

GOVERNMENT OF THE RUSSIAN FEDERATION
FEDERAL STATE BUDGET EDUCATIONAL INSTITUTION OF HIGHER
EDUCATION
SAINT PETERSBURG STATE UNIVERSITY

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Final Qualification Work

Seller's Obligation to Deliver Goods Free from Rights of Third Parties Based on Intellectual Property under the United Nations Convention on Contracts for the International Sale of Goods

Level of education: Master
Specialisation: 40.04.01 «Law»
Main educational program: BM.5848.2020
«Transnational Legal Practice (in English) »

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Saint Petersburg
2022

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LIST OF ABBREVIATIONS

API	Active Parallel Imports
CCC	Civil Code of the People's Republic of China
CIETAC	China International Economic and Trade Arbitration Commission
CISG	United Nations Convention on Contracts for the International Sale of Goods
CLOUT	Case Law on UNCITRAL Texts
CS	Contracting State
GPCL	General Principles of the Civil Law of the People's Republic of China
HCCH	The Hague Conference on Private International Law
ICC	International Chamber of Commerce
IIP	Intellectual and Industrial Property
ILCF	Interpretations of the Supreme People's Court on Several Issues Concerning Application of the Law of the People's Republic of China on the Laws Applicable to Foreign-Related Civil Relationships (2020 Amendment)
IP	Intellectual Property
IPR	Intellectual Property Rights
LCF	Law of the People's Republic of China on the Laws Applicable to Foreign-related Civil Relations 2010
MFN	Most Favourable Nation
OEM	Original Equipment Manufacturer
PI	Parallel Import
PICC	UNIDROIT Principles of International Commercial Contracts
PIL	Private International Law
PPI	Passive Parallel Imports
PRC	People's Republic of China
RTLCL	Regulations for the Implementation of the Trademark Law of the People's Republic of China 2014
TLC	Trademark Law of the People's Republic of China 2019
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UL	Underwriters Laboratories
ULIS	Uniform Law on the International Sale of Goods
UNCITRAL	United Nations Commission on International Trade Law
UNIDROIT	Unification of Private Law
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

INTRODUCTION

Research background The increasing volumes of international sales of goods is a superior outcome of the trend of economic globalisation. To decrease the cost and establish standardised dispute resolution systems, uniform substantive statutes are created by different legislative bodies. While, in many respects, there is an inherent tension when a transnational body of law governs issues traditionally been territorially based. This tension is undeniable when considering intellectual and industrial property (hereinafter IIP) rights.¹

Intellectual property (IP) is being paid colossal attention as a stand-alone section of legal affairs and part of the international sale of goods. On the one hand, IP is a key strategic driver of competitive advantage in today's global marketplace.² Both globalisation and open innovation are profoundly advancing IP's strategic role and value to competitive firms in the worldwide market.³ In recent years, firms increasingly view intellectual property rights (IPRs) as stand-alone, tradable economic assets and pursue IPRs at breakneck speed, with applications for IP recognition in all significant markets surging and new global IP markets emerging as firms increasingly leverage IP for strategic gains.⁴ On the other hand, it is impossible to ignore the massive number of transactions concerning IP, which was involved with the international sale of goods or attached to global goods. Transnational commercial transactions involving the

¹ Beline T.M. Legal Defect Protection by Article 42 of the CISG: A Wolf in Sheep's Clothing // *Journal of Technology Law and Policy* (University of Pittsburgh School of Law). – 2007. – Vol. 7. – P. 3.

² Baldia S. The Transaction Cost Problem in International Intellectual Property Exchange and Innovation Markets // *Northwestern Journal of International Law & Business*. – V. 34. – No. 1. – 2013. – P. 3.

³ Ibid.

⁴ Ibid.

export of IP-based products and services, including innovative business methods, proprietary technology, and other intangibles in and among multiple jurisdictions, have steadily increased since the late 1990s.⁵

Among the current uniform substantive statutes in international sale of goods, the United Nations Convention on Contracts for the International Sale of Goods (CISG)⁶ regulates the seller's obligations and rights of third parties based on IP, namely Articles 42 and 43, while the wording of these provisions is not adequate. The current provisions are somewhat generalised and remain ambiguous, and the commentaries⁷ to them also fail to give a comprehensive concrete interpretation. This wording issue results in significant differences between implementation in different member states and failure to achieve the legislative goals.

As one of the main economies and a CS of the CISG, China is highly concerned with the IP-related provisions of the CISG. For a long time, China has the reputation

⁵ Ibid. P. 10.

⁶ United Nations Convention on Contracts for the International Sale of Goods (CISG) as of 2010 [Electronic resource] // UNCITRAL. – [Site]. – URL: https://uncitral.un.org/sites/uncitral.un.org/files/media-documents/uncitral/en/19-09951_e_ebook.pdf (accessed: 11.05.2022).

⁷ Schlechtriem P. Uniform Sales Law: The UN-Convention on Contracts for the International Sale of Goods [Electronic resource] // Pace Law Albert H. Kritzer CISG Database / Vienna: Manz, 1986. – 73-74 p. – [Site]. – URL: https://iicl.law.pace.edu/sites/default/files/cisg_files/slechtriem.html (accessed: 12.05.2022).

“... With regard to notice requirements and the buyer's loss of rights for failure to notify, this provision is similar to the one on liability for defects in title (Article 43(1)). The exceptions - the seller's knowledge (Article 43(2)) and the "reasonable excuse" for the lack of notice (Article 44) - are also similar. Nevertheless, it is apparent that this case is regarded as a special category of breach of contract, closer to a lack of conformity than to a defect in title. ...

Furthermore, the seller is only liable if he knew or could not have been unaware of these rights at the time the contract was concluded. In other words, he must inform himself about the possible industrial or other intellectual property rights of third persons with regard to the goods sold, but only for particular countries.

The seller is not subject to the obligation described above if the buyer knew or ought to have known of the right or the claim in question (Article 42(2)(a)), or if the seller followed technical drawings, designs, formulae, or other specifications supplied by the buyer himself (Article 42(2)(b)).

Finally, the buyer loses his right to assert a claim based on such infringements if he does not notify the seller within a reasonable time after he learns or should have learned of the third-party rights or claims ...”

of being the “world factory” and been frequently involved with transnational disputes regarding IPR infringement in the international sale of goods. Therefore, regarding the practical analysis, it is of great value to focus the research questions under the Chinese jurisdiction and conduct case studies regarding the practical experience of the Chinese courts and arbitral tribunals.

Research questions This thesis aims to give a comprehensive interpretation of Articles 42 and 43 of the CISG and relating provisions, mainly including requirements regarding the conformity of goods, and analyse the legality of the establishment of the IP-related conditions in the field of international sale of goods. With a particular focus on Articles 42 and 43 of the CISG, the thesis will mainly discuss the research questions as follows:

1. How to interpret Articles 42 and 43 of the CISG?
2. What are the main scenarios when a third party claims the infringement of his IPRs in the international sale of goods? (What are the separated issues appearing in practice relating to the seller’s obligation to deliver goods free from rights of third parties based on IP?)
3. What are the issues remaining in China regarding the interpretation and implementation of the IP-related provisions of the CISG?
4. Do IP-related provisions of the CISG create a perfect balance of obligations between the seller and the buyer, or do they overly protect the seller or the buyer?

Methodology The thesis mainly includes the following three methodological methods to conduct the research:

- (1) Norm analysis;
- (2) Comparative analysis;
- (3) Case-law analysis.

Structure Chapter 1 discussed the problems caused by the unclear wording of the IP-related provisions of the CISG and gave a more comprehensive interpretation of the wording theoretically. However, when it comes to international transactions, issues regarding IP-related conditions are raised diversely in different Contracting States (CSs). Chapter 2 will discuss two typical problems appearing in the practices of IP-related international transactions and try to analyse the legality of the corresponding actions. Chapter 3 is the practical part, which is based on the court practices in China on the implementation of the IP-related provisions of the CISG. This chapter will choose a certain number of case laws, find out the problems existing in the judicial practices, and eventually give suggestions regarding the related issues' improvement.

Literature review Dr Allen M. Shinn, Jr, 1993, published the article "Liabilities under Article 42 of the U.N. Convention on the International Sale of Goods", which is one of the earliest research results on this issue. In this article, Dr Shinn examined questions mainly about interpreting the wording of Articles 42 and 43 of the CISG, including the scope of industrial property or other intellectual property, the responsibility placed on the seller and the territorial limitation. Beline (2007) wrote a short article that discusses the problems with a uniform substantive law to govern the sales of goods subject to IPRs. There are barely any other well-known international academic articles solely focusing on this issue.

As for monographs, Saidov provided a comprehensive introduction to the issue of the third parties' rights or claims arising from IP in his book "Conformity of Goods and Documents: the Vienna Sales Convention". In 2015, Schwenger, Atamer and Butler edited the book "Current Issues in the CISG and Arbitration". It included the article of Metzger, "Seller's Liability for Defects in Title According to Articles 41 and 42 of the CISG". These books tend to explain the CISG provisions and list the main issues discussed in the previous research instead of giving new data or opinions in this field.

Besides, from the perspective of international organisations, certain official documents have been made, such as The Hague Conference on Private International Law (HCCH) and World Intellectual Property Organization (WIPO) co-published guidance "When Private International Law Meets Intellectual Property Law - A Guide for Judges", which gives general advice on trade-related IP transactions.

CHAPTER 1. Legislative process of intellectual property rights protection in the field of international sale of goods

§1. Introduction to the history of the uniform law in the field of international sale of goods based on intellectual property

From the perspective of private international law (PIL), no comprehensive PIL regime for IP is established at the international level.⁸ Without a comprehensive legislative instrument, it makes the protection of IP rights in PIL, especially in the international sale of goods, more challenging to achieve, and the cost of pursuing justice for IP rights is at a relatively high level. Nevertheless, with the development of IP law at the domestic level and the experience of IP transactions, the international society has made efforts to provide better protection for IPRs from legislation to judicial procedure. There are global and regional PIL instruments that apply to IP, and originations aiming to protect IPRs worldwide.⁹ The most outstanding outcome is the establishment of the WIPO. The mission of WIPO is to lead the development of a balanced and effective international IP system that enables innovation and creativity for the benefit of all, and the WIPO Convention¹⁰ sets out the mandate, governing bodies and procedures.¹¹

⁸ Bennett A., Granata S. When Private International Law Meets Intellectual Property Law – A Guide for Judges. Geneva: World Intellectual Property Organization (WIPO), Geneva & the Hague: Hague Conference on Private International Law (HCCH), 2019. – 20 p.

⁹ Ibid. 21 p.

¹⁰ Convention Establishing the World Intellectual Property Organization as amended on 28 September 1979 (WIPO Convention) [Electronic resource] // WIPO. – [Site]. – URL: <https://wipolex.wipo.int/en/text/283854> (accessed: 06.05.2022).

¹¹ What is WIPO [Electronic resource] // WIPO. – [Site]. – URL: <https://www.wipo.int/about-wipo/en/> (accessed: 06.05.2022)

In international sales law, the protection of IPRs of the seller, the buyer or a third party, has been valued since the 1980s. With the development of the unification of international sales law, provisions on IP protections are included in international legal instruments and principles. Still, a better legal framework for IPR protection based on international transactions of goods is being established step by step.

Historically, the process of IPR protection in the international sale of goods can be dated back to the 1964 Uniform Law on the International Sale of Goods (ULIS)¹². Article 52 of the ULIS¹³ introduced a provision encompassing liability for general defects in title, focusing particularly on the physical ownership of the seller, encumbered by lacking or conflicting rights in rem, but no distinction is indicated between liability for general defects in title and infringements of industrial and other intellectual property rights (IPRs).¹⁴ As the precursor to the CISG, Article 52 of the

¹² Uniform Law on the International Sale of Goods (1964) (ULIS) [Electronic resource] // Lex Mercatoria. – [Site]. – URL: <https://www.jus.uio.no/lm/unidroit.ulis.convention.1964/> (accessed: 06.05.2022)

¹³ Article 52 of the ULIS: “1. Where the goods are subject to a right or claim of a third person, the buyer, unless he agreed to take the goods subject to such right or claim, shall notify the seller of such right or claim. Unless the seller already knows thereof, and request that the goods should be freed therefrom within a reasonable time or that other goods free from all rights and claims of third persons be delivered to him by the seller.

2. If the seller complies with a request made under paragraph 1 of this Article and the buyer nevertheless suffers a loss, the buyer may claim damages following Article 82.

3. If the seller fails to comply with a request made under paragraph 1 of this Article and a fundamental breach of the contract results thereby, the buyer may declare the contract avoided and claim damages in accordance with Articles 84 to 87. If the buyer does not declare the contract avoided or if there is no fundamental breach of the contract, the buyer shall have the right to claim damages in accordance with Article 82.

4. The buyer shall lose his right to declare the contract avoided if he fails to act in accordance with paragraph 1 of this Article within a reasonable time from the moment when he became aware or ought to have become aware of the right or claim of the third person in respect of the goods.”

Accessed from “Lex Mercatoria”. – [Site]. – URL: <https://www.jus.uio.no/lm/unidroit.ulis.convention.1964/> (accessed: 06.05.2022)

¹⁴ Schwenzler I. Interpretation and Gap-Filling under the CISG // Ingeborg Schwenzler, Yesim M. Atamer & Petra Butler (Eds.) / Current Issues in the CISG and Arbitration. The Hague: Eleven International Publishing, 2014. – 195 p.

ULIS only protected the buyer against rights and claims by a third party asserted.¹⁵ Although it was not clearly indicated whether IPR is fallen into the scope of “property”, Professor John O. Honnold notes that Professor Tunc’s commentary to Article 52 of the ULIS was explicitly limited to “ownership” and physical title claims.¹⁶ While it is possible for IPR claims to fall within Article 33 of the ULIS¹⁷, which is the non-conformity provision. Professor Honnold notes that under the ULIS, conformity of the goods sold was to be determined by the law of the place at the time when risk passes.¹⁸ The choice of different Intercoms will influence the pass of risks, and thus a third party’s claim on IPR would be a defect of the conformity of goods under certain intercoms. Under this circumstance, whether IPR should be included in uniform international contract law is contemplated.

The HCCH addressed the intersection between IP and PIL in the HCCH Convention¹⁹ and the HCCH Principles^{20, 21} Provisions relating to IP in the HCCH Convention are involved in Article 2, “Exclusions from scope”, and Article 10 “, Preliminary questions”, but they are both irrelevant to IP in the process of international

¹⁵ Beline T.M. Legal Defect Protection by Article 42 of the CISG: A Wolf in Sheep’s Clothing. P. 6.

¹⁶ Honnold J.O. Uniform Law for International Sales under the 1980 United Nations Convention // Kluwer Law International. – Vol. 3. –1999. – P. 195.

¹⁷ Article 33 (1) (d) of the ULIS: “1. The seller shall not have fulfilled his obligation to deliver the goods where he has handed over: ...

(d) goods which do not possess the qualities necessary for their ordinary or commercial use; ...”

Access from “Lex Mercatoria”. – [Site]. – URL: <https://www.jus.uio.no/lm/unidroit.ulis.convention.1964/> (accessed: 06.05.2022)

¹⁸ Beline T.M. Legal Defect Protection by Article 42 of the CISG: A Wolf in Sheep’s Clothing. – P. 7.

¹⁹ Convention on Choice of Court Agreements of 30 June 2005 [Electronic resource] // HCCH. – [Site]. – URL: <https://assets.hcch.net/docs/510bc238-7318-47ed-9ed5-e0972510d98b.pdf> (accessed: 06.05.2022).

²⁰ Principles on Choice of Law in International Commercial Contracts (approved on 19 March 2015) [Electronic resource] // HCCH. – [Site]. – URL: <https://assets.hcch.net/docs/5da3ed47-f54d-4c43-aaef-5eafc7c1f2a1.pdf> (accessed: 06.05.2022).

²¹ Bennett A., Granata S. When Private International Law Meets Intellectual Property Law – A Guide for Judges. 21 p.

transaction, especially Article 2(2)(n) and Article 2(2)(o) excluded majority of matters relating to IP, for example, Article 2(2)(n) excludes the importance of the validity of IPRs other than copyright and related rights.²² Therefore, the HCCH Convention excludes the validity of other types of IPRs, including trademarks and patents out of the application scope. In addition, in the HCCH Principles, provisions pursuant to IP are implied or not directly included. It is only mentioned in the Commentary on the HCCH Principles relating to Article 1(1) of the HCCH Principles.²³

Furthermore, another uniform PIL instrument formulated by the International Institute for the Unification of Private Law (UNIDROIT) is the UNIDROIT Principles of International Commercial Contracts (PICC)²⁴. The PICC helps participants understand the general principles of the international transaction instruments that guide courts and tribunals in resolving matters by playing its gap-filling role.²⁵ However, the PICC did not discuss IP. The PICC may be used to “interpret or supplement international uniform instruments or domestic law”, but there is a space to be filled in the international legal firmament, particularly in the case of contracts that are not governed by the other instruments, for example, intellectual property licensing.²⁶

From the introductory description of the uniform law process in the context of international sale of goods relating to IPR protection, it can be easily noticed that there

²² Article 2 of the HCCH Convention [Electronic resource] // HCCH. – [Site]. – URL: <https://assets.hcch.net/docs/510bc238-7318-47ed-9ed5-e0972510d98b.pdf> (accessed: 06.05.2022)

²³ See: the commentary to Article 1(1) of the HCCH Principles. Available at <https://www.hcch.net/en/instruments/conventions/full-text/?cid=135#text>

²⁴ Principles of International Commercial Contracts (PICC) of 2016 [Electronic resource]. – [Site]. – URL: <https://www.unidroit.org/wp-content/uploads/2021/06/Unidroit-Principles-2016-English-bl.pdf> (accessed: 06.05.2022).

²⁵ Gotanda J.Y. Using the UNIDROIT Principles to Fill Gaps in the CISG // Villanova University Charles Widger School of Law Digital Repository. – 2007. – P. 3.

