TSINGTAO” emboss of “Tsingtao Brewery” and would mistakenly believe that it had a certain relationship with the trademark registrant such as investment, licensing or cooperation. However, the relevant public would generally not mistakenly believe that the commodities or services involved were produced or provided by the registered trademark right holder.

The recycling of second-hand containers circulating in the market that meet the safety standards, and the environmental protection policies of making the best use of materials and saving resources are a direct embodiment of the implementation of the concept of green development, and shall be encouraged and advocated. However, in the process of recycling, an enterprise shall abide by the relevant legal provisions of the state, and avoid infringing the right to exclusive use of a registered trademark of others. When the bottles are marked with the specific trademarks or business marks of the original trademark registrant, the recycling enterprise shall take certain measures to effectively shield and remove the original trademark marks, and at the same time, it shall try its best to use eye-catching words to mark its trademark in prominent positions on the used bottles so as to distinguish it from the original trademarks, and achieve the effect of not only recycling the used bottles but not infringing upon others’ right to exclusive use of the registered trademarks.

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