Published on *The National Law Review* https://natlawreview.com

China: Recycled Packaging and Trademark Infringement, a Questionable Decision in the Tsingtao Beer Case

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Back in 2020, the famous Chinese brew company Tsingtao Beer filed an administrative complaint for trademark infringement against a smaller Chinese competitor for the use of recycled Tsingtao beer bottles. The smaller brewery was filling legitimately recycled Tsingtao bottles with their own beer. The recycled bottles did not bear the Tsingtao labels and marks, which had been replaced by the label and trademarks of the smaller brewery. However, the words Tsingtao Beer, embossed on the bottlers' neck, was still visible when the recycled bottles were commercialized. The case was adjudicated in 2022 by the Weihai Market Supervision and Administration Bureau of Shandong Province in favor of Tsingtao Brewery and has been selected as a model trademark enforcement case by the State Administration for Market Regulation.

Is this however a case of trademark infringement? Is the use and function of the words Tsingtao Beer on the bottles' neck a "trademark use"? Or should this be rather a case of trade dress infringement under the Unfair Competition Law? And, why is this important?

Trademark or Unfair Competition?

Let's begin with answering the question of why it is important for a right holder in China to determine whether this is a case of trademark rather than trade dress infringement.

If this is a trademark infringement case, the right holder can enforce its registered right by filing a quick and inexpensive administrative proceeding that will promptly stop the violation. Its burden of proof will be limited to collecting the evidence of the act of sale of one of the allegedly infringing bottles. Given that administrative proceedings for the enforcement of trademarks in China do not cover damage claims, the right holder will also be exempted from providing proof of damage (i.e. its actual losses or the illicit profit of the infringer).

If, instead, this were a case of trade dress infringement, the right holder would have to file a civil lawsuit under the Unfair Competition Law and prove: a) the notoriety of its product packaging/decoration, b) the infringing act, and c) the damages. While a trademark administrative procedure would end within a few days with a peremptory order to cease and desist the illicit use of the bottles and a fine for the infringer, an unfair competition/trade dress lawsuit could last for 12 months and would be more expensive.

Tsingtao’s choice

Tsingtao, for obvious strategic reasons, decided to file an administrative complaint with the territorially competent Market Supervision Administration (MSA) for trademark infringement. It was alleged that the act of filling and reselling beer on recycled bottles without properly covering the embossed words Tsingtao Beer on the bottles’ neck was causing confusion among the relevant users about the product origin. In particular, Tsingtao alleged that such use of its registered trademark created in the relevant users the impression that the small breweries’ beer and brand was somewhat related to Tsingtao Beer. The alleged infringer did not file any defense and instead immediately stopped the sale of beer in the accused bottles.

The MSA Decision

The MSA in charge of the case started by trying to see if the facts of the case fit in the acts of infringement featured by art. 57 of the Chinese Trademark law. The article provides as follows:

“*Any of the following acts shall be deemed as infringement of exclusive rights to use registered trademarks:*

(1) use of a trademark identical to a registered trademark on the same type of commodities without licensing by the trademark registrant;

(2) use of a trademark similar to a registered trademark on the same type of commodities without licensing by the trademark registrant, or use of a trademark identical or similar to the registered trademark on similar commodities which easily causes confusion;

(3) sale of commodities which infringe upon exclusive rights to use registered trademarks;

(4) forgery or unauthorized manufacturing of labels of other’s registered trademark or sale of forged or unauthorized labels of other’s registered trademark;

(5) change of a registered trademark without the consent of the trademark registrant, and sale of commodities bearing the changed trademark in the market;

(6) intentionally facilitating infringement of other’s exclusive rights to use trademarks, assisting others in implementation of infringement of exclusive rights to use trademarks; or

(7) causing harm to other’s exclusive rights to use registered trademarks.”

Under which of the above seven acts of infringement does this case fall? Firstly, the MSA determined whether the embossed words “Tsingtao Beer” on the bottles’ neck was a trademark use. It then considered whether the trademark right of Tsingtao Brewery was exhausted. Finally, it subsumed the resulting facts under one of the seven acts of trademark infringement set forth by art. 57 of the Trademark Law. Let’s follow the reasoning of the MSA with a critical eye.

a) Is This a Case of “Trademark Use”?

The first question for the MSA was to determine whether the embossed words “Tsingtao Beer” on the bottles’ neck is a trademark use, *i.e.,* a use susceptible to provide indication of the origin of the product to the relevant users. The MSA concluded that this is a case of use of the registered

trademark on product packaging with the clear function of identifying the source of the product. The MSA further argued that: "*if they* (the words on the bottles' neck) *cannot be removed or blocked, they can still be used as commercial logos to identify the source of goods (…). Therefore, the original Tsingtao Beer and TSINGTAO logos on the alleged infringing products still played a role in distinguishing the source of the goods, constituting trademark use.*"

A more critical analysis of the facts of the case, however, may point us in a different direction. For example, the original Tsingtao bottle was sold with a very large label bearing all the typical and well known Tsingtao artwork and trademarks. In this context, the embossed Tsingtao Beer on the bottle's neck were marginal and appear to be a decorative element rather than a marker of origin. Users will normally rely on the central label to determine the source of the product. This hypothesis was not considered by the MSA and no objections were raised by the alleged infringer. The fact remains that the function of the embossed words in the original Tsingtao bottle might not be necessarily seen as a straightforward trademark use, but the MSA's reasoning was very basic and superficial on this point.

b) Trademark Exhaustion

Once it opted for "trademark use," the MSA encountered a first problem. Once the original bottle is legitimately sold on the market, the function of the trademark will be realized and the trademark exclusive right will be "exhausted." The new owner of the first original bottle has the right to do with the bottle as he or she pleases. Based on these premises, the MSA could have dismissed the complaint.