²⁶ Bridge M. The CISG and the UNIDROIT Principles of International Commercial Contracts // Uniform Law Review. – V. 19. – No. 4. – 2014. – P. 625.

were no substantive instruments or provision established under IPR in the field of international sale of goods. The issue was discussed or contemplated by some drafters, but the legislative gap remained huge. Therefore, a substantive regime that consists of at least a prominent provision regarding IPR in the international sale of goods is eager to be set out. Under this background, one of the most comprehensive regimes in CISG, initially included the provisions regarding the seller's obligation to deliver goods free from rights or claims of third parties based on IP, which are primarily regulated in Articles 42 and 43. Article 42 clarifies the seller's obligation to deliver goods free from rights of third parties based on IP, while limits the seller's liability in the particular cases of intellectual property infringement. In short, the seller may only be held liable where he or she knew or could not have been unaware of the conflicting rights.²⁷ In addition, the seller's obligation to assume liability is territorially limited and may be dispensed where the buyer knew or could not have been unaware of the conflicting rights.²⁸ Article 43 adds the requirements of notice time to Article 42.

From the illustration mentioned above, it can be known that both the PICC and the HCCH Principles are the non-binding codification of contract law rules and principles, namely soft-law instruments.²⁹ As a legally bounding substantive regime, CISG has the nature of higher legal force and certainty of interpretation. Also, the CISG, the PICC and the HCCH documents are complementary. The drafting of the texts, as mentioned above, was often carried out in coordination with the other organisations. The legislative history of the CISG, for the preparation of which United Nations

²⁷ Schwenger, I. Interpretation and Gap-Filling under the CISG. – 196 p.

²⁸ Ibid.

²⁹ Ibid. P .6.

Commission on International Trade Law (UNCITRAL) took advantage of earlier uniform texts developed by UNIDROIT, vice versa, the CISG influenced the development of later uniform readers such as the PICC, which also builds upon and helps implement the CISG.³⁰

Article 7³¹, whose primary provision regarding the interpretation and gap-filling functions has been considered the most critical provision in the CISG. Similar provisions are implemented in most international instruments, be they conventions, uniform projects or model laws.³² Thus, as was mentioned before, the CISG is the only binding PIL instrument which stipulates the IP-related provisions in the international sale of goods. It is one of the prominent examples of the CISG's gap-filling function, which highlighted the research value of the CISG in the history of the uniform law in the international sale of goods based on IP.

§ 2. Interpretation of the IP-related provisions of the CISG

§ 2.1. Wording of Articles 42 and 43 of the CISG

The wording of Articles 42 and 43 of the CISG remains ambiguous, and this causes difficulties in the implementation among member states. This section will give

³⁰ UNCITRAL, HCCH and Unidroit. UNCITRAL, HCCH and Unidroit Legal Guide to Uniform Instruments in the Area of International Commercial Contracts, with a Focus on Sales [Electronic resource] // United Nations Publication. – Vienna. – 2021. – P. 2. – [Site]. – URL: <https://assets.hcch.net/docs/0571d8ca-8b56-41a2-8443-4fe93e306c17.pdf> (accessed: 06.05.2022).

³¹ Article 7 of the CISG: “(1) In the interpretation of this Convention, regard is to be had to its international character and to the need to promote uniformity in its application and the observance of good faith in international trade. (2) Questions concerning matters governed by this Convention which are not expressly settled in it are to be settled in conformity with the general principles on which it is based or, in the absence of such principles, in conformity with the law applicable by the rules of private international law.” – URL: https://uncitral.un.org/sites/uncitral.un.org/files/media-documents/uncitral/en/19-09951_e_ebook.pdf (accessed: 06.05.2022).

³² Schwenger, I. Interpretation and Gap-Filling under the CISG. – 109 p.

a comprehensive interpretation of the wording, from the perspectives of the knowledge of both parties and appropriate time, by digging into the related legal documents, such as Commentary of the CISG, as well as practical experience in member states.

On the surface, the exemption of the seller's obligations to deliver goods free from rights or claims of third parties based on IP is the main content of Article 42. The full text of Article 42 is shown as below:

Article 42

(1) The seller must deliver goods which are free from any right or claim of a third party based on industrial property or other intellectual property, of which at the time of the conclusion of the contract, the seller knew or could not have been unaware, provided that the right or claim is based on industrial property or other intellectual property:

(a) under the law of the state where the goods will be resold or otherwise used if it was contemplated by the parties at the time of the conclusion of the contract that the goods would be resold or otherwise used in that state; or

(b) in any other case, under the law of the state where the buyer has his place of business.

(2) The obligation of the seller under the preceding paragraph does not extend to cases where:

(a) at the time of the conclusion of the contract, the buyer knew or could not have been unaware of the right or claim; or

(b) the right or claim results from the seller's compliance with technical drawings, designs, formulae or other such specifications furnished by the buyer.

The text of Article 42 of the CISG includes 2 paragraphs. Paragraph 1 sets up the limitation of the seller's obligations from the perspective of the law applicable. Paragraph 2 regulates the burden of the seller's obligations based on the buyer's actions or omissions. Contents of these two paragraphs can be summarised as the exemption of the seller's obligations, and they indicate the exemption scenarios of the seller's obligations considering space and time. In terms of time, the seller's obligations are determined in connection with the time of the conclusion of the contract, i.e., the seller is not responsible for any third party's IPR, which is emerged after the conclusion of the sale contract; in terms of space, the seller is only liable for the third party's claim which is lodged under the law of the state where the buyer has his place of business or where the goods will be resold or otherwise used.³³ Nevertheless, in the wording of both paragraphs, the drafter uses the expression "knew or could not have been unaware" and "the time of the conclusion of the contract", which is highly controversial.

As for Article 43 of the CISG, the ambiguous wording mainly focuses on the notice of the buyer and the seller's knowledge of the right or claim of the third party and its nature. Article 43 consists of two paragraphs too, and the text is as follows:

Article 43

³³ Wang L. Study of the Seller's Obligations and Exemptions Based on Intellectual Property Rights in the CISG (《联合国国际货物销售合同公约》中卖方知识产权权利担保责任限制与免责研究) // Heilongjiang Human Resource and Social Security. – Vol. 8. – 2021. – P. 62.

(1) The buyer loses the right to rely on the provisions of article 41 or article 42 if he does not give notice to the seller specifying the nature of the right or claim of the third party within a reasonable time after he has become aware or ought to have become aware of the right or claim.

(2) The seller is not entitled to rely on the provisions of the preceding paragraph if he knew of the right or claim of the third party and its nature.

Article 43(1) regulates the seller's legal grounds for exemptions of warranty based on IP; however, Article 79 of the CISG allows the parties to be free from liabilities for failure to perform any of his obligations if he proves that the loss was due to an impediment beyond his control. Therefore, when invoking Article 43(1), the seller still can claim defence immunity following Article 79.³⁴

§ 2.2. The seller's and the buyer's knowledge

The phrase “knew or could not have been unaware” totally appears five times in the CISG. The details of the phrases are shown in the following table:

Table 1 – Usage of the phrase “knew or could not have been unaware” in the CISG

<i>Article</i>	<i>Text</i>	<i>Relevant Issue(s)</i>
<i>8(1)</i>	<i>For the purposes of this Convention statements made by and other conduct of a party are to be interpreted according to his intent where the other party knew or could not have been unaware what that intent was.</i>	<i>General provisions</i>
<i>35(3)</i>	<i>The seller is not liable under subparagraphs (a) to (d) of the preceding paragraph for any lack of conformity of</i>	<i>Obligations of the seller - Conformity of the goods and third-party claims</i>

³⁴ Jia K. *The Analysis of the Warranty for Intellectual Property Rights in International Sale of Goods – from the Perspective of Article 42 of CISG (国际货物买卖中知识产权担保义务分析——以 CISG 第 42 条为视角)* // Thesis for the Degree of Juris Master / China Youth University of Political Studies. Beijing, 2017. – P. 21.

	<i>the goods if, at the time of the conclusion of the contract, the buyer knew or could not have been unaware of such lack of conformity.</i>	
40	<i>The seller is not entitled to rely on the provisions of articles 38 and 39 if the lack of conformity relates to facts of which he knew or could not have been unaware and which he did not disclose to the buyer.</i>	<i>Obligations of the seller - Conformity of the goods and third-party claims</i>
42(1)	<i>(1) The seller must deliver goods which are free from any right or claim of a third party based on industrial property or other intellectual property, of which at the time of the conclusion of the contract the seller knew or could not have been unaware, provided that the right or claim is based on industrial property or other intellectual property...</i>	<i>Obligations of the seller - Conformity of the goods and third-party claims</i>
42(1)(a)	<i>... at the time of the conclusion of the contract the buyer knew or could not have been unaware of the right or claim; or ...</i>	<i>Obligations of the seller - Conformity of the goods and third-party claims</i>

From the wordings listed in the table, it can be noticed that the phrase “knew or could not have been unaware”, in general, has been used for adding conditions to specific scenarios. When it comes to Article 42 of the CISG, the phrase “knew or could not have been unaware” is used for limiting the seller’s liability to those third-party IP-related rights or claims, of which the seller “knew or could not have been unaware” at the time of the conclusion of the contract. Namely, the seller’s knowledge of rights or claims of a third party based on IP is highly relevant, or even ultimate, to the exemption of his liability.

The question of “what standard is meant by ‘could not have been unaware’” probably is the most challenging question that Article 42 raises since the precise meaning of the phrase “knew or could not have been unaware”, especially “could not have been unaware” is not clearly explained in the CISG or the commentary. The

secretariat commentary states that “the seller ‘could not have been unaware’ of the third-party claim if that claim was based on a patent application or grant published in the country in question.³⁵ This statement affirms an obligation on the seller to research the patent (and by analogy, copyright and trademark) registries of the country in which the buyer will use or resell the goods.³⁶ The secretariat commentary reinforces this view by stating that “[T]he seller is in a position to ascertain whether any third party has industrial or intellectual property rights or claims ...” This is consistent with the merits of Article 41. Article 41 of the CISG requires the seller to deliver goods free from any rights or claims of a third party, which places a strict obligation on the seller to investigate on the conformity of the goods. From this point of view, the meaning “could not have been unaware” is easy to understand. The seller is often better positioned than the buyer to know the individual components making up the goods and identify possible infringements.³⁷ If there is no such duty imposed on the seller, its liability for a third party’s IPR will be reduced to wholly lose its practical significance.³⁸

However, from the perspective of the legislative history, Secretariat’s view is not supported. The International Chamber of Commerce (ICC) commented to the Diplomatic Conference that the Secretariat’s statement was incorrect.³⁹ Still, there is no indication that this criticism was accepted or even debated, nor is there an indication

³⁵ Shinn A. M. Jr. Liabilities under Article 42 of the U.N. Convention on the International Sale of Goods // Minnesota Journal of Global Trade. – Vol. 2. – No. 1. – 1993. – P. 124.

³⁶ Ibid.

³⁷ Saidov D. Conformity of Goods and Documents – the Vienna Sales Convention. Oxford, Portland: Hart Publishing Ltd, 2015. – 213 p.

³⁸ Ibid.

³⁹ Shinn A. M. Jr. Liabilities under Article 42 of the U.N. Convention on the International Sale of Goods. P. 124.

of the standard that the ICC would have applied.⁴⁰ As listed in Table 1, in Article 42(a), “could not have been unaware” is used again. Article 42(a) regulates a scenario of an exemption of the seller’s obligation depending on the buyer’s action. The seller will be exempted from commitments at the time of the conclusion of the contract the buyer knew or could not have been unaware of the right or claim. Does this mean that buyer has the same duty of research on IPR as the seller? If so, both seller and buyer have the same obligation to learn of published IPRs. However, if the buyer’s duty negates the seller’s obligation; if the seller “could not have been unaware”, neither could the buyer, so the seller is not liable.⁴¹

From the previous discussion, it can be realised that the knowledge of both parties places an essential role on the existing liability of research on third parties’ IPR. Looking at the two expressions where the phrase “knew or could not have been unaware” is used, the standard of knowledge attributed to the buyer is identical to the one which is to be credited to the seller, and the obvious argument is that the buyer should also have an obligation to investigate.⁴² Thus, the seller and the buyer can be placed under an obligation to investigate or research a third party’s IPR under different circumstances. The obligation can be simultaneous or individual. Moreover, the standard of the justification of such obligations can be diversified. Since the CISG does not give clear explanations on this issue, the phrase “knew or could have not been unaware” gives member states more discretion for distributing liabilities.

⁴⁰ Shinn A. M. Jr. Liabilities under Article 42 of the U.N. Convention on the International Sale of Goods. – P. 124.

⁴¹ Ibid. P. 125.

⁴² Schlechtriem P., Butler P. UN law on international sales // Berlin: Springer, 2009. – 136-138 p.

In respect of the judicial practice of member states, when deciding whether the buyer “could not have been unaware”, the courts usually consider the buyer’s professional capacity and position.⁴³ If the court holds that the buyer is equipped with higher capacity in the professional industry, then the court would think that the buyer should take a stricter obligation to investigate IPR. Therefore, the buyer would be held liable for IPR infringement of the third party by applying Article 42(a), and correspondingly, the seller’s obligation should be released. The few courts in which have applied Article 42 have placed a higher threshold of knowledge on the buyer than concerning the seller when the buyer has brought an action seeking indemnity from the seller.⁴⁴ For example, two courts in France have held that the Article 42 protections for the buyer were inapplicable because the buyer in his “professional capacity” could not have been unaware of the infringement.⁴⁵ In the case of Versailles Court of Appeal, the Spanish seller sold the furniture, which included parts that infringed on a third party’s copyrights, to the French buyers, and the court held that the buyers could not claim that they could not have been unaware of the existence of the third party’s IPRs because they had knowledge to identify the IPR holder and as “professionals in this area (French market) ”.⁴⁶ In an Appellate Court in Colmar, a French clothing company purchased shirts from a German company that contained a combination of two types of fabric that

⁴³ Li S., Han Y. Research on the Exemption of the Seller’s Intellectual Property Guarantee Obligation and the Corresponding Exemption of the Liability for Breach of Contract in CISG (CISG 卖方知识产权担保义务及违约责任的免除) // Journal of Beijing Union University (Humanities and Social Sciences). – Vol. 19. – No. 1. – 2021. – P. 113.

⁴⁴ Beline T.M. Legal Defect Protection by Article 42 of the CISG: A Wolf in Sheep’s Clothing. – P. 15.

⁴⁵ Ibid.

⁴⁶ La Fondation le C... et al. v. Société Grandopt... France, Société Les Opticiens E... et al, Cour d’appel [Court of Appeals] of Versailles France Case No. 01/08276, Decision, 23 November 2004. – [Electronic resource]. – Translation availed at: <https://iicl.law.pace.edu/cisg/case/france-cour-dappel-court-appeals-la-fondation-le-c-et-al-v-soci%C3%A9t%C3%A9-grandopt-france-soci%C3%A9t%C3%A9>

infringed on a copyright owned by a French textile firm, and the court held that the buyer could not claim for indemnification relying on Article 42 because he could not have been unaware of the IPRs of a third party by his “professional capacity”.⁴⁷ These cases highlight the heightened level of knowledge attributed to the buyer.

In conclusion, the ambiguousness caused by the wording of the phrase “knew or could not have been unaware” is against the legislative objectives of the CISG, which is made to facilitate the unification of international transaction regimes. From the perspective of knowledge of both parties, to avoid the existence of controversial scenarios, it is necessary to set up an apparent threshold of knowledge of both parties.⁴⁸ The standard for the division of obligations shall depend on whether a state where the goods will be resold or otherwise used in the contract. When the state is written in the sale contract, the seller is liable to investigate the situation of IP in that state; otherwise, the buyer will be exposed to conduct such research.

§ 2.3. *Relevant time*

Based on the discussion of the knowledge of both parties, the issue regarding the relevant time of the starting point of obligations can also raise questions when interpreting the provisions and applying them in practice. In Article 42(1) and 42(1)(a), the seller’s obligation of taking responsibilities on third parties’ IPR is limited from the time of the conclusion of the contract, and Article 42(2)(a) analogously defines the

⁴⁷ SA H... MA... et Aktiengesellschaft T... K... v. S.A. Do... M... & Cie et GmbH Co... H... M..., Cour d’appel [Court of Appeals] of Colmar France Case No. 1B 98/01776, Decision, 13 November 2002. – [Electronic resource]. – Translation availed at: <https://iicl.law.pace.edu/cisg/case/france-november-13-2002-cour-dappel-court-appeals-sa-h-ma-et-aktiengesellschaft-t-k-v-sa>

⁴⁸ Li S., Han Y. Research on the Exemption of the Seller’s Intellectual Property Guarantee Obligation and the Corresponding Exemption of the Liability for Breach of Contract in CISG (CISG 卖方知识产权担保义务及违约责任的免除). – P. 113.

buyer's obligations also from the time of the conclusion of the contract. It is these requirements that ultimately determine whether the seller is in principle for the individual right or claim, or put differently, the significance of the time of delivery is considerably undercut by the need to prove the seller's knowledge (actual or implied) at an earlier point of concluding the contract.⁴⁹ One question that may arise in this regard relates to a case where a right had been invoked prior to delivery, which the seller has not resolved and which, for some reason, has not been pursued by the third party since then, so can the buyer claim that the seller is in breach of Article 42?

The rationale for limiting the obligation to a timely point when it is after the conclusion of the contract is that even if a right or claim exists at the time of the conclusion of the contract, the seller should not be liable because, by the time of delivery, the seller has an opportunity to discharge such rights or to resolve claims by acquiring a licence, for example.⁵⁰ The relevant time limit is highly related to the risk of liabilities. Ideally, the provisions should include clear interpretations regarding the way and result of the transfer of risks. However, Article 42 only indicates the exemptions of risk of one party, the transfer of risk is not shown. For example, per Article 42(2)(a), the obligation of the seller under the preceding paragraph does not extend to cases where at the time of the conclusion of the contract, the buyer knew or could not have been unaware of the right or claim, which does not tell whether the buyer should be liable for the claims of the third party or any other possibilities.

⁴⁹ Saidov D. Conformity of Goods and Documents – the Vienna Sales Convention. – 213 p.

⁵⁰ Ibid.

The issue of relevant time also appears in Article 43. Article 43(1) gives notice to the seller specifying the nature of the right or claim of the third party within a reasonable time after he has become aware or ought to have become aware of the right or claim. The argument regarding the wording of this article focuses on the interpretation of the phrase “a reasonable time”. As for the interpretations of the phrase “a reasonable time”, the secretariat commentary quoted the opinion of Fritz Enderlein, and he thinks that the aim of “a reasonable time” is to make sure that the buyer has adequate time to investigate the legality of third parties’ rights or claims based on IP, and to avoid frivolous claims.⁵¹ Intensely, the limitation of “a reasonable time” is used for better protection of the rights of both parties from the rights or claims of the third parties. Therefore, it is necessary to consider the time of investigating as part of “a reasonable time”.

This problem is illuminated in the German automobile case. A car dealership in the Netherlands acquired an automobile from a seller in Germany; after receiving the vehicle and the title documentation, Dutch police seized the car on the suspicion that the vehicle had been stolen in France.⁵² The court held that the buyer could not pursue a remedy for the legal defect because he did not give the seller notice of the legal deficiency within a reasonable time after learning of it and determined that “for a legal layperson such as [Buyer], the suspicion of theft, made obvious by the police seizure, was easily recognised as an especially significant occurrence without the need to secure

⁵¹ Jia K. The Analysis of the Warranty for Intellectual Property Rights in International Sale of Goods – from the Perspective of Article 42 of CISG (国际货物买卖中知识产权担保义务分析——以 CISG 第 42 条为视角). – P. 21.

⁵² (German case citations do not identify parties to proceedings) Bundesgerichtshof [Federal Supreme Court] of Germany Case No. VIII ZR 268/04, Decision, 11 January 2006. – [Electronic resource]. – Translation availed at: <https://iicl.law.pace.edu/cisg/case/germany-bger-bundesgerichtshof-federal-supreme-court-german-case-citations-do-not-ident-17>

legal advice.”⁵³ As mentioned previously, in the case of a right or claim based on IP, there may be problems with how effective the notice is to proceed under the Article 42 protections.⁵⁴ However, in the German automobile case, the court held that the buyer had verbally notified the seller of the fact that the goods were confiscated by the authorities several days earlier during the private visit to the seller, had fulfilled its duty of notification to the seller within a reasonable period and ruled that the seller was not entitled to claim article 43 prescribed defences.⁵⁵ Similarly, in the mobile phone plastic panels case, the court found that the buyer failed to explain to the seller the intellectual property rights claimed by the third party promptly, violating the notification obligation under Article 43(1); hence, the court ruled that the buyer had no right to hold the seller liable for breach of contract and dismissed the buyer’s allegation.⁵⁶ In the case of CD manufacture, the court of first instance held that the buyer’s notice to the seller concerning the third party’s IP claim was timely under Article 43(1) because the buyer had no obligations to investigate; however, the final appeals court reversed this decision on other grounds, without commenting on the Article 43 notice issue.⁵⁷ This case reflects the merit of Article 43(1) and indicate that buyers’ failure to comply with

⁵³ Ibid.

⁵⁴ Beline T.M. Legal Defect Protection by Article 42 of the CISG: A Wolf in Sheep’s Clothing. – P.21

⁵⁵ (German case citations do not identify parties to proceedings) Oberlandesgericht [Court of Appeal] of Dresden Germany Case No. 9 U 1218/06, Decision, 21 March 2007. – [Electronic resource]. – Translation availed at: <https://iicl.law.pace.edu/cisg/case/germany-oberlandesgericht-hamburg-oberlandesgericht-olg-provincial-court-appeal-german-163>

⁵⁶ (German case citations do not identify parties to proceedings) Landgericht [Regional Court] of Köln Germany Case No. 85 O 200/05, Decision, 5 December 2006. – [Electronic resource]. – Translation availed at: <https://iicl.law.pace.edu/cisg/case/germany-lg-aachen-lg-landgericht-district-court-german-case-citations-do-not-identify-112>

⁵⁷ CISG Digest as of 2016 [Electronic resource] // UNCITRAL. – P. 211. – [Site]. – URL: https://uncitral.un.org/sites/uncitral.un.org/files/media-documents/uncitral/en/cisg_digest_2016.pdf (accessed: 06.05.2022).

notification obligations in a timely manner is not an absolute exclusion from which sellers can assert.

Thus, in practice, the judgment of “a reasonable time” varies from case to case. In individual cases, the interpretation should be based on good faith and consider the nature of the IP defects, the difficulty for the buyer to notice the obligations, transaction methods and even geographical factors of the buyer.⁵⁸ Thus, the interpretation of “a reasonable time” remains controversial and complex; it requires courts to decide the legality of individual cases.

⁵⁸ Jia K. The Analysis of the Warranty for Intellectual Property Rights in International Sale of Goods – from the Perspective of Article 42 of CISG (国际货物买卖中知识产权担保义务分析——以 CISG 第 42 条为视角). P. 21.

CHAPTER 2. Current issues regarding the IP-related of the CISG

§ 1. Parallel import

§ 1.1. Doctrine of exhaustion of rights

When it comes to IP-related disputes in international sale of goods, Parallel Import (PI) is one of the most typical phenomena. PI refers to the importation of goods legitimately acquired from the owner of the goods subsequently sold in an unauthorised trade channel.⁵⁹ More precisely, PI goods, also called “grey market goods”, are authentic goods intended for a foreign market but are diverted or imported without permission of the IP owner into a country where the IP owner has valid IPRs.⁶⁰ In the sphere of trademark law, an owner of a registered trademark earns goodwill through the sale of his goods through a particular channel as authorised by them; however, once the goods leave that channel, it compromises the integrity and reputation of the goods that have been registered as a trademark.⁶¹ Due to the increasing trend of PI-related disputes in the field of trademarks and the extensive contexts of IP law, the following discussion will focus on trademark law to analyse the legality of PI in international transactions and the situations when a third party claims his IPRs in a PI dispute pursuant to the IP-related provisions of the CISG.

⁵⁹ Court Uncourt. Intellectual Property Rights Exhaustion of Ownership and Parallel Imports //court Uncourt. – V. 7. – No. 10. – 2020. – P. 46.

⁶⁰ Zhu D. How to Improve China’s Approach to Parallel Imports of Goods Bearing Trademarks // UIC Review of Intellectual Property Law. – V. 19. – No. 2. – 2020. – P. 127.

⁶¹ Ibid.

There are two types of parallel imports: active parallel imports (API) and passive parallel imports (PPI).⁶² API means that when the trademark owner sells goods in the

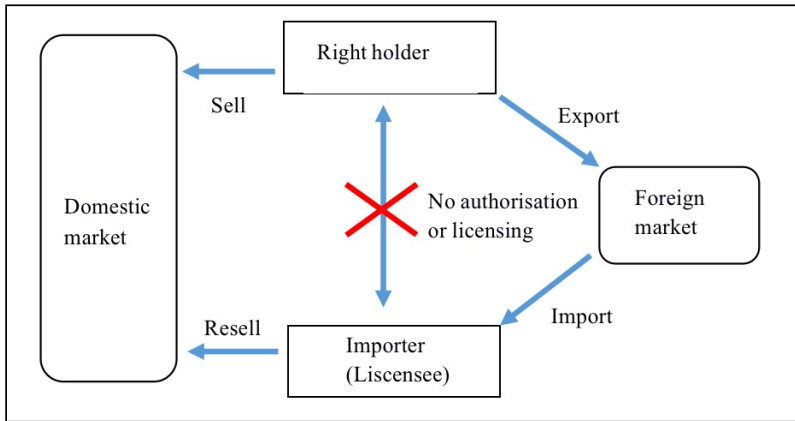


Figure 1 - API relation

jurisdiction of the right holder itself or in the jurisdiction of another licensee who is in direct competition.⁶³ In this type of PI, the breach arises when the licensee acts in

contravention of the licensing agreement between him and the right holder.⁶⁴ Namely, API only concerns two parties: the trademark owner and the importer, see Figure 1.

PPI arises when a the importer purchases goods owned by the right holder from

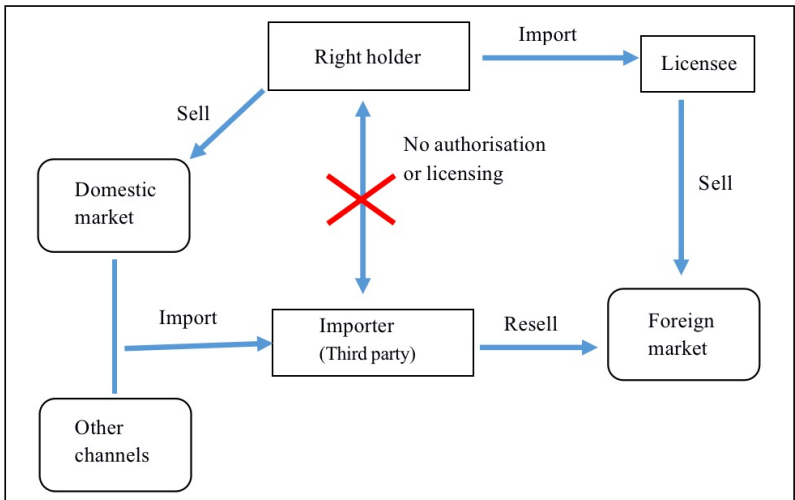


Figure 2 - PPI relation

the jurisdiction of the right holder and resells the goods in another country where the same goods have already been put in the market.⁶⁵ The aim of API is to gain higher profits due to

price differences of identical goods.⁶⁶ After the importer resells the trademarked goods

to the licensee's state, these

goods will become competitive to the same goods which are already been in the market.

⁶² Ibid.
⁶³ Ibid
⁶⁴ Ibid.
⁶⁵ Ibid.
⁶⁶ Ibid.

According to the definition, the “parallel lines” in PPI refer to the two importing lines between the unauthorised importer and the authorised licensee, who previously imported the goods in the target market. The relations between the three parties can be shown in Figure 2.

From the perspective of IP law, the legality of PI is highly affected by the doctrine of exhaustion of rights and the principle of territoriality. Due to the insufficiency of international legislation regarding PI, the interpretation of the principles as mentioned above becomes the crucial factor that affects the legality of PI.

The only two international legal documents that mention PI are the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and Doha Declaration on the TRIPS Agreement and Public Health (Doha Declaration).⁶⁷ Article 6 of TRIPS stipulates, “For the purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 [National Treatment] and 4 [Most-Favoured-Nation Treatment] nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.”⁶⁸ Article 5(d) of the Doha Declaration states that “[t]he effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each Member free to establish its own regime for such exhaustion without challenge, subject to the most favoured nation and national treatment provisions of Articles 3 and 4.”⁶⁹ As the provisions in the TRIPS

⁶⁷ Zhu D. How to Improve China’s Approach to Parallel Imports of Goods Bearing Trademarks. – P. 128.

⁶⁸ Article 6 of TRIPS // WTO. – [Site]. – URL: https://www.wto.org/english/docs_e/legal_e/trips_e.htm#part1 (accessed: 07.05.2022).

⁶⁹ Doha Declaration on the TRIPS Agreement and Public Health (Doha Declaration) adopted on 14 November 2001 // WTO. – [Site]. – URL: https://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_trips_e.htm (accessed: 07.05.2022).

and Doha Declaration, the members of TRIPS do not reach a unified opinions in the exhaustion of IPRs, that is to say, even if a country allows PIs in a way that another country might think it violates the TRIPS.⁷⁰ Such disputes cannot be raised in the World Trade Organization (WTO) unless fundamental principles of non-discrimination are involved, and as the Doha Declaration clarifies that members of TRIPS can choose the most suitable way to deal with exhaustion to fit their domestic policy objectives, different countries may have adopted other policies on the legality of PIs.⁷¹

In detail, the doctrine of exhaustion of trademark rights can be elaborated into three types of exhaustion of trademark rights: national exhaustion, international exhaustion and regional exhaustion. National exhaustion means that once a trademarked good has been sold in a particular country by the trademark owner, he cannot control the resale of that good within that country.⁷² It can be noted that the national exhaustion is similar to the essence of the principle of territoriality. The territoriality principle means that the IPRs of a trademark holder only exist in his territory unless there are specific regulations such as international treaties, multilateral or bilateral agreements.⁷³ The territoriality principle has a long history, originating from US legislation in the 19th century. The territoriality principle expounded in *Katzel's* decision is a cornerstone of US and international trademark law.⁷⁴ The Court

⁷⁰ Zhu D. How to Improve China's Approach to Parallel Imports of Goods Bearing Trademarks. – P. 129.

⁷¹ Ibid.

⁷² Agarwal P. Recommended Model for Parallel Importation of Trademarked Goods in ASEAN // *NLUD Journal of Legal Studies (National Law University Delhi)*. – Vol. 2. – 2020. – P. 59.

⁷³ Huang, H. The Comprehension Position and Applicability Logic of the Territorial Principle of Use of Trademarks (商标使用地域性原理的理解立场及适用逻辑) // *China Legal Science*. – Vol. 5. – 2019. – P. 80.

⁷⁴ Ilenda M.S. The Concept of Territoriality as a Principle of the International Trademark Law and Its Reflection in the Law of the United States // *Review of Comparative Law*. – Vol. 10. – 2005-2006. – P. 55.

of Appeals for the Federal Circuit has observed that “the trademark rights exist in each country solely according to that country’s statutory scheme”, and the owner of the trademark rights under federal or state law in the US does not possess automatically any rights anywhere outside the US,⁷⁵ which was further supplemented that “it is well settled that foreign use is ineffectual to create trademark rights in the United States” in *La Societe Anonyme des Parfums Le Galion v. Jean Patou, Inc. et al*⁷⁶ in 1974.

On the other hand, the international exhaustion means that once a trademarked good is sold anywhere in the world by the trademark owner, his rights with respect to that goods get exhausted internationally, and thus he cannot control the resale of that goods in any countries.⁷⁷ A mix of these two theories is the theory of regional exhaustion, according to which, once the trademark owner sells the trademarked good in any country of a particular region, he cannot prevent the resale of that good in any of the countries of that region.⁷⁸ In short, the principle of national exhaustion prohibits the PI, the principle of international exhaustion allows it, and regional exhaustion allows it from countries within a region. At a global level, the territoriality principle was adopted by main international regimes regarding IP, including the Paris Convention for the Protection of Industrial Property 1983 (Paris Convention) and the TRIPS. Article 6(3) of the Paris Convention provides that “[a] mark duly registered in a country of the [Paris] Union shall be regarded as independent of marks registered in

⁷⁵ Ilenda M.S. The Concept of Territoriality as a Principle of the International Trademark Law and Its Reflection in the Law of the United States. P.156.

⁷⁶ *La Societe Anonyme des Parfums Le Galion vs. Jean Patou, Inc. et al*, U.S. Court of Appeals for the Second Circuit Case No. 495 F.2d 1265 (2d Cir. 1974), Decision, April 9, 1974. Available at <https://law.justia.com/cases/federal/appellate-courts/F2/495/1265/255226/>

⁷⁷ Agarwal P. Recommended Model for Parallel Importation of Trademarked Goods in ASEAN. – P. 59.

⁷⁸ *Ibid.*

other countries of the Union, including the country of origin.”⁷⁹ Thus, each country’s mark is independent of another’s.⁸⁰ The Paris Convention adopts the territoriality principle as a general rule and provides that “a mark exists only under the laws of each sovereign nation.”⁸¹ As for the TRIPS, besides Article 6, which was mentioned above, Articles 16(2) and 16(3), like Article 6 of the Paris Convention, recognise the territoriality principle, only with the difference where these articles extend the scope of Article 6 is to famous trademarks on non-competing goods.⁸²

Based on the discussion above, the analysis of the legality of PI is mainly influenced by applying the doctrine of exhaustion under specific national law. In a state where the national trademark law accepts national domestic, i.e., territoriality principle, parallel import is illegal. The main legal ground is based on the interpretation of the territoriality principle, which states that the IPRs should be territory-based and should not be extended to other territories.⁸³ Consequently, the importer’s resale in the importing state is illegal, which is against the national trademark law of the exporting state.⁸⁴ On the contrary, if a state accepts the doctrine of international exhaustion, PI is legal, based on the interpretation that the trademark owner’s IPR should be terminated once the trademarked goods are sold, both domestically and internationally.⁸⁵

⁷⁹ Paris Convention for the Protection of Industrial Property (as amended on September 28, 1979) [Electronic resource] // WIPO. – [Site]. – URL: <https://wipolex.wipo.int/en/treaties/textdetails/12633> (accessed: 06.05.2022).

⁸⁰ Faris J. The Famous Marks Exception to the Territoriality Principle in American Trademark Law // Case Western Reserve Law Review. – Vol. 59. – 2009. – P. 457.

⁸¹ Ibid. P. 458.

⁸² Ibid. P. 459.

⁸³ Li S. Research on Parallel Import Issues in Border Protection of Trademark Rights (商标权边境保护中的平行进口问题研究) // Journal of Xiamen Radio & Television University. – No. 3. – 2021. – P. 44.

⁸⁴ Ibid.

⁸⁵ Ibid.

§ 1.2 Seller's obligations in parallel import

Connecting the discussion above with the research questions, in international transactions, the main issue regarding PI falls on the parties' obligation to investigate the national trademark law of both the exporting state and the importing state. Based on the two types of PI, the doctrine of exhaustion and the territoriality principle, Article 42 of the CISG will be concerned by the seller in four different circumstances. In API, the diagram of the wholesale is shown in Figure 3.