However, it noticed that in this case there was a special circumstance that evades the principle of trademark exhaustion: a "*substantial change in the content of the commodity.*" According to the MSA, such a change of commodity (the small brewer's beer instead of Tsingtao beer) will lead the relevant users to confusion and "*hinder the function of the trademark to distinguish the source of the commodity.*"

But of what trademark function is the MSA talking about? The bottle has labels and markings from the filler of the bottle! The user will be in no position to mistake that the beer comes from that brewer! The filler of the bottle does not want to mislead the consumers into believing that the liquid inside is a Tsingtao beer. He is selling his own beer under his own label. The MSA ignored these facts and focused only on the embossed marking on the bottles' neck, and tells us that the user will believe that the beer in that bottle will be mistaken for Tsingtao beer!

The reasoning of the MSA is highly questionable. If we consider the facts that: (a) the bottle carries a more visible mark and label from the small brewery, and (b) the Tsingtao Beer's embossed mark is on the packaging of the beer itself, there are good reasons to argue that the use of the embossed mark is not a trademark use, and that this is more a case of illegally using the famous packaging of another brand to confuse consumers as regulated by art. 6 of the Unfair Competition Law. Such provision protects the trade dress of a famous commodity.

The facts of this case can indeed fit into such provisions as well and would avoid completely the issue of trademark exhaustion. We shall see this more in details at the end of the post.

c) Infringement Findings

Upon the above premises, the MSA concluded that there was infringement due to the risk of confusion, and particularly, the risk for the relevant users to "*mistakenly believe that the product has*

a specific connection with Tsingtao brewery …." Eventually, the MSA subsumed this case under art. 57.7 "*causing harm to other's exclusive rights to use registered trademarks.*"

The conclusion is as flawed as the premises. Art. 57.7 requires the claimant to prove the harm and the illicit use. However, in the case procedure there is no mention of a concrete harm or a request to Tsingtao to provide evidence about it. It is evident that the MSA, aware of the fact than none of the previous 6 acts of infringement was befitting, chose the last one, which offered a more open definition of use, but failed to match the facts to even the loosest of the causes of action.

It seems that the core of the MSA reasoning is that, once it is assumed that the use of the words "Tsingtao Beer" on the bottles' neck is a trademark use, the infringement exists for the sole fact that this can mislead the relevant users about a connection between the smaller brewer and Tsingtao Brewery. This is not a tight conclusion. As shown above, the same facts seem to fit the case of a trade dress infringement. Even the "user's confusion" about a possible connection among businesses is required in case of trade dress violations and is not unique to the acts of trademark infringement. Art. 6 of the Unfair Competition Law clearly provides that:

"*A business operator shall not perform any of the following* ***confusing acts that will enable people to mistake its products for another business's products or believe certain relations exist between its products and any business's products****: (…) 1. unauthorized use of a mark that is identical or similar to the name, packaging or decoration of another business's commodity, which has influence to a certain extent (…).*"

Conclusions

The argumentative line of the MSA in this case is not convincing. Citing several old regulations on rebottling and filling up of recycled bottles does not help because all these norms focus on the case of the infringers' filling originally labeled bottles with a sub-standard and not original beverage. These are classic cases of counterfeiting of a trademark.

The present case is different. Here the embossed "Tsingtao Beer" mark may not be necessarily and automatically defined as a trademark and its usage may not be as a trademark. There are as many valid arguments to maintain that this logo is a decorative element of a famous packaging and its misuse, such as in this case, can be seen as an act of unfair competition, aiming at causing confusion among the relevant users as provided by Art. 6 Unfair Competition Law. The fact that the MSA decided to subsume this case under art. 57.7 without even bothering to define and prove the required "harm" is another telling sign that this decision may have forced and stretched the actual trademark law beyond its literal meaning.

We can surely laud the intent of such exercise: offering a more time and cost-effective protection to packaging and logos. But it might be a decision that would not stand a higher court scrutiny. If there is a need for a better protection of brands in such repackaging cases, and the Unfair Competition law does not offer an ideal solution, the way to fix it is by either amending the latter law or the trademark law accordingly. In the present case the infringer decided to give in, pay the fine and did not file an appeal. Next time, a more feisty defendant might try to challenge this case law before the Beijing IP Court. If so, there may be a rush decision to select this as a model case!

National Law Review, Volume XII, Number 229

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