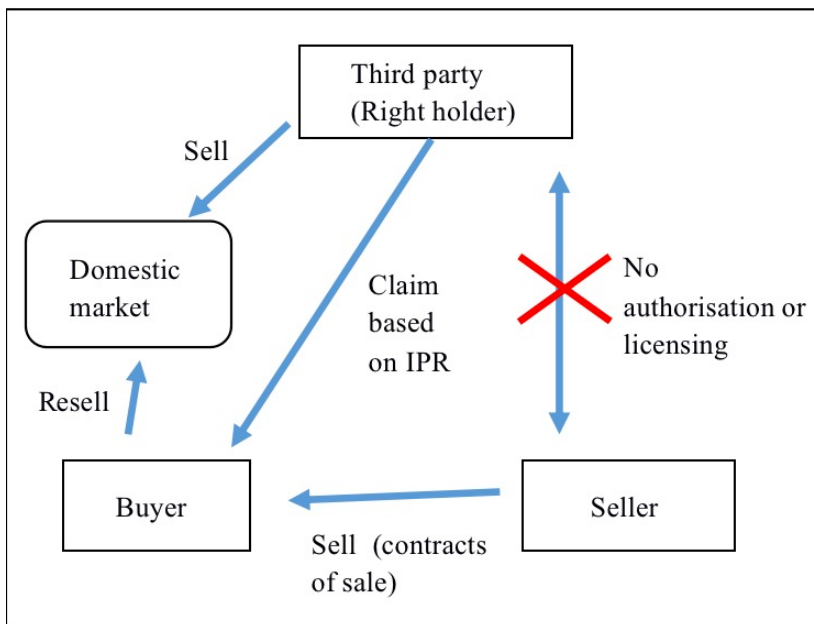


Figure 3 - the sales in API

As it is shown in Figure 3, the buyer and the third party who is also the right owner, are under the same jurisdiction, i.e., the jurisdiction of the importing state. The seller acquired the trademarked goods without authorisation or licensing and

sold them to the buyer, who then resold them to the importing state. Under this circumstance, the buyer's resale constitutes an API. Under Articles 42(a) and (b) of the CISG, whether the third party can claim an infringement of his IPRs depends on the national legislation of "the [s]tate where the goods will be resold or otherwise used if it was contemplated by the parties at the time of the conclusion of the contract that the goods would be resold or otherwise used in that [s]tate; or [...] the [s]tate where the

buyer has his place of business”, but under the case of API, both the state where the goods will be resold or otherwise used and the state where the buyer has his place of

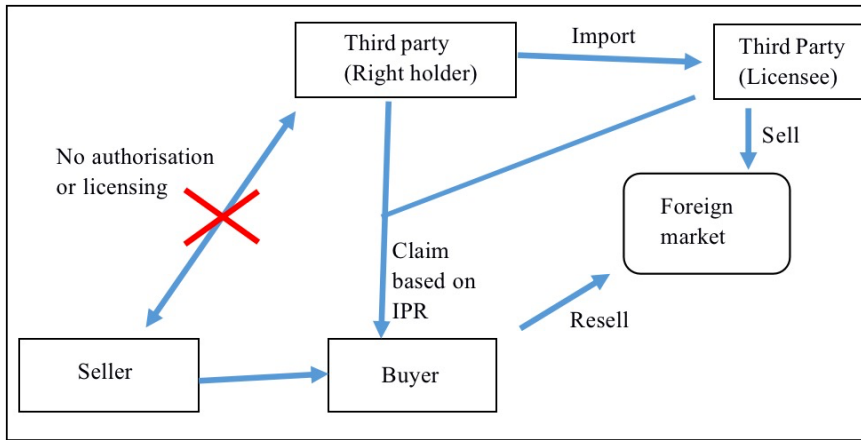


Figure 4 - the sales in PPI

business is referring to the importing state. If the importing state accepts the doctrine of international exhaustion, then the buyer’s resale is legal. If the importing state agrees with the territoriality principle, then the buyer’s resale is illegal, and the buyer should be held infringing the third party’s IPR.

As for the seller’s liability, however, in accordance with Article 42 of the CISG, it should be discussed separately. Considering the theory regarding parties’ knowledge in Chapter 1, this issue can be easily solved. As a professional supplier or distributor in his state, the importing state, the buyer ought to know the corresponding IPRs of the goods, or at least to have more access to investigate on the IPRs of the goods than the seller, who is unfamiliar with the buyer’s national trademark law. Thus, according to Article 42, the seller should be exempted from the third party’s IPR claim liabilities.

In PPI, unlike the API, the goods are resold to a foreign market where both parties are not familiar with its national trademark law. Under this circumstance, the choice of the applicable law is the core issue for the division of liability. When the law of the state where the goods will be resold or otherwise used, namely in the case of PPI – the foreign market, is the applicable law agreed in the sales contract. If the territoriality principle is adopted under this jurisdiction, the seller and the buyer seem

to place on the same position regarding the investigation duties on third parties' IPRs. Because as foreign subjects, both parties face the same difficulties in investigating legal issues of another jurisdiction. However, suppose the buyer had communicated with the other buyer in the importing state before, it was reasonable to hold that the buyer could not have been unaware of the IPR situation of the trademarked goods in the importing state, and thus the buyer should be liable for the infringement of the third party's IPRs.

§ 2. Original equipment manufacturer

§ 2.1. Contracts for goods to be manufactured

Original Equipment Manufacturer (OEM) is a common activity in the international sale of goods, involving infringement of a third party's IPRs. OEM is a type of international transactions where the consignee, according to the manufacturing contract, manufactures goods including trademarks provided by the consignor and eventually delivers the full amount of the goods to the consignor without using the goods in the consignee's domestic market.⁸⁶ An OEM business model involves an overseas product owner (the consignor) engaging a domestic consignee to manufacture products on which a foreign trademark owned by that consignor will be labelled.⁸⁷

Under the issue of OEM-related IPR infringement in the context of the CISG, the initial question to be clarified is the relation between contracts for goods to be manufactured (hereinafter refers to as "manufacturing contracts") and sales contracts,

⁸⁶ Liu Y. Research on Trademark Infringement in China's Foreign OEM in International Trade (国际贸易中涉外贴牌生产中的商标侵权问题研究) // Journal of International Trade. –No. 5. – 2013. – P. 169.

⁸⁷ Murphy M., Du Y., Chng J. Courts Clarify OEM Trade Mark Infringement // Managing Intellectual Property. – Vol. 259. – 2016. – P. 14.

namely, whether manufacturing contracts fall in the sphere of applying the CISG. The sphere of application of the CISG is defined by Articles 1 - 6. By Article 3 of the CISG, additional requirements for applying the CISG to manufacturing contracts and mixed contracts.⁸⁸ In general, Article 3 considers contracts for the supply of goods to be manufactured or produced to be contracted for the sale of goods. Still, Article 3(1) exempts contracts where the buyer undertakes to supply a substantial part of the materials necessary for the manufacture or production and Article 3(2) stipulates that the Convention does not apply to mixed contracts in which labour or other services are involved in the labour or other services from the preponderant part of the obligations of the party who furnishes the goods.⁸⁹

It is easier to understand the exemption stipulated in the second paragraph. The Convention is made for the sales of goods, and therefore service contracts ought to be exempted from the sphere of application of the Convention. Nevertheless, the wording of the first paragraph is controversial. In case law and legal writers' works of literature, the terms "substantial" and "preponderant" have been subject to conflicting views, many of which are derived from and reflect national doctrines applied to the analysis of Article 3 CISG.⁹⁰ Therefore, an autonomous, international and uniform interpretation of Article 3 CISG is needed [Article 7(1) CISG].⁹¹ For example, Some scholars have defined the "substantial part" by economic value: the materials provided

⁸⁸ Perovic J. Selected Critical Issues regarding the Sphere of Application of the CISG // *Annals of the Faculty of Law in Belgrade*. – International Edition 2011. – 2011. – P. 182.

⁸⁹ CISG Advisory Council Opinion No. 4: Contracts for the Sale of Goods to Be Manufactured or Produced and Mixed Contracts (Article 3 CISG) [Electronic resource] // *Pace International Law Review*. – Vol. 17. – 2005. – P. 82. – [Site]. – URL: <https://digitalcommons.pace.edu/pilr/vol17/iss1/4> (accessed: 06.05.2022).

⁹⁰ *Ibid.* P. 84

⁹¹ *Ibid.*

by the buyer ought to be higher in value (price) as compared to those provided by the seller to exclude the CISG, while some scholars consider that the interpretation of the term “substantial part” should be based in the essentiality of the goods, i.e., in the quality or functionality of the materials provided by the parties.⁹² In that regard, one court may determine that 15% constitutes a substantial part while some other court may define that it is 50% and more which will cause the difficulties in international dispute resolutions.⁹³

An OEM contract is usually concluded between an entrusting party seeking lower costs and an OEM party who can provide low costs.⁹⁴ In an OEM relationship, an entrusting party can also require huge benefits, including enhancing market competitiveness, reducing manufacturing costs, and, most importantly, completing the sale process.⁹⁵ There is no doubt that most of the manufacturers in an OEM relationship are essential to the whole sale process, and therefore, an OEM contract shall be considered a type of contract in line with Article 3(1).

§ 2.2. OEM-related IPR infringement

In reality, an OEM contract refers to an arrangement between an entrusting party and an OEM party (the manufacturer), whereby the OEM party is merely responsible for manufacturing products according to the specifications of the entrusting party's

⁹² Ibid. P. 85-86.

⁹³ Perovic J. Selected Critical Issues regarding the Sphere of Application of the CISG. P. – 185.

⁹⁴ Chwu T, Lee G. Navigating OEM-Related IP Challenges // *Managing Intellectual Property*. – Vol. 253. – 2015. – P. 20.

⁹⁵ Qian J. Original Equipment Manufacture [OEM] and the Infringement of Trademark Rights (涉外贴牌生产(OEM)与商标权侵权) // *Journal of Zhejiang University of Technology (Social Science)*. – Vol. 7. – No. 4. – 2008. – P. 475.

purchase order and in many cases, the entrusting party will label its branding.⁹⁶ In the discussion in the last section, an OEM contract has the legitimacy to be governed by the CISG. Therefore, when it comes to OEM-related IPR infringements, the core issue should also be concerned with the IP-related provisions of the CISG. In this section, the main idea is to find out the main scenarios regarding OEM-related IPR infringements and the seller's obligations (the OEM party) under the CISG.

Besides the general provisions of Article 42 of the CISG, subparagraph (b) of the paragraph (2) [Article 42(2)(b)] should be paid attention to. Article 42(2)(b) describes a scenario where the seller's obligations on third parties' IPRs or claims should be exempted, and the scenario is written as "the right or claim results from the seller's compliance with technical drawings, designs, formulae or other such specifications furnished by the buyer."⁹⁷ The wording of this subparagraph seems to highly match the OEM. Based on Article 42(2)(b), an OEM contract can be re-illustrated as a typical sale contract where the OEM party is the seller, and the entrusting party is the buyer. Therefore, regarding OEM contracts, the third-party claims based on IPR can be classified into three scenarios.

The first scenario is based on a third-party IPR claim against the buyer, with which mainly three subjects are involved in the whole sale process. The diagram of this scenario can be demonstrated in Figure 5. Under this circumstance, the OEM contract is concluded between the OEM party (the seller) and the entrusting party (the

⁹⁶ Chwu T, Lee G. Navigating OEM-Related IP Challenges. – P. 20.

⁹⁷ Article 42(2)(b) of the CISG: "(2) The obligation of the seller under the preceding paragraph does not extend to cases where: [...] (b) the right or claim results from the seller's compliance with technical drawings, designs, formulae or other such specifications furnished by the buyer." – URL: https://uncitral.un.org/sites/uncitral.un.org/files/media-documents/uncitral/en/19-09951_e_ebook.pdf (accessed: 06.05.2022).

buyer), whose places of business are situated in different member states of the Convention. The seller manufactures substantial parts or full sets of goods with specific trademarks provided by the buyer and eventually supplies them to the buyer without using the goods in markets of his state. A third party, usually the IPR holder of the specific trademark, who is in the same jurisdiction as the buyer, claims that the buyer

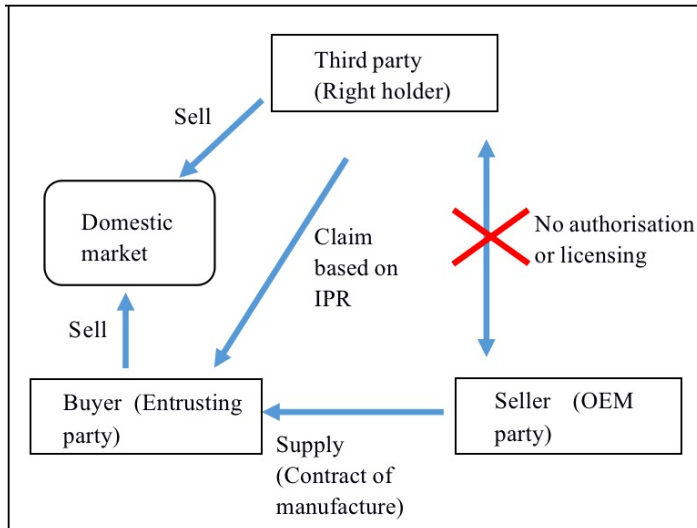


Figure 5 - First scenario of OEM-related IPR infringement

infringes his IPRs in their own jurisdictions after the buyer puts the goods into the market of his state. This is a typical scenario regarding a third party IPR claim under the CISG.

Furthermore, the relationship between the seller and the buyer can be well described by Article 42(2)(b). The seller was manufacturing goods according to the buyer's instruction, including attaching specific trademarks provided by the buyer. Thus, the seller should be exempted from any obligations on third parties' rights or claims based on IP

The second and third scenarios are involved two jurisdictions. The main difference between the second and first scenarios lies on whether the third party has IPRs within the seller's jurisdiction. Depending on fault, the seller's obligations in the second and third scenarios are different.

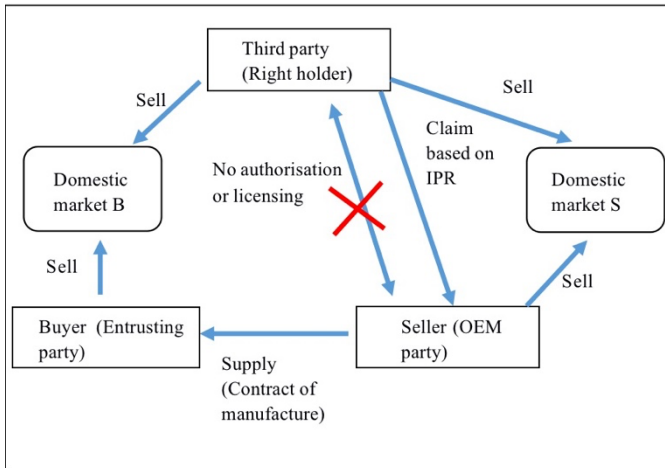


Figure 6 - Second scenario of OEM-related IPR infringement

As shown in Figure 6, the third party (IPR owner) registered his trademark in both his jurisdiction (i.e., the buyer's state) and the seller's jurisdiction.

Thus, following the Paris Convention and international IP law principles, the third party's trademark rights should be protected in both jurisdictions. On this level, the seller's action of sale in his state without any authorisation or licencing is violating the third party's trademark rights. However, can the exemption clause of Article 42(2)(b) of the CISG defence the seller? This question should be answered from two aspects: the Article 43 of the CISG and the seller's fault.

Concerning Article 43 of the CISG, the seller's obligation should be considered under two different situations. Firstly, under Article 43(1), if the buyer has already known about the claimed IPR situation, then the seller should be exempted from the obligation to deliver goods free from third parties' IPRs.⁹⁸ The buyer loses the right to rely on Article 41 or 42 if the buyer fails to give the seller notice within "a reasonable time", although "the seller is not entitled to rely on" the buyer's failure to meet the notice requirement if the seller knew about the third party's right or claim and its nature.⁹⁹ In this case, however, the notice provisions also place an awareness burden

⁹⁸ Smythe D.J. Clearing the Clouds on the CISG's Warranty of Title // Northwestern Journal of International Law & Business. – Vol. 36. – No. 3. – 2016. – P. 519.

⁹⁹ Ibid.

on the buyer: the buyer must provide notice within a reasonable time of any third party rights or claims that the buyer “ought to have become aware of” and much of the early discussion and debate about the warranty of title under the CISG was about the buyer’s notice requirements.¹⁰⁰ Some participants believed that this is heavily in favour of the seller.¹⁰¹ In addition, this section will analyse the procedure under Article 43 implementing the protections of Article 42 with additional analysis from comparable requirements of Article 39, which deals with non-conforming goods.¹⁰²

Secondly, contrary to the requirements put on the buyer, Article 43(2) restricts the seller’s rights to be exempted from liabilities stipulated in Article 42. Article 43(2) sets the conditions for the exemption situations of the seller by indicating that “[t]he seller is not entitled to rely on the provisions of the preceding paragraph if he knew of the right or claim of the third party and the nature of it”.¹⁰³ This issue is linked with provisions relating to the conformity of goods stipulated in Articles 35-40 of the CISG. Still, the CISG maintains legal defects as a separate instance of non-conformity in Article 41 and even makes provision for a specific case of this type of non-conformity, namely Article 42.¹⁰⁴ For non-conformities, according to Article 40, the seller cannot rely on the buyer’s failure to communicate any non-conformities in time if the seller was aware or could not have been unaware of the non-conformity.¹⁰⁵ This rule is also found in Article 43(2), but Article 43(2) requires that the seller knew of the third-party

¹⁰⁰ Ibid.

¹⁰¹ Ibid.

¹⁰² Beline T.M. Legal Defect Protection by Article 42 of the CISG: A Wolf in Sheep’s Clothing. – P. 3.

¹⁰³ Article 43(2) of the CISG.

¹⁰⁴ Saidov D. Conformity of Goods and Documents – the Vienna Sales Convention. – 22 p.

¹⁰⁵ Ibid.

right or claim.¹⁰⁶ Hence, based on the discussion of OEM, Article 43(2) is highly related to determining the legitimacy of the seller's sale of manufactured goods in his jurisdiction. Considering the previous discussion about the seller's knowledge, the seller, as a manufacturer, ought to have more access to the investigation of the trademark registration situation than the buyer. If the IPR holder has registered the specific trademark in the seller's state, considering factors such as the language usage, market complexity, national trademark index tool, etc., the seller is more likely to be held that "knew or could not have been unaware" of the registration of the specific trademark in his market. Thus, the sale action should be considered an infringement of the third party's IPRs.

In terms of the general principle of fault in IP law, including trademark law, the principle of liability without fault is mainly applied to the determination of infringement, and the principle of liability with fault is usually used as a supplement.¹⁰⁷ In OEM, the seller's intention usually should be taken into consideration. When the seller conducts actions infringing the specific trademark intentionally, there is no doubt that such actions should be considered an infringement of the trademark holder's IPRs. For example, as a manufacturer, the seller sells the manufactured goods without the authorisation of the entrusting party or the IPR holder or counterfeits the production information of the goods, such as the production address, the manufacturer name, or address.¹⁰⁸ If the seller conducts any infringing acts intentionally, he should be held

¹⁰⁶ Ibid. 23 p.

¹⁰⁷ Fang S. Determination of Trademark Infringement in Foreign-related OEM Production (涉外定牌生产中商标侵权行为的认定) // *Electronics Intellectual Property*. –No. 12. – 2016. – P. 45.

¹⁰⁸ Qian J. Original Equipment Manufacture (OEM) and the Infringement of Trademark Rights [涉外贴牌生产 (OEM)与商标权侵权]. – P. 475.

liable under the applicable trademark law. From the perspective of the CISG, the seller's liability cannot be exempted relying on Articles 41 and 42. In other words, because of the seller's intentional unlawful acts, the goods involved with a third party's claims of trademark infringement are non-conforming, and the seller's obligations or liabilities cannot be exempted. Therefore, under the second scenario, the seller should be liable for the third party's claims or rights based on IP.

As shown in Figure 7, like the second scenario, the third scenario also focuses on the third party's infringement claim towards the seller. The core question is whether the seller's manufacture constitutes an infringement of the IPR holder (third party) in the said case under the CISG.

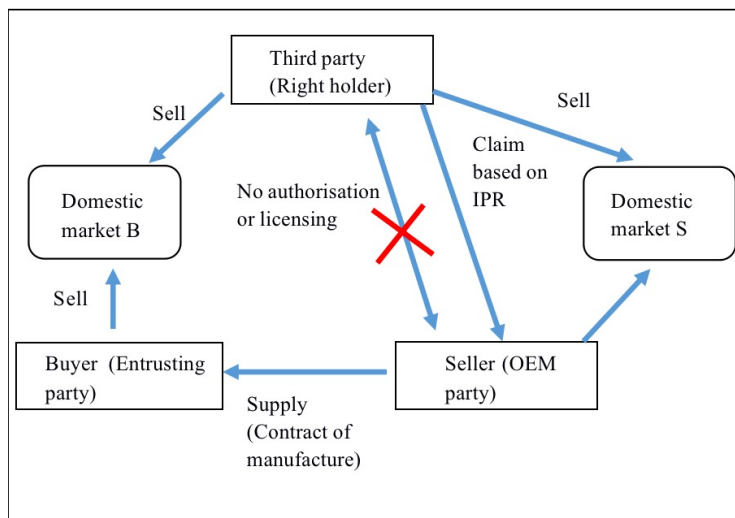


Figure 7 - Thrid scenario of OEM-related IPR infringement

Unlike in the second scenario, in the third scenario, the seller does not conduct any commonly considered unlawful acts, such as selling without permission or counterfeiting. Nevertheless, the legitimacy of the seller's OEM action is still debatable, and it is the

key to the solution to the core question raised above.

To analyse the legitimacy of the seller's OME action in the third scenario, the first concept which should be introduced is the trademark infringement. Theoretically,

trademark infringement can be summarised into five types. The details of the classification of trademark infringement are shown in the following table:¹⁰⁹

Table 3 - Types of trademark infringement

<i>Item</i>	<i>Types</i>	<i>Definitions</i>
<i>1</i>	<i>Infringement by use</i>	<i>An unauthorised person uses the registered trademark without the right holder's permission.</i>
<i>2</i>	<i>Infringement by sale</i>	<i>An unauthorised person sells goods attached to the registered trademarks without the right holder's permission.</i>
<i>3</i>	<i>Counterfeiting</i>	<i>An unauthorised person counterfeits the registered trademark for commercial profits.</i>
<i>4</i>	<i>Reverse passing-off</i>	<i>A person changes the trademarks provided by the right holder and sells goods attached to the changed trademarks without the right holder's permission.</i>
<i>5</i>	<i>Others</i>	

Based on the classification listed in Table 3, an OEM party is commonly held liable for the first type of trademark infringement – infringement by use. The criteria for the use of trademarks are very controversial. Traditionally, since an OEM is considered a manufacturing contract without any sales factors, the OEM goods are not sold in the manufacturing state.¹¹⁰ Therefore, they will not cause any confusion or misidentification of the illegally trademarked goods or harm the reputation of the IPR

¹⁰⁹ Tang Y. Study on the Liabilities of Intellectual Property Infringement (知识产权侵权责任研究) // Beijing: Peking University Press, 2015. – p. 103.

¹¹⁰ Liu Y. Research on Trademark Infringement in China's Foreign OEM in International Trade (国际贸易中涉外贴牌生产中的商标侵权问题研究). – P. 172.

holder.¹¹¹ However, under the CISG, this opinion is debatable. As was discussed above, under the CISG, manufacturing contracts are considered sales contracts, and correspondingly, the manufacturing action is involved with transactions. Thus, the OEM should be regarded as the use of trademarks. On the other hand, from the perspective of IPR custom protection, when the OEM goods are exported to the entrusting party (the buyer), it is faced with the risk of being charged by the national customs, or under most the circumstances, the IPR holder will directly stop the exporting and files a trademark infringement claim against the OEM goods.

Based on the discussion above, from the perspective of the CISG, the third scenario of OEM can be one of the main situations where a third party claims a trademark infringement against the OEM goods, and the seller's obligations or liabilities usually are not possible to be exempted under Article 42(2)(b) of the CISG.

The main reason for the exemption stipulated in Article 42(2)(b) can be illustrated regarding causal considerations, reflected in Article 80, subject to which "[a] party may not rely on a failure of the other party to perform, to the extent that such failure was caused by the first party's act or omission", and simply, what would otherwise be a seller's breach will not be regarded as such because the buyer itself has caused it by having the seller comply with the buyer's specifications.¹¹² Under the third scenario, the buyer's obligation to investigate the trademark registration in the seller's state is controversial. Considering the difficulties of access to the national trademark authority and lack of knowledge of the trademark searching tools, the buyer is likely

¹¹¹ Ibid.

¹¹² Saidov D. Conformity of Goods and Documents – the Vienna Sales Convention. – 220 p.

with less abilities to conduct such investigation. Nevertheless, since the third party has already registered the trademark in the buyer's state and the seller is manufacturing the goods according to the buyer's instructions, it is reasonable for the buyer to investigate the trademark registration in the seller's state, or at least, to consider this issue when concluding the contract. Thus, the buyer ought to "know or cannot be unaware" of the risk of a third party's rights or claims based on the disputed trademark. Accordingly, the seller can defend against the trademark infringement claim following Article 42(2)(b) of the CISG.

CHAPTER 3. Practice of IP-related provisions of the CISG in China

§ 1. Comparison of the IP-related provisions of the CISG and Chinese law

China participated in the 1980 Vienna Diplomatic Conference and signed the CISG in 1981, and until 1 January 1988, the CISG finally came into force in China, with two reservations under Article 95 and Article 96.¹¹³ To analyse the practical situation of the IP-related provisions of the CISG in China, it is worth comparing these provisions of the CISG and the corresponding provisions in Chinese law. The comparison is also an essential step in understanding the court judgements or arbitral awards, which will be discussed in the next section.

As was discussed in previous chapters, the IP-related provisions of the CISG, namely Articles 42 and 43, are cross clauses in both contract law and IP law. Thus, the comparison shall include the relating provisions in both branches of Chinese law. The leading Chinese case-law databases used in this thesis are the two commonly used databases in China: China Judgement Online¹¹⁴ and PKUlaw¹¹⁵. There are very few cases regarding copyright or patent issues by searching the two databases. Therefore, the discussion in the field of IP law will mainly cover the trademark law, and cases involved with other aspects of IP law, such as patent law, specific regulations will be analysed on a case-by-case basis. Thus, the main statutes chosen from Chinese laws are Trademark Law of the PRC (TLC)¹¹⁶, Regulations for the Implementation of the

¹¹³ Yang F. The Application of the CISG in the Current PRC Law and CIETAC Arbitration Practice // Nordic Journal of Commercial Law. – Vol. 2006. – No. 2. – 2006. – P. 1-2.

¹¹⁴ China Judgement Online (裁判文书网). – [Site]. – URL: <https://wenshu.court.gov.cn/>

¹¹⁵ PKUlaw (北大法宝). – [Site]. – URL: <https://wenshu.pkulaw.cn/>

¹¹⁶ Trademark Law of the People's Republic of China 2019 [Electronic resource] // WIPO / English translation. – [Site]. – URL: <https://wipolex.wipo.int/en/text/579989> (accessed: 06.05.2022).

Trademark Law of the PRC (RTL¹¹⁷), Civil Code of the PRC (CCC)¹¹⁸, Law of the PRC on the Laws Applicable to Foreign-related Civil Relations ¹¹⁹ (LCF), Interpretations of the Supreme People’s Court on Several Issues Concerning Application of the Law of the PRC on the Laws Applicable to Foreign-Related Civil Relationships (2020 Amendment) (ILCF)¹²⁰. The brief results can be shown in the following table.

Table 4: Comparison of the IP-related provisions of the CISG and relating provisions of the Chinese law

<i>Legal document</i>	<i>CISG Issues</i>				
	<i>Jurisdiction and law applicable</i>	<i>Seller’s Obligations</i>	<i>Buyer’s obligations</i>	<i>Parallel Import</i>	<i>OEM</i>
<i>TLC</i>	<i>Article 21</i>	<i>N/A</i>	<i>N/A</i>	<i>Article 57(7)</i>	<i>Article 52</i>
<i>RTL^C</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>		<i>Article 3</i>
<i>CCC</i>	<i>Article 12, Article 646</i>	<i>Article 600, Article 613, Article 776, Article 870</i>	<i>Article 614, Article 617, Articles 620-622, Article 870</i>	<i>N/A</i>	<i>N/A</i>
<i>LCF</i>	<i>Article 41, Articles 48- 50</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
<i>ILCF</i>	<i>Article 3</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>

¹¹⁷ Regulations for the Implementation of the Trademark Law of the People’s Republic of China 2014 [Electronic resource] // WIPO / English translation. – [Site]. – URL: <https://wipo.lexres.wipo.int/edocs/lexdocs/laws/en/cn/cn342en.pdf> (accessed: 06.05.2022).

¹¹⁸ Civil Code of the People’s Republic of China of 1 January 2021 [Electronic resource] / English translation. – [Site]. – URL: http://english.www.gov.cn/archive/lawsregulations/202012/31/content_WS5fedad98c6d0f72576943005.html (accessed: 06.05.2022).

¹¹⁹ Law of the People’s Republic of China on the Laws Applicable to Foreign-related Civil Relations 2010 [Electronic resource] / English translation. – [Site]. – URL: <https://www.wipo.int/edocs/lexdocs/laws/en/cn/cn173en.pdf> (accessed: 06.05.2022).

¹²⁰ Interpretations of the Supreme People’s Court on Several Issues Concerning Application of the Law of the People’s Republic of China on the Laws Applicable to Foreign-Related Civil Relationships (2020 Amendment) [Electronic resource] / English translation. – [Site]. – URL: https://english.court.gov.cn/2021-10/19/content_37548525.htm (accessed: 06.05.2022).

There are multiple expressions in different translation texts, which are acceptable in this thesis.

Although Articles 42 and 43 are not precise enough, the issues concerning these two articles are spotted in different legal documents under Chinese law. Concrete issues such as PI and OEM remain vacuumed.

In addition, by searching the database of the China International Economic and Trade Arbitration Commission (CIETAC)¹²¹, which is the main arbitral institution in China, the Pace University CISG case-law database¹²² and the Case Law on UNCITRAL Texts (CLOUT)¹²³, no arbitral awards directly relating to the practice of Articles 42 and 43 in China are found. However, the CIETAC publication *The Application of the United Nations Convention on Contracts for the International Sale of Goods in Chinese Arbitration*¹²⁴ (hereinafter “CIETAC Application”), as one of the

¹²¹ CIETAC has not created any case-law database, and most of the arbitral awards are highly confidential. Only a few typical cases and some other publications, will be codified and published in the “Research” sector on the official website for future guidance or research. Typical cases and other publications are available at <http://www.cietac.org/index.php?m=Article&a=index&id=71>

¹²² Established in the early 1990s at Pace Law, the CISG Database provides a comprehensive global collection of legal materials on the CISG. The CISG is the law governing cross-border sale of goods transactions among most of the world’s trading nations. The Pace-IICL developed and maintained the CISG Database to promote cross-border trade and the rule of law. Access to this comprehensive legal collection is universal and free of charge.

Pace Law Albert H. Kritzer CISG Database is available at <https://iicl.law.pace.edu/cisg/search/cases>.

¹²³ The UNCITRAL Secretariat has established a system for collecting and disseminating information on court decisions and arbitral awards relating to the Conventions and Model Laws that have emanated from the work of the Commission. The purpose of the system is to promote international awareness of the legal texts formulated by the Commission and facilitate uniform interpretation and application of those texts. The system is explained in document A/CN.9/SER.C/GUIDE/1/Rev.3.

By searching cases relating to Chinese practice on CLOUT, no cases involved with Articles 42 or 43 were found. – [Site]. – URL: https://www.uncitral.org/clout/search.jsp?f=en%23cloutDocument.country-ref0_s%3AChina&f=en%23cloutDocument.textTypes.textType_s%3ACISG%5C+%5C%281980%5C%29&sortFacet=&sortDir= (accessed: 06.05.2022).

¹²⁴ Introduction to this book (translated from the original Chinese texts on the CIETAC website): “CIETAC has long been committed to promoting the development of international commercial arbitration, promoting a good environment for international commercial transactions, and promoting the unification and integration of international commercial laws. To further promote the progress of relevant research on the Convention, promote the unified implementation of the Convention, and facilitate arbitration participants and members of the Convention to understand the practice of arbitration in China better, CIETAC commissioned Tong Liu from the School of Law of the University of International Business and Economics, Associate Professor and Associate Professor Jianling Chen, and CIETAC Arbitration Institute jointly established a research group to conduct a comprehensive study on the application of the Convention in China and formed the book “The Application of the United Nations Convention on Contracts for the International Sale of Goods in Chinese Arbitration” in 500,000 Chinese characters and Law Press published it in 2021. At the same time, to facilitate the understanding and use of the members, the English translation and printing of this book were carried out simultaneously.

This book selects 109 typical cases applying the “Convention” from the arbitration cases concluded by CIETAC. The period of the award is from 2002 to 2019. The application and interpretation of the Convention in practice, to share

most recent research results regarding the implementation of the CISG in Chinese arbitration, contains over 100 cases from the CIETAC. In this chapter, the case analysis will also select cases from the CIETAC Application.

§ 2. Current Issues regarding the IP-related provisions of the CISG in China

§ 2.1. Applicability of CISG regarding the IP-related provisions in China

According to the general information on the ratification of the CISG in China, the IP-related provisions, i.e., Articles 42 and 43, were not excluded from applying in China. However, a reservation out of the whole Part III of the CISG (Articles 25–88) was contemplated at the time of signature for fear of possible obstacles posed by Article 42 to the transfer of technology to China from abroad and was only removed from the ratification document in light of the anticipated arrival of patent law in China.¹²⁵ According to Article 3 of the ILCF, “if the law applicable to foreign-related civil relations is inconsistent with other laws regarding the same foreign-related civil relationship, the provisions of the law applicable to foreign-related civil relations shall apply. The special provisions of laws in the commercial field such as the Aviation Law and the special provisions of laws in intellectual property are excluded.”¹²⁶ Throughout the main legal regimes in IP in China, there are no special provisions on excluding the

the previous practice with the members, discussing the way to improve it, and trying to judge the latest developments and future directions of the application and interpretation of the Convention.”

Original Chinese texts of the introduction are available at <http://www.cietac.org/index.php?m=Page&a=index&id=506> (accessed: 06.05.2022).

English version of the publication is available at <http://www.cietac.org/Uploads/202201/61e66ee65db8d.pdf> (accessed: 06.05.2022).

¹²⁵ Liu Q., Ren, X. CISG in Chinese Courts: The Issue of Applicability // Oxford University Press on behalf of the American Society of Comparative Law. – Vol. 65. – 2017. – P. 876.

¹²⁶ Article 3 of the ILCF [Electronic resource] / English translation. – [Site]. – URL: https://english.court.gov.cn/2021-10/19/content_37548525.htm (accessed: 06.05.2022).

applications of international treaties. Historically, the Chinese government considered the CISG as representing the “best model” globally and drew heavily on it in drafting the Contract Law of the PRC 1999,¹²⁷ which was replaced by the CCC in 2021.

Nevertheless, the CCC removed the provisions regarding the rules on the application of international treaties, and so did the LCF accordingly, which increased the difficulties in solving the applicability issues. Thus, when it comes to the application of the CISG, the courts will have more discretion, and accordingly, the argument regarding the applicability of the Convention appears frequently in practice. By searching cases on the open databases, it is not difficult to find that the applicability issue is a crucial factor that may influence the outcomes of judgments. However, in practice, Chinese courts and tribunals are inclined to consider the application of Chinese domestic laws as a preliminary step before applying the CISG, and when applying the CISG, the gap-filling role of the CISG either prejudiced the applicability of the Convention, or paradoxically, extended the application of the CISG to cases beyond its scope.¹²⁸

As for the specific issues in the IP-related international sale of goods in China, the OEM is worth analysing separately. For western companies, there are many advantages to entrust a Chinese OEM with production, such as massively lowered production costs, higher product volumes, increased production efficiency leading to time savings, access to the domestic market, etc.¹²⁹ With years of experience, OEM

¹²⁷ Liu Q., Ren, X. CISG in Chinese Courts: The Issue of Applicability. – P. 876.

¹²⁸ Xiao Y., Long W. Selected Topics on the Application of the CISG in China // *Pace International Law Review*. – Vol. 20. – No. 1. – 2008. – P. 69-70.

¹²⁹ Chwu T., Lee, G. Navigating OEM-Related IP Challenges. – P. 20-21.

production has become the main business model for China's industrial and economic development, which earned China the nickname of the "World's Factory."¹³⁰

Regarding the OEM issue, the results would be different depending on whether the court applies the CISG. As mentioned before, there are no explicit provisions on the legality of OEM in Chinese law, and the Supreme People's Court of the PRC (hereinafter "Supreme People's Court") fails to reach a consensus unanimously. Thus, the practices of different levels of courts are not unified,¹³¹ specifically, whether an OEM is considered as a trademark infringement if goods manufactured in China are only offered for selling overseas.¹³² The controversy regarding the status of OEM infringement initially arose due to the lack of guidance provided by the TLC, which merely states the general principles of trade mark protection in Articles 48 and 57 of the TLC.¹³³ Article 48 says that the use of trademarks refers to the affixation of trademarks to commodities, commodity packaging or containers, as well as commodity exchange documents or the use of trademarks in advertisements, exhibitions, and other commercial activities, to identify the source of the goods¹³⁴; Article 57 provides that using a trademark that is identical to a registered trade mark in connection with the same goods without the authorisation of the owner of the registered trade mark, or using a trade mark that is similar to a registered trade mark in connection with the same

¹³⁰ Beconcini P. The China IP Blog Series: Chinese OEM Trademark Infringement Liability in Light of the Global Covid-19 Crisis [Electronic resource] // UIC Review of Intellectual Property Law. – University of Illinois Chicago. – 5 February 05, 2021. – [Site]. – URL: <https://ripl.law.uic.edu/news-stories/china-ip-blog-series-chinese-oem-trademark-infringement-liability-in-light-of-the-global-covid-19-crisis/> (accessed: 06.05.2022).

¹³¹ Fang S. Determination of Trademark Infringement in Foreign-related OEM Production (涉外定牌生产中商标侵权行为的认定). – P. 44.

¹³² Murphy M. et al. Courts Clarify OEM Trade Mark Infringement. – P. 14.

¹³³ Ibid.

¹³⁴ Article 48 of the TLC [Electronic resource] / English translation. – [Site]. – URL: <https://wipolex.wipo.int/en/text/579989> (accessed: 06.05.2022).

goods, or that is identical with or similar to a registered trademark in connection with the same or similar goods, without the authorisation of the owner of the registered trademark, which may cause public confusion, constitutes an infringement of the exclusive right to use a registered trademark.¹³⁵

From the wording of the legal texts, it is notable that the issues of law concerning the legality of an OEM fall on questions: whether the disputed trademark has been used in the Chinese market in a way following the TLC, and whether the use of disputed trademark caused an infringement action regulated in the TLC. However, based on the discussion of the legality of OEM in the previous chapter, under the CISG, the seller's obligations are more likely to be exempted. The following case concerns a trademark infringement dispute in China.

Speedo Holdings BV, et al vs. Wenzhou Lu Jia Trade Co., Ltd. Et al¹³⁶

The plaintiff (original trial), Speedo Holdings BV is a Dutch company, which is specialising in producing swimming products, has gained a high reputation all over the world by producing high-quality swimming products with its original trademark "SPEEDO", which is also registered in China (No. 157551) under category 9 since 1993, following the Madrid Agreement¹³⁷; the defendant (original trial), Multisport

¹³⁵ Article 57 of the TLC [Electronic resource] / English translation. – [Site]. – URL: <https://wipolex.wipo.int/en/text/579989> (accessed: 06.05.2022).

¹³⁶ Speedo Holdings BV, et al vs. Wenzhou Lu Jia Trade Co., Ltd. et al (斯皮度控股公司与温州经济技术开发区展升眼镜有限公司、多种运动工商有限公司等侵害商标权纠纷二审民事判决书), Higher People's Court of Zhejiang Province PRC Case No. 2014 IP 25 Zhejiang (appeal), Decision, 25 June 2014. – [Electronic resource]. – Translated by Wen Jiang. – Original decision in Chinese in available at: <https://wenshu.court.gov.cn/website/wenshu/181107ANFZ0BXS4/index.html?docId=4d4a779a950e4d6bbf8e16b9f3843084>

¹³⁷ Madrid Agreement Concerning the International Registration of Marks (Madrid Agreement) (as amended on 28 September 1979) [Electronic resource] // WIPO. – [Site]. – URL: <https://wipolex.wipo.int/en/text/283529>: (accessed: 06.05.2022).

Industrial and Commercial Co., Ltd., is a Brazilian company, who registered its trademark “SPEEDO” under category 9 in Brazilian authority in 2008.¹³⁸ The Chinese company named Wenzhou Lu Jia Trade Co.,Ltd., defendant (original trial), was entrusted to produce sunglasses bearing the “SPEEDO” mark, and the goods were aimed to export to Brazil.¹³⁹ Accordingly, many products were seized by customs at the Shanghai customs; Speedo company then filed a civil trademark infringement suit against a series of defendants Multisport, Jia Lu and Konason (the Brazilian licensee).¹⁴⁰ The appealing court eventually upheld the original judgment by confirming the infringement action of the original defendants without referring to the CISG.¹⁴¹

This case reflects a typical OEM dispute concerning the third scenario of OEM-related IPR infringement discussed in Chapter 2. Based on the discussion in Chapter 2, under the CISG, manufacturing contracts are considered as sales contracts. Accordingly, the seller (the Chinese OEM party)’s obligation shall be exempted by Article 42(2)(b) of the CISG. However, in this case, both the original and appealing courts found that the CISG was not applicable by stating that manufacturing contracts are not in the scope of sales relationship. As for the determination of the trademark infringement, the courts cited Article 52(1) of the TLC 2001¹⁴² and affirmed the Chinese company’s infringement actions of Dutch company’s trademark. The court

¹³⁸ Speedo Holdings BV, et al vs. Wenzhou Lu Jia Trade Co., Ltd. et al.

¹³⁹ Ibid.

¹⁴⁰ Ibid.

¹⁴¹ Ibid.

¹⁴² Article 52(1) of the Trademark Law of the People’s Republic of China 2001: “Any of the following acts shall constitute an infringement on the exclusive rights to the use of a registered trademark: (1) using a trademark that is identical with or similar to the registered trademark on the same or similar goods without permission of the owner of the registered trademark; ...” [Electronic resource] / English translation. – [Site]. – URL: <https://www.wipo.int/edocs/lexdocs/laws/en/cn/cn195en.pdf> (accessed: 06.05.2022).

confirmed that the use of trademarks under the Chinese trademark law is an objective action; labelling trademarks on the products in the manufacturing process should be considered a kind of use. In addition, the appellate court emphasised that the core value of the codification of the trademark law was to protect the exclusive rights to trademarks registered in China.¹⁴³

From the discussion above, it can be noted that, from the seller's perspective, the applicability of the CISG is vital to the adjudgment. Suppose that the court affirmed the applicability of the CISG, chances are the seller would be able to be exempted from the obligations of trademark infringement and, accordingly, the liabilities of delivering goods with legal defects based on IP. However, it seems to end up with an infinite loop in this case. The main reason why the court denied applying the CISG was that it considered manufacturing agreements were not falling in the scope of sales relationship. Still, this opinion was made under the premise of applying Chinese law. In other words, only when the CISG applies, the court would consider manufacturing agreements were a kind of sales relationship. Then the applicability of the CISG itself could be affirmed.

The following case is an example where the court directly applied the IP-related provisions of the CISG regarding general trademark infringement.

Newcore Retail (Shanghai) Co., Ltd. vs Boutique Clarissa SA¹⁴⁴

¹⁴³ Speedo Holdings BV, et al vs. Wenzhou Lu Jia Trade Co., Ltd. et al.

¹⁴⁴ Newcore Retail (Shanghai) Co., Ltd. vs Boutique Clarissa SA [纽可尔瑞特实业(上海)有限公司与BOUTIQUE CLARISSA 股份公司买卖合同纠纷一审民事判决书], Minhang District People's Court of Shanghai Municipality of Shanghai PRC Case No. 2017 Civil 0112 Shanghai (original), Decision, 22 March 2019. – [Electronic resource]. – Translated by Wen Jiang. – Original decision in Chinese in available at: <https://wenshu.court.gov.cn/website/wenshu/181107ANFZ0BXSK4/index.html?docId=92cacfe6198e43b5964daa69008d4ce3>

Since 2016, the plaintiff, a Chinese company named Newcore Retail (Shanghai) Co., Ltd., started importing goods, including handbags and scarves, which bore trademarks “GUCCI”, “LV”, etc., from the defendant, a Swiss company named Boutique Clarissa SA, who promised that the goods were free from any legal defects based on IP.¹⁴⁵ In 2017, the Chinese company was fined by the authority for counterfeits and trademark infringements, and the goods imported from Boutique were indeed confirmed counterfeits.¹⁴⁶

When deciding the law applicable, the court directly applied the CISG. In this case, Chinese law was agreed to be the applicable law in the sales contracts. According to Article 142 of the former General Principles of the Civil Law of the PRC (GPCL)¹⁴⁷, international treaties can be applied in courts, and they shall prevail. In addition, considering that the two parties are both CS of the CISG, and their places of business are in two different states, the court determined that the CISG should be the applicable law. Eventually, the court directly applied Articles 42 and 43 of the CISG and held that the imported goods constituted an infringement of trademark protected in China, and

¹⁴⁵ Ibid.

¹⁴⁶ Ibid.

¹⁴⁷ “On 12 April 1986, the Fourth Session of the Sixth National People’s Congress passed the “General Principles of Civil Law of the People’s Republic of China” (hereinafter referred to as “GPCL”). For a long time, the GPCL has assumed the function of adjusting civil relations. Among them, the provisions of Article 142 on the application of foreign-related civil legal relations have always been valued by international law scholars. Article 142 is the principal provision of the GPCL on the application of laws to foreign-related civil relations. From a structural point of view, this article includes three paragraphs. Paragraph 1 is a principal provision, which limits the scope of application of this clause; Paragraph 2 concerns the legal status of treaties in my country, establishing the priority status of civil and commercial treaties in my country’s domestic laws; Paragraph 3 concerns the supplementary function of the application of international practices in China. The provisions of Article 142 of the GPCL have played an indispensable role in handling foreign-related civil relations in China. In 2020, Article 1260 of the Civil Code abolishes the GPCL, and its main contents are integrated into the Civil Code. 引用 Still, the content of Article 142, paragraphs 2 and 3 of the GPCL on the status of international treaties is not reflected in other laws.”

See: Wang M. (Legislation Form of International Treaty Status in the Era of Civil Code 民法典时代国际条约地位的立法模式) // *Modern Law Science*. – Vol. 43 – No. 1. – 2021. – P. 199-200.

Texts in Chinese of the GPCL are available at <https://www.rinya.maff.go.jp/j/riyou/goho/kunibetu/chn/3-11chn-minpou.pdf>

the seller (Boutique)’s obligations could not be exempted under the CISG.¹⁴⁸ This case contrasts the former case because the court directly applied the IP-related provisions of the CISG.

The two cases as mentioned above reflect the different opinions regarding the applicability of the IP-related provisions of the CISG in Chinese courts, which can be deemed as the conflicts between the CISG and domestic law. The following case demonstrates another issue: the misapplication of the provisions, regarding the application of the IP-related provisions of the CISG in Chinese practice.

ST Cyber Link Corporation vs Longson Century Technology Limited et al¹⁴⁹

The plaintiff, an American company, named ST Cyber Link Corporation, concluded contracts of sales with the defendant, a Chinese company named Longson Century Technology Limited¹⁵⁰ and imported 595 hoverboards to the US market.¹⁵¹ When the goods arrived at the destination port, they were detained by the US customs and identified as using counterfeiting trademarks, which was confirmed by the Underwriters Laboratories (hereinafter “UL”).¹⁵²

¹⁴⁸ Newcore Retail (Shanghai) Co., Ltd. vs Boutique Clarissa SA.

¹⁴⁹ ST Cyber Link Corporation vs Longson Century Technology Limited et al (ST Cyber Link Corporation 与 龙人集团有限公司、深圳市龙芯世纪科技有限公司国际货物买卖合同纠纷一审民事判决书), Qianhai Cooperation Zone People’s Court of Shenzhen PRC Case No. 2018 Civil 0391 Guangdong (original), Decision, 24 April 2019. – [Electronic resource]. – Translated by Wen Jiang. – Original decision in Chinese in available at: <https://wenshu.court.gov.cn/website/wenshu/181107ANFZ0BXSK4/index.html?docId=8e2a9f63421741369bbaab0b013c9652>

¹⁵⁰ In this case, the two defendants, Longson Century Technology Limited and Dragonmen Group shared the same corporate personality, and they are, in fact, the same company. Therefore, this thesis refers to them as the “defendant” in the following discussion.

See “Decision” at <https://wenshu.court.gov.cn/website/wenshu/181107ANFZ0BXSK4/index.html?docId=8e2a9f63421741369bbaab0b013c9652>

¹⁵¹ ST Cyber Link Corporation vs Longson Century Technology Limited et al.

¹⁵² Ibid.

When it comes to the determination of the applicable law, the court affirmed the applicability of the CISG by Article 1(1) of the Convention. When it comes to the substantive issue, the court applied Article 41 and considered the defendant's counterfeiting behaviours breached the seller's obligations to deliver goods free from third parties' rights, which causes a fundamental breach of the contract.¹⁵³ Nevertheless, this case apparently is related to trademark infringements. Thus, it should be in line with the description of the proviso of Article 41 and accordingly fall within the scope of Article 42. According to Article 42, the court should have considered the existence of the situation where, the buyer knew or could not have been unaware of the right or claim at the time of the conclusion of the contract. Although, in this case, the unconformity was caused by the seller's intentional counterfeiting behaviour, the parties did discuss the fact that the seller printed the disputed trademarks without authorisation or at least the buyer did suspect the authenticity of the disputed trademarks. Thus, that court did not mention Article 42 in the judgment can be considered a mistake in applying legal provisions.

As for the arbitral practice in China, an interesting phenomena was that some tribunals applied solely the CISG in their awards, while some applied both the PRC laws and the CISG in parallel.¹⁵⁴ As a substantive convention, the CISG shall prevail over the domestic laws, no matter the PIL or the substantive law of the forum, except in the case of application of the limited reference to the law applicable by virtue of the rules of PIL in Article 7(2).¹⁵⁵ In these cases, faced with a situation in which a contract

¹⁵³ Ibid.

¹⁵⁴ Wu D. CIETAC's Practice on the CISG // Nordic Journal of Commercial Law. –No. 2. – 2005. – P. 5.

¹⁵⁵ Ibid.

concluded between two parties in two CS contains no applicable law clause, some tribunals held that, according to the principle of the “Closest Connection” provided for in relevant Chinese laws, the Chinese domestic laws should apply after setting out the facts, and Article 142 of the GPCL also contributes to the parallel application of the CISG and Chinese laws.¹⁵⁶ In CIETAC practice, regarding the issues of the seller’s obligation based on IP, there are also situations where the CISG is neglected to apply.

In the equipment sales case¹⁵⁷, the claimant, as the buyer, alleged it had repeatedly requested the respondent to provide IP information on the relevant technology under the contract, but the respondent had ignored the requests. It was obvious that the equipment manufactured by a third party might contain technical data and IP owned by such party, and eventually, the tribunal, relying on Article 60(2) of the Contract Law of PRC¹⁵⁸ regarding abiding by the principle of good faith, found the respondent in breach of contract due to its non-compliance with the principle of good faith and the due assistance obligation.¹⁵⁹ In this case, it is more than appropriate that the tribunal refers to the principle of good faith to ascertain the seller’s obligation. Nevertheless, since the case is involved the trade-related IP guarantee obligations and there are no relevant provisions in Chinese law, the court should also consider the IP-related provisions of the CISG (according to the case texts, the CISG is applicable).

¹⁵⁶ Ibid.

¹⁵⁷ The CIETAC Award on 28 December 2015 // CIETAC. See: CIETAC. *The Application of the United Nations Convention on Contracts for the International Sale of Goods in Chinese Arbitration* // Beijing: Law Press China, 2021. – 308-309 p.

¹⁵⁸ Contract Law of the People’s Republic of China of 1999, replaced by the CCC in 2021. Article 60 of the Contract Law of the People’s Republic of China: “[T]he parties shall abide by the principle of good faith, and perform obligations such as notification, assistance, and confidentiality, etc. in light of the nature and purpose of the contract and per the relevant usage.” [Electronic resource] / Original texts in Chinese. – [Site]. – URL: <https://ipc.court.gov.cn/zh-cn/news/view-387.html> (accessed: 06.05.2022).

¹⁵⁹ The CIETAC Award on 28 December 2015..

Following Article 42 of the CISG, the seller also would be found breach of the obligation to deliver goods free from any other third parties' IPRs. Still, such obligation could be exempted, depending on the detailed facts, following the exemption provisions.

The applicability of the IP-related provisions is one of the core issues reminded in implementing the CISG in Chinese arbitration. Besides the equipment sales case that is mentioned above, in cases of the 2009 Children's Tents Case¹⁶⁰, the tribunal also did not pay attention to the IP factor when deciding the seller's obligation to deliver goods free from third parties' rights, which shows that the IP-related provisions of the CISG have not drawn enough attention from the Chinese tribunals.¹⁶¹

§ 2.2. Interpretations of CISG regarding the IP-related provisions in China

Apart from the applicability of the Convention, the issue of inconsistent interpretations also affects the implementation of the IP-related provisions of the CISG in Chinese practice. The inconsistency of interpretations can be elaborated into two aspects: the contradiction between the interpretations of the Chinese courts and the drafters; the contradiction between the interpretations of different levels of Chinese courts.

One of the main areas where inconsistency of interpretations between Chinese laws and the CISG lies in determining trademark infringement in the OEM. As was discussed previously, an OEM contract is considered a sales contract and OEM

¹⁶⁰ The CIETAC Award on 9 September 2009 [Electronic resource] // Pace-IICL / English translation. – URL: <https://iicl.law.pace.edu/cisg/case/september-9-2009-translation-available> (referred to as children's tent case).

¹⁶¹ The CIETAC Award on 28 December 2015 // CIETAC. The Application of the United Nations Convention on Contracts for the International Sale of Goods in Chinese Arbitration // Beijing: Law Press China, 2021. – 535 p.

relationships fall within the scope of the CISG.¹⁶² In contrast, the OEM is considered a processing contract under Chinese law, which does not fall within the scope of sale relationships.¹⁶³ According to the CCC, processing and sales contracts are different in many aspects, including the jurisdictions, the burden of proofs, etc.¹⁶⁴ In addition, there are not adequate regulations regarding OEM in Chinese law, and the courts usually refer to Article 57 of the trademark law.¹⁶⁵ Currently, there are only two by-laws¹⁶⁶ mentioned OEM-related disputes, but both of them do not consist of concrete

¹⁶² Fang S. Determination of Trademark Infringement in Foreign-related OEM Production (涉外定牌生产中商标侵权行为的认定). – P. 43.

¹⁶³ Ibid.

¹⁶⁴ Provisions on sales contracts are regulated in “Part Two Typical Contracts Chapter IX Sales Contracts” of the Civil Code of China (Article 595-647), while provisions on processing contracts are regulated in “Chapter XVII Work Contracts” of the Civil Code of China (Articles 770-787).

See the “Civil Code of the People’s Republic of China”, original in Chinese, and the English translation is available at http://english.www.gov.cn/archive/lawsregulations/202012/31/content_WS5fedad98c6d0f72576943005.html

¹⁶⁵ The Trademark Law of China was amended in 2001, 2013 and 2019. Still, the corresponding provisions relating to OEM regarding the determination of infringement of the exclusive right to use a registered trademark have remained the same, i.e., Article 52(1) of the Trademark Law of China 2001, Article 57(1) and (2) of the Trademark Law of China 2013 and 2019.

Article 57 of the Trademark Law China 2019: “Any of the following conducts shall constitute an infringement of the exclusive right to use a registered trademark:

(1) Using a trademark that is identical to a registered trademark on the same goods without the licensing of the trademark registrant;

(2) Using a trademark similar to a registered trademark on the same goods or using a trademark that is identical with or similar to a registered trademark on similar goods may be easily confusing, without the licensing of the trademark registrant;”

Original texts are in Chinese and English translation is available at <https://wipolex.wipo.int/en/text/579988>

¹⁶⁶ The two by-laws:

(1) “Opinions on Several Issues Concerning the Overall Situation of the Intellectual Property Judicial Service under the Current Economic Form (the Supreme People’s Court PRC, No. 23, 2009)” (《关于当前经济形式下知识产权审判服务大局若干问题的意见》[法发(2009)23号]) [Electronic resource] / Original in Chinese. – URL: <https://www.faxin.cn/lib/zyfl/zyflcontent.aspx?gid=A64007&nid=1292>

(2) “Answers to Several Issues Concerning the Adjudication of Trademark Civil Dispute Cases by the Beijing Municipal High People’s Court” (北京市高级人民法院于2004年2月18日公布的《关于审理商标民事纠纷案件若干问题的解答》[京高法发(2004)48号]). Article 13: “Commodities processed by OEM entrusted by foreign trademark owners are only for export. If the trademark is identical or similar to the owner’s registered trademark, does the act constitute infringement? Answer: Confusion and misunderstanding by the relevant public is the premise of infringing the exclusive right to use a registered trademark.” [Electronic resource] / Original in Chinese. – URL: http://www.beijingip.cn/jopm_ww/websiteArticle/detailArticle.do?id=946191cfba4a40168e206c131b240119

resolutions or guidance for courts regarding the determination of trademark infringement.¹⁶⁷ Therefore, when it comes to OEM disputes, the Chinese courts have greater discretion, and accordingly, the results are different even contrasted. The contradiction regarding the nature of OEM in the CISG and Chinese law results in that no courts have applied CISG when dealing with IP-related disputes in OEM cases. However, it is worth discussing the assumptive results assuming the courts would apply the CISG.

As for the cases where the courts consider the OEM constituting trademark infringements, the main merit is Article 57 of the TLC. Under this circumstance, the courts consider that sales in the domestic market are not the premise of trademark infringement.¹⁶⁸ In other words, once the disputed trademark is identified as the same or similar trademark as the previous trademark right holder, no matter whether the goods are sold in the domestic market, the OEM party constitutes a trademark infringement.

In the case of Nike International Ltd vs. Zhejiang Jiaying Yinxing Garment Factory et al¹⁶⁹, the plaintiff applied to the China Trademark Office to register the “NIKE” trademark; Zhejiang Jiaying Yinxing Garment Factory and other defendants were processed by a Spanish company to manufacture men’s ski jackets attached the

¹⁶⁷ Liu Y. Research on Trademark Infringement in China’s Foreign OEM in International Trade (国际贸易中涉外贴牌生产中的商标侵权问题研究). – P. 170.

¹⁶⁸ Ibid. P. 171.

¹⁶⁹ Nike International Ltd vs. Zhejiang Jiaying Yinxing Garment Factory et al (耐克公司诉嘉兴市银兴制衣厂等的商标权侵权纠纷案), Intermediate People’s Court of Shenzhen Municipality, Guangdong Province of Shenzhen PRC Case No. 2001 IP 55 Shenzhen (original), Decision, 10 December 2002 [Electronic resource]. – Translated by Wen Jiang. – Original decision in Chinese is available at: <https://www.pkulaw.com/pfn/a25051f3312b07f3bb842d95c72f2efbfefda9a98dafa231bdfb.html?keyword=%E7%BE%8E%E5%9B%BD%E6%AF%94%E9%98%BF%E5%9F%83%E6%96%AF%E5%85%AC%E5%8F%B8>

“NIKE” marks and the goods were detained by Shenzhen Customs; the plaintiff believed that the defendants’ behaviour infringed its exclusive right to use the trademark and requested the three defendants, including the Chinese manufacturer, to stop the infringement and compensate for the damage, and eventually, the court affirmed that the Chinese manufacturer constituted trademark infringement.¹⁷⁰ As a type of IPRs, trademark rights have territorial characteristics. Within the Chinese jurisdiction, the plaintiff has obtained the exclusive right to use the trademark “NIKE”, and the defendants shall not infringe the plaintiff’s registered exclusive trademark rights in any ways without the original permission.¹⁷¹ This case reflects the main opinion of the courts, who consider OEM constitutes trademark infringement.

Similar cases also include the Guangdong Foshan Hongxin Ltd vs. Guangzhou Customs¹⁷², Guangzhou Lvse Yingkang Biotech Ltd., vs. Green Power Health Products International Co. Ltd.¹⁷³, Shenyang Beitechun Wine Factory vs. Liu Zhidong¹⁷⁴, etc.

¹⁷⁰ Ibid.

¹⁷¹ Liu Y. 国际贸易中涉外贴牌生产中的商标侵权问题研究 (Research on Trademark Infringement in China’s Foreign OEM in International Trade). – P. 170.

¹⁷² Guangdong Foshan Hongxin Ltd vs. Guangzhou Customs, Higher People’s Court of Guangdong Province PRC Case No. 2006 Administrative 22 Guangdong (final), Decision, 2006. – [Electronic resource]. – Translated by Wen Jiang. – Case review in Chinese is available at: <https://www.pkulaw.com/pfnl/a25051f3312b07f3b4eb215c1452f5787c6028872b8b624dbdfb.html?keyword=%E9%98%BF%E8%81%94%E9%85%8B%E5%8F%B2%E4%B8%B9%E5%88%A9%E5%85%AC%E5%8F%B8%20>

¹⁷³ Guangzhou Lvse Yingkang Biotech Ltd., vs. Green Power Health Products International Co. Ltd. (Hong Kong) (广州绿色盈康省物工程有限公司诉香港天维健康产品国际有限公司许可销售优先权纠纷及货物买卖合同货款纠纷案), Intermediate People’s Court of Guangzhou Municipality, Guangdong Province PRC Case No. 2004 Guangzhou Civil 306 (original), Decision, 9 May 2006. – [Electronic resource]. – Translated by Wen Jiang. – Original decision in Chinese is available at: <https://www.pkulaw.com/pfnl/a25051f3312b07f3f532e8ae485f7ee2ea859e7645ad32eebdfb.html?keyword=%E5%B9%BF%E5%B7%9E%E7%BB%BF%E8%89%B2%E7%9B%88%E5%BA%B7%E7%94%9F%E7%89%A9%E5%B7%A5%E7%A8%8B%E6%9C%89%E9%99%90%E5%85%AC%E5%8F%B8>

¹⁷⁴ Shenyang Beitechun Wine Factory vs. Liu Zhidong (沈阳市北特春酒厂、刘志东侵害商标权纠纷二审民事判决书), Intermediate People’s Court of Dalian Municipality of Liaoning Province PRC Case No. 2020 Civil 538 Liaoning (final), Decision, 8 May 2020. – [Electronic resource]. – Translated by Wen Jiang. – Case review in Chinese is available at: <https://www.pkulaw.com/pfnl/a6bdb3332ec0adc453c5090e244199f4c8e54456b965bffb6dbf.html?keyword=%E6%B2%88%E9%98%B3%E5%B8%82%E5%8C%97%E7%89%B9%E6%98%A5%E9%85%92%E5%8E%82>

Based on the cases mentioned above, the courts found that although the OEM products were for exports and not intended for distribution in China, such a non-infringement finding should be made on the premise that the OEM manufacturer has fulfilled its reasonable attention obligation on the foreign consignor's rights over the trademark involved.¹⁷⁵

As for the cases where the courts consider that the OEM manufacture does not constitute trademark infringements, the main merit falls on the different interpretations of Article 57 of the TLC. Misunderstanding of the source of goods by the relevant public is the premise for determining trademark infringement, although the ordering party has not obtained the permission of the holder of the registered trademark in China, in the same goods, similar goods or services.¹⁷⁶ Still, since all the OEM goods are exported and not sold in the Chinese market, the relevant public can't misunderstand the goods or the source of the goods; second, since all the OEM products were exported, they were not sold in the Chinese market and did not cause damages to the trademark rights of the Chinese trademark owner.¹⁷⁷

In the case of Yiwu Jubao Ltd. vs. Yiwu National Bureau of Administration for Commerce and Industries¹⁷⁸, the defendant (Yiwu Jubao) was entrusted by the United States Consumer Products Co., Ltd. (the owner of the registered trademark of "De LaRitz" in the US) to manufacture products bearing the "De LaRitz" trademark and

¹⁷⁵ Murphy M. et al. Courts Clarify OEM Trade Mark Infringement. – P. 14.

¹⁷⁶ Fang S. Determination of Trademark Infringement in Foreign-related OEM Production (涉外定牌生产中商标侵权行为的认定). – P. 44-45.

¹⁷⁷ Ibid.

¹⁷⁸ Yiwu Jubao Ltd. vs. Yiwu National Bureau of Administration for Commerce and Industries, Yiwu City People's Court of Zhejiang PRC Case No. 2007 Administrative 84 Yiwu (original), Decision, 2007.

sell them to the US.¹⁷⁹ Considering the trademark infringement claim, the court held that because the manufactured goods were not sold in China, the manufacture of the goods itself cannot cause any confusion and misunderstanding by the relevant public, and therefore, it does not constitute a trademark infringement of the owner of the registered trademark of “RITZ” in China.¹⁸⁰ Similar cases also include the Shanghai Shenda Acoustics Electronics Co.,Ltd. vs. Jiulide Electronics Co., Ltd. vs. Jolida (Shanghai) Ltd.¹⁸¹, Qingdao Aucma Co., Ltd. vs. Foshan Bohong Economic & Trade Co., Ltd.¹⁸², etc..

In the cases mentioned earlier, although the Chinese courts and tribunals have different opinions, they all share the same opinion, which is that the CISG is not applicable. Except cases where parties exclude the application of the CISG, the main reason why the Chinese courts and tribunals exclude the application of the CISG derives from the domestic law, which excludes OEM contracts from sales contracts.

¹⁷⁹ Yiwu Jubao Ltd. vs. Yiwu National Bureau of Administration for Commerce and Industries.

¹⁸⁰ Sun H., Yao, J. Research on Trademark Issues in OEM (贴牌加工中的商标问题研究) // Intellectual Property. –No. 5. – 2010. – P. 78.

¹⁸¹ Shanghai Shenda Acoustics Electronics Co.,Ltd. vs Jiulide Electronics Co., Ltd. vs. Jolida (Shanghai) Ltd. [上海申达音响电子有限公司与玖丽得电子(上海)有限公司侵犯商标专用权纠纷上诉案], Higher People’s Court of Shanghai Municipality PRC, Case No. 2009 Civil/IP 65 Guangdong (/thirdfinal), Decision, 2 November 2009. – [Electronic resource]. – Translated by Wen Jiang. – Original decision in Chinese is available at: <https://www.pkulaw.com/pfnl/a25051f3312b07f3d718e6e8d9946fe42fd26dae4d14fd1cbdfb.html?keyword=%E4%B8%8A%E6%B5%B7%E7%94%B3%E8%BE%BE%E9%9F%B3%E5%93%8D%E7%94%B5%E5%AD%90%E6%9C%89%E9%99%90%E5%85%AC%E5%8F%B8>

¹⁸² Qingdao Aucma Co., Ltd. vs. Foshan Bohong Economic & Trade Co., Ltd. (澳柯玛股份有限公司与佛山市博鸿经贸有限公司侵害商标权纠纷二审民事判决书), Intermediate People’s Court of Shenzhen Municipality, Guangdong Province PRC Case No. 2016 Civil 22 Guangdong (final), Decision, 8 September 2016. – [Electronic resource]. – Translated by Wen Jiang. – Case review in Chinese is available at: <https://www.pkulaw.com/pfnl/a25051f3312b07f3ed7a8b99e9dd088fbc562fb5f23a2f8abdfb.html?keyword=%E9%9D%92%E5%B2%9B%E6%BE%B3%E6%9F%AF%E7%8E%9B%E9%9B%86%E5%9B%A2%20%E8%B4%B4%E7%89%8C%E7%94%9F%E4%BA%A7%20>

However, some scholars agree that trademark infringement disputes involving foreign-related OEM processing should refer to the provisions of the CISG, i.e., Article 42.¹⁸³

The right holder cannot claim rights based on the laws of the seller's country but the laws of the country where the sale is made, because only in the jurisdiction where the goods are sold will exist the problem of crowding out the right holder's market and harming the rights holder's interests.¹⁸⁴ In contrast, in the seller's state, there is no sale of goods, and it will not occupy the market of the right holder or cause the problem of consumer confusion.¹⁸⁵

Assuming the CISG is applied in OEM-related disputes in Chinese courts, most Chinese manufacturers could be exempted from the obligations to deliver goods free from third parties' IPRs according to Article 42, as discussed in Chapter 2. For example, in the "NIKE" case¹⁸⁶ discussed previously, since the goods are confirmed to be sold in the US, the seller (Chinese manufacturer) has no privilege in investigating third parties' IPRs, according to Article 42(1). Besides, following Article 42(2)(b), the seller is also exempted from the obligations. Thus, if the court applied the CISG, the chances are that the seller would not have any trademark infringement liabilities.

In fact, as for the cases where the courts agree that the OEM does not constitute a trademark infringement, whether the CISG is applied, the results are the same: the seller (Chinese manufacturer) would be exempted from the obligations. For instance, in 2015, the Supreme People's Court issued a landmark ruling on this issue, known as

¹⁸³ Sun H., Yao, J. Research on Trademark Issues in OEM (贴牌加工中的商标问题研究). – P. 80.

¹⁸⁴ Ibid. P. 81.

¹⁸⁵ Ibid.

¹⁸⁶ Nike International Ltd vs. Zhejiang Jiaying Yinxing Garment Factory et al.

the PRETUL case.¹⁸⁷ The court eventually disagreed with this opinion and carved out the conditions and limitations for an OEM to raise a successful defence against an infringement claim without applying the CISG.¹⁸⁸ Another landmarking case, the DONG FENG case¹⁸⁹, later confirmed these exceptions established in the PRETUL case.

§ 2.3. *The imperfection of the adjudication documents*

The task of the adjudication is to properly apply the law on the premise of ascertaining the facts of the case and to cite specific clauses in the adjudication document to make detailed reasoning.¹⁹⁰ In this regard, Article 1 of the “Provisions of the Supreme People’s Court on Citation of Judgment Documents to Normative Legal Documents such as Laws and Norms”¹⁹¹ stipulates that the content of the courts’

¹⁸⁷ Yahuan Group. vs. Focker Security Products International Limited (浦江亚环锁业有限公司与莱斯防盗产品国际有限公司侵害商标权纠纷再审案), Supreme People’s Court PRC Case No. 2014 Civil 38 (retrial), Decision, 26 November 2015. – [Electronic resource]. – Translated by Wen Jiang. – Original decision in Chinese is available at: <https://www.pkulaw.com/pfnl/a25051f3312b07f3c1ff58710cd39741f4379428fb541b5fbdfb.html?keyword=%E6%B5%A6%E6%B1%9F%E4%BA%9A%E7%8E%AF%E9%94%81%E4%B8%9A%E6%9C%89%E9%99%90%E5%85%AC%E5%8F%B8%20>

¹⁸⁸ Ibid.

¹⁸⁹ Jinfeng Power Machinery Co., Ltd. vs Shanghai Diesel Engine Co., Ltd. (江苏常佳金峰动力机械有限公司与上海柴油机股份有限公司侵犯商标权纠纷再审案), Supreme People’s Court PRC No. 2016 Civil 339 (retrial), Decision, 28 December 2017. – [Electronic resource]. – Translated by Wen Jiang. – Original decision in Chinese is available

at: <https://www.pkulaw.com/pfnl/a25051f3312b07f3a7127049f356b5aac32a66063c88cb76bdfb.html?keyword=%E6%B1%9F%E8%8B%8F%E5%B8%B8%E4%BD%B3%E9%87%91%E5%B3%B0%E5%8A%A8%E5%8A%9B%E6%9C%BA%E6%A2%B0%E6%9C%89%E9%99%90%E5%85%AC%E5%8F%B8%E4%B8%8E%E4%B8%8A%E6%B5%B7%E6%9F%B4%E6%B2%B9%E6%9C%BA%E8%82%A1%E4%BB%BD%E6%9C%89%E9%99%90%E5%85%AC%E5%8F%B8%E4%BE%B5%E7%8A%AF%E5%95%86%E6%A0%87%E6%9D%83%E7%BA%A0%E7%BA%B7%E5%86%8D%E5%AE%A1%E6%A1%88%20>

¹⁹⁰ He H. The Problems, Origin, and Improvement regarding the Application of the CISG in Chinese Courts (我国法院适用 CISG 的问题、成因及改进) // Legal Science Magazine. –No. 4. – 2019. – P. 188.

¹⁹¹ Provisions of the Supreme People’s Court on Citation of Such Normative Legal Documents as Laws and Regulations in the Judgments (of 04 November 2019) (最高人民法院关于裁判文书引用法律、法规等规范性法律文

judgment documents should be referenced in a normative manner. Specific provisions should be cited in their entirety, but, as far as the retrieved cases are concerned, the judgment documents produced by some courts are not standardised.¹⁹²

There are problems of “rough” or simplistic handling in the reasoning of judgments. Some court judgments also have the problems such as vague clauses and incomplete interpretations, which results in a low quality of judgement documents. The following cases concern the issues mentioned above.

Anson Distributing LLC vs Haimou Xiao¹⁹³

The plaintiff, an American company named Anson Distributing LLC (hereinafter “Anson”), concluded contracts of sales of hoverboards with the defendant, a Chinese citizen named Haimou Xiao, while the defendant deceived the plaintiff when concluding the contract by stating that he was the owner of a Hong Kong company which does not exist.¹⁹⁴ The goods were detained at the US customs and identified using the counterfeiting Samsung batteries. The plaintiff filed the lawsuit in the Chinese court. The Chinese court applied the CISG directly and decided that the seller’s counterfeiting behaviour breached the obligations regulated in Article 42 of the CISG and none of the exemption situations was applicable.¹⁹⁵ Thus, Xiao breached the

件的 规 定) [Electronic resource] // PKULaw. – [Site]. – URL: <http://www.lawinfochina.com/display.aspx?lib=law&id=7818&EncodingName=big5> (accessed: 07.05.2022).

¹⁹² He H. The Problems, Origin, and Improvement regarding the Application of the CISG in Chinese Courts (我国法院适用 CISG 的问题、成因及改进). – P.188.

¹⁹³ Anson Distributing LLC vs Haimou Xiao (安森批发有限公司与深圳市康尔奇生物科技有限公司、肖海谋国际货物买卖合同纠纷一审民事判决书), Qianhai Cooperation Zone People’s Court of Shenzhen PRC No. 2016 Civil 0391/2049 (original), Decision, 10 December 2018. – [Electronic resource]. – Translated by Wen Jiang. – Original decision in Chinese is available at: <https://wenshu.court.gov.cn/website/wenshu/181107ANFZ0BXSK4/index.html?docId=b73cf859abe1475f99d4ab0200bdfe2c>

¹⁹⁴ Ibid.

¹⁹⁵ Ibid.

sellers' obligations to deliver goods free from third parties' IPRs, which eventually caused a fundamental breach.

The judicial decision of case as mentioned above remains insufficiencies regarding the formation and interpretations of merits. In the judgement, the court directly applied the CISG and quoted Articles 42 and 43. However, the relevant merits are just general summaries of the contexts of the Convention. The court did not give enough detailed analysis based on concrete case or elaborated the sub-provisions of the articles regulated in the sub-paragraphs, namely the exclusive provisions of the seller's obligations. Besides, the court simultaneously applied the GPCL, but did not explain the controversy between the GPCL and the Convention regarding the application of international treaties relating to IP. Similar situations can be found in the case of Company A (Chinese) vs. Company B (Japanese) heard by the Pudong New District People's Court of Shanghai Municipality¹⁹⁶, where the court only made a judgment based on CISG paragraph 1 of Article 42, but it neglected the exemptions of the seller's obligations regulated in other paragraphs.¹⁹⁷

¹⁹⁶ Company A (Chinese) vs. Company B (Japanese) (A 公司诉 B 买卖合同纠纷案), Pudong New District People's Court of Shanghai Municipality PRC No. 2011 Civil/Commercial S808 (original), Decision, 21 May 2012. – [Electronic resource]. – Translated by Wen Jiang. – Original decision in Chinese is available at: <https://www.pkulaw.com/pfnl/a25051f3312b07f3711e7d2f462f433b7896e64fbe8781cfbdfb.html?keyword=%E6%B5%A6%E4%B8%9C%E6%96%B0%E5%8C%BA%E4%BA%BA%E6%B0%91%E6%B3%95%E9%99%A2%EF%BC%882011%EF%BC%89%E6%B5%A6%E6%B0%91%E4%BA%8C%EF%BC%88%E5%95%86%EF%BC%89%E5%88%9D%E5%AD%97%E7%AC%ACs808%20>

¹⁹⁷ He H. The Problems, Origin, and Improvement regarding the Application of the CISG in Chinese Courts (我国法院适用 CISG 的问题、成因及改进). – P.188.

§ 3. *Suggestions for improving the implementation of the IP-related provisions of the CISG in China*

The difficulty in applying the Convention is one of the most prominent problems regarding the implementation of the IP-related provisions of the CISG in China. To modify the problems as mentioned earlier, it is suggested that Chinese courts and tribunals should lay stress on the importance of the substantive function of the CISG and try to apply it in related cases. To solve the applicability issue, China should further clarify the priority of international treaties from legislative level.

From the previous discussion, it can be noted that although China is a CS of the CISG, the rule of the choice of law is strictly constrained by domestic laws and PIL principles. In the CIETAC practice, the reason for applying the CISG is either the choice of the parties or Article 1(1)(a) of the CISG. A Chinese scholar has criticised the latter reason for the application of the CISG,¹⁹⁸ and different understandings of the nature of arbitration may lead to different answers to the applicability of the CISG in arbitration.¹⁹⁹ Apart from the automatic application of the CISG, the Chinese courts and tribunals also have a significant number of cases where the CISG met difficulties in applying. These cases can be summarised as the following types: 1) following rules of PIL of the forum, an arbitral tribunal recognised that Chinese law has the closest connection to the contract and therefore determined to apply Chinese law to the contract²⁰⁰; 2) Where there is no relevant Chinese law, since the parties have their

¹⁹⁸ Du T. Applicability of the CISG in Arbitration (CISG 之仲裁适用问题) // *Oriental Law*. – No. 3. – 2009. – P. 88-101.

¹⁹⁹ Han, S. *The Application of the CISG in International Commercial Arbitration in China* // Ingeborg Schwenzer (Ed.) / *35 Years CISG and Beyond / The Hague, Portland: Eleven International Publishing, 2016. – 96 p.*

²⁰⁰ The CIETAC Award, 2 June 2008 (Plywood case, Singapore buyer v. Chinese seller). Available at

places of business in different CSs of the CISG, the CISG will be applied as a supplement to Chinese domestic law²⁰¹; 3) applying the CISG only when it has different provisions from Chinese domestic Law²⁰². Therefore, domestic Chinese regulations regarding the choice of law in transnational disputes frequently cause obstacles in applying the CISG.

Besides, the inconsistency of interpretations also prevents the application of the CISG. For example, the different classification of manufacturing contracts excludes the CISG from applying in OEM-related disputes. From the perspective of the unification of international sales law and also considering the reality in Chinese market, China should re-consider the nature of manufacturing contracts and revise the relating regulation to remove the obstacles to apply the CISG.

Owing to the absence of a regular case reporting system in China, there has been little discussion of the application of the CISG in Chinese courts, thereby making the picture of Chinese experience with the CISG incomplete.²⁰³ To fill this gap, it is recommended for China to establish a unified system to provide an up-to-date analysis of recently reported judicial decisions and, especially, arbitral awards regarding the implementation of the IP-related provisions of the CISG.

The issue of not citing specific clauses in the judgment document based on the application of CISG's applicable clauses is another common problem in Chinese

<https://iicl.law.pace.edu/cisg/case/china-june-2-2008>

See also: Han, S. The Application of the CISG in International Commercial Arbitration in China. – 98 p.

²⁰¹ The CIETAC Award, 20 October 2008 (Plastic bag case, Chinese seller v. American buyer). Available at <https://iicl.law.pace.edu/cisg/case/china-october-20-2008>

See also: Han, S. The Application of the CISG in International Commercial Arbitration in China. P. 98.

²⁰² Han S. The Application of the CISG in International Commercial Arbitration in China. – 99 p.

²⁰³ Xiao Y., Long W. Selected Topics on the Application of the CISG in China. – P. 64.

courts.²⁰⁴ The Chinese courts and tribunals should regulate the invocation and analysis of CISG applicable rules and unify CISG applicable analysis paradigm.²⁰⁵ The foreign-related judicial system of the courts needs to strengthen the study of the applicable paradigm of CISG, and the Supreme Court can strengthen guidance through Guiding Cases and Gazette Cases, and the influence of Guiding Cases and Gazette Cases can extend beyond the court system so that anyone can learn and understand the application of CISG.²⁰⁶

Due to the technical problems of directly applying the Convention, China should also create the IP-related provisions in the field of international sale of goods in Chinese law, referring to Articles 42 and 43 of the CISG. Historically, the CISG has influenced many other instruments in the field of international transaction law. The drafters of the CISG endeavoured to depart from domestic legal terms and concepts, instead of seeking an independent legal language.²⁰⁷ The Chinese judicial bodies

²⁰⁴ See,

(1) Egypt Elborsh Company vs. Qunying Geng et al (埃及 ELBORSH 公司与耿群英等国际货物买卖合同纠纷申请再审案), the Supreme People's Court PRC Case No. 2012 Civil 1402 (retrial), Decision, 24 December 2012. – [Electronic resource]. – Translated by Wen Jiang. – Original decision in Chinese is available at: <https://www.pkulaw.com/pfnl/a25051f3312b07f381486b14c8f9e0f16a200e8876e9ea4abdfb.html?keyword=%E7%9F%B3%E5%AE%B6%E5%BA%84%E8%B5%9B%E5%BE%B7%E8%B4%B8%E6%98%93%E6%9C%89%E9%99%90%E5%85%AC%E5%8F%B8>

(2) Sinochem International Oil (Singapore) PTE. Ltd. vs. ThyssenKrupp Metallurgical Products GmbH [中化国际(新加坡)有限公司诉蒂森克虏伯冶金产品有限责任公司国际货物买卖合同纠纷案], the Supreme People's Court PRC Case No. 2013 Civil 35 (final), Decision, 30 June 2014. – [Electronic resource]. – Original decision in Chinese is available at: <https://www.pkulaw.com/gac/f4b18d978bc0d1c75aa725a4ccf3f52aa762e6a0ed600eb5bdfb.html?keyword=%E4%B8%AD%E5%8C%96%E5%9B%BD%E9%99%85%28%20%E6%96%B0%E5%8A%A0%E5%9D%A1%29>, English translation is available at <http://www.lawinfochina.com/display.aspx?id=3023&lib=case>

²⁰⁵ Liu Y. On the Application of the CISG in Chinese Courts (论《联合国国际货物销售合同公约》在中国法院的适用) // Journal of Northwest University. –No. 3. – 2019. – P. 198-199.

²⁰⁶ Ibid. P.199

²⁰⁷ Schwenger I. Regional and Global Unification of Sales Law // European Journal of Law Reform. – Vol. 13 – No. Issues 3 - 4. – 2011. – P. 373.

should bear in mind that one of the core tasks of the CISG is to fill the gaps between the Convention itself and the domestic law. Applying the Convention, especially provisions which are remaining vacuums in domestic law, is one of the most effective methods to fill the gap. Thus, it is an effective solution for China to separate provisions in legislation to separate the seller's intellectual property guarantee liability from the general rights defect guarantee liability in the trade. Although the defects of intellectual property rights belong to the defects of ordinary rights, compared with ordinary rights, intellectual property rights have their unique characteristics, such as regionality, intangibility, time, etc., and their protection methods are also different from ordinary rights. Drawing on the provisions of Article 1 of the Convention, it introduces the content of the seller's intellectual property guarantee responsibility and limitation for the goods delivered in the trade and improves our country's legislative deficiencies in this regard.

The Chinese legal practitioners should enhance their comprehension of the interpretations of the Convention. The drafters of the CISG intended to reduce the possibility of factors outside the text of the Convention affecting the interpretation of the Convention and to promote the realisation of the goal of uniform and independent interpretation of the Convention across different jurisdictions, intentionally avoiding the use of legal concepts specific to a legal tradition and use a self-contained set of legal concepts". This objective is solemnly set in CISG Article 7(1). It is one thing to formulate the text of uniform law, but it is another to ensure the unity of the applicable

law in the application.²⁰⁸ The CISG digest (digest)²⁰⁹ adopted by the UNCITRAL provides Chinese courts with an authoritative and convenient standard reference tool for the application of CISG, and the Chinese legal practitioners should use it more often to gain deeper understanding of the Convention. The Supreme People's Court also believes that although the CISG Case Law Digest is not a part of the Convention, it cannot be used as a legal basis for hearing cases. Still, it can be used as an appropriate reference for how to accurately understand the meaning of the relevant provisions of the Convention.²¹⁰ The interpretation of the CISG, especially of the IP-related provisions, influences the implementation directly. The Chinese courts and tribunals should keep in high consistence with the interpretation of the IP-related provisions.

²⁰⁸ He H. The Problems, Origin, and Improvement regarding the Application of the CISG in Chinese Courts (我国法院适用 CISG 的问题、成因及改进). – P. 189.

²⁰⁹ UNCITRAL Digest of Case Law on the United Nations Convention on Contracts for the International Sale of Goods (2016). Available at https://uncitral.un.org/sites/uncitral.un.org/files/media-documents/uncitral/en/cisg_digest_2016.pdf

²¹⁰ He H. The Problems, Origin, and Improvement regarding the Application of the CISG in Chinese Courts (我国法院适用 CISG 的问题、成因及改进). – P. 189.

CONCLUSION

With the development of technology and globalisation, the trade-related IP infringement issue has been brought to heat discussion. As the main regime which includes clear IP provisions, the CISG ought to play an essential part in IP protection in the international sale of goods. The IP-related provisions in the CISG had been through a long history before it was settled in the Convention. With the development of practices for years, the IP-related provisions have played an important part in the practices of settlements in the international sales of goods worldwide. However, for certain reasons, the wording of the provisions has certain ambiguousness, leading to discussion and controversy in academia and practice. The problems also impede to accomplish the legislative goals of the IP-related provision of the CISG, including limiting the seller's obligation to deliver goods free from third parties' IPRs.

Due to the special characteristics of IP law, the seller's obligation to deliver goods free from rights of third parties based on IP should be considered individually. The CISG regulates certain exemptions to limit the seller's obligation in Articles 42 and 43. Article 42 of the CISG regulates the exemptions of the seller's obligation to deliver goods free from third parties' IPRs, and Article 43 further limits the rights of both parties based on their knowledge. These articles, to some degree, balances the obligations between the seller and the buyer. Because of the specific characteristics of IP, the obligations of goods conformity endowed on the seller should be distinguished from the general obligations, which were written in Article 41 of the CISG. Thus, notwithstanding the legislative defects and flaws, Articles 42 and 43 of the CISG

reasonably deal with the relationship between IP law and international sales law, and provide a generally fair solution to balancing the buyer and seller obligations. They are like a bridge and connect the fields of IP law and international sales law.

This thesis starts from the history of establishing the IP-related provisions of the CISG and gives a comprehensive interpretation of the wording of these provisions based on different scholars' points of view. Two practical issues concerning trade-related IP protection in the international sale of goods are thoroughly demonstrated in Chapter 2. In Chapter 3, the analysis focuses on implementing the IP-related provisions of the CISG in Chinese practice, and the main research is based on the case studies, consisting of adequate recent cases selected from Chinese courts and the CIETAC publications.

The IP-related provisions in Chinese laws are not well-established. However, based on the discussion regarding the practice in China, the Chinese courts and arbitral institutions fail to implement the IP-related provisions of the CISG in a good way. There are some essential issues remained, including the difficulties in application, inconsistency of interpretations, non-uniformed adjudication documents, etc. As one of the main economies on the world and a CS of the CISG, China should try to improve the implementation of the CISG, including the IP-related provisions. As a uniform law, the CISG is a good instrument to protect both parties in the international transactions, and the IP-related provisions of the CISG will help the parties solve any IPR-related disputes. From the perspective of the seller's obligations, since the IP-related provisions are not well implemented in China, the exemptions of seller's obligation to

deliver goods free from rights of third parties based on IP are often neglected, and it actually breaks the balance between the obligations of both parties.

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