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Intellectual Property Protection in Product Recycling and Remanufacturing in China

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Part 1:

<https://www.iam-media.com/article/how-chinese-courts-approach-trademark-exhaustion-when-it-comes-product-recycling-and-remanufacturing>

Part 2:

<https://www.iam-media.com/article/analysing-different-courts-approaches-trademark-infringement-of-refurbished-goods-in-china>

Part 3:

<https://www.iam-media.com/article/the-repair-versus-refurbishment-debate-how-companies-can-mitigate-patent-infringement-risk-when-it-comes-product-recycling>

Amid heightened global attention on environmental protection, the recycling and reuse of products is becoming a key consideration for the Chinese government. Relevant legislation has been introduced - such as the Environmental Protection Law and the Circular Economy Promotion Law - to encourage and facilitate the establishment of recycling systems. However, these fail to directly address the issue of the exhaustion of IP rights in product recycling and the conditions under which IP rights can be reasserted.

As this issue becomes increasingly relevant, it is necessary to look at how the Chinese courts have previously approached it for guidance.

Trademark protection

The principle of trademark exhaustion is not explicitly defined under the Trademark Law. However, scholars and practitioners generally accept that once a trademark owner or its licensee places goods bearing a trademark on the market, said owner cannot invoke its rights to prevent further sales or transfers of those goods. In other words, a purchaser has the freedom to deal with the product and the trademark owner no longer has the power to control further distribution.

At the same time, Article 57(5) of the Trademark Law restricts this principle by prohibiting the unauthorised replacement of a registered trademark with the intention of reintroducing goods to the market – also known as ‘reverse passing off’. Further, Article 30 of the Regulations on the Protection of IP Rights in the Hainan Free Trade Port (2021) emphasises that if continued use of a registered mark after the goods have been marketed would harm the mark’s distinctiveness or reputation, the exhaustion principle does not apply.

However, when products undergo certain processes during recycling (eg, refilling, repair or refurbishment) and then re-enter the market, they may be significantly different to the originals. This raises questions about whether and how recyclers can continue using an original mark. Chinese administrative and judicial authorities have long held divergent opinions on this matter.

Beer-bottle recycling – case law indicates unified stance

Reusing recycled beer bottles is a widespread practice in China. While beer-bottle manufacturers typically emboss their brand directly onto the bottles, Chinese law does not specifically regulate how breweries may use recycled bottles. Courts at various levels have gradually formed a unified stance on whether the exhaustion

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principle applies here.

Chongqing beer case (2011)

In this case, the High People's Court of Hunan Province overturned a first-instance infringement decision. It held that the defendant's use of recycled beer bottles did not constitute trademark infringement on three grounds.

First, the court opined that the defendant merely used the bottles as containers rather than seeking to exploit the plaintiff's trademark. Further, it held that the defendant's bottle cap, neck label and main label clearly featured its own trademark, which would not mislead typical consumers.

Second, it claimed that reusing beer bottles aligns with national policy. Because the plaintiff failed to adopt special measures to prevent its bottles from entering the recycling system, it was reasonably foreseeable that its bottles could be reused by others.

Finally, the court noted that if it were to uphold the plaintiff's infringement claim, it would effectively prohibit the recycling of used beer bottles, thereby conflicting with national policies. Balancing individual interests against the overall public interest, the court decided that environmental rights should be protected over the plaintiff's trademark rights in this scenario.

Dali beer case (2011)

The Supreme People's Court similarly held that collecting and reusing glass beer bottles that still met safety standards was longstanding industry practice in China. It noted that the defendant merely used the recycled bottles as containers for its own beer, clearly labelling its products with its own LANCANGJIANG trademark and company name on the bottle's body and neck.

Given that there was no evidence of an intent to free ride on Dali Beer's goodwill, the court concluded that the defendant's reuse of Dali's bottles did not infringe trademark or company name rights.

Xiyingmen case (2014)

The Supreme People's Court slightly changed its stance in this case, emphasising that breweries must take reasonable measures to avoid infringement when reusing recycled bottles.

It held that simply using another company's recycled beer bottle – while visibly attaching one's own trademark and company name to avoid consumer confusion – generally does not constitute infringement. However, the defendant not only retained the embossed BUDWEISER INBEV mark but also used packaging and labelling that closely resembled Budweiser's well-known Harbin Beer brand. Consequently, the embossed mark could now serve as a source-identifying function and was thus more likely to create confusion among consumers. Therefore, the court found the defendant's reuse of the bottles to be infringing.

Administrative authorities' approach

Chinese administrative authorities have adopted a much stricter position than the courts. As early as 1995, the trademark office stated that any party wishing to refill beverage containers that bear another party's still-visible trademark must completely cover it. Failure to adequately do so constitutes trademark infringement.

A 2019 reply from the China National IP Administration reiterated that while China encourages recycling of resources, it must not infringe others' registered trademark rights. Even if an embossed trademark cannot be easily removed, other users must take measures (eg, covering the mark with a new label) to avoid consumer confusion.

Trademark infringement when refurbishing goods

Refurbished goods are frequently reintroduced into the Chinese marketplace. From a judicial perspective, a key issue is how the refurbisher uses the original trademark when reselling the products.

1. Removing the original trademark without authorization

In Fengye (1994), the Beijing First Intermediate People's Court held that buying products bearing the plaintiff's trademark and then removing the marks for resale – under the guise of exhaustion of rights – constitutes unfair competition. The court reasoned that the defendant's conduct exploited the plaintiff's high-quality products for illicit profit without compensating the plaintiff for the goodwill and labour involved in building its brand.

After the Trademark Law was amended in 2001 to include in Article 57(5) reverse passing off as a form of infringement, courts have consistently found that removing and replacing an original trademark before reintroducing goods into the market impairs the mark's normal function. For example, in *Malata* (2016), the Ningbo Intermediate People's Court held that covering up Malata's mark with "AOV" deprived Malata of the opportunity to display its trademark to the public, preventing it from leveraging its brand value and goodwill in the market. Consumers would also be misled regarding the product's origin.

Some courts have similarly found that removing the original trademark (without replacing it with a new mark) can also constitute infringement. In *Yinzhi* (2003), the Nantong Intermediate People's Court reasoned that trademark rights are inseparable from the goods themselves. Removing the original trademark disrupts the link between the owner and user, depriving them of information about the true producer and negating the product's market-expanding attributes – thus infringing the trademark owner's legitimate interests.

2. Continuing to use the original mark without authorization

Whether refurbished goods may still bear the original mark without constituting infringement depends on whether:

- the product has undergone a substantive transformation; and
- there is a likelihood of confusion.

The HP case (2019)

In this case, the Tianhe District People's Court in Guangzhou reasoned that the seller must respect the trademark owner's rights during the product's circulation; merely transporting, storing or reselling goods that bore the mark did not cause confusion. However, if the seller substantially alters the product's core elements, the trademark no longer accurately indicates the product's origin and quality. Continuing to use the original mark thus tarnishes it and undermines consumer interests.

The Domino case (2018)

The Guangdong High People's Court recognised a balance between the trademark owner's rights, the interests of the recycler and public interest. In this case, the defendants only recycled old circuit boards from the plaintiff's A200 coding machines. The default setting caused Domino's mark to appear when the screen started up, but the defendants did not actively or prominently use Domino's mark on the refurbished machines or packaging. Because the new product's packaging contained no Domino logo, there was no direct risk of confusing the public as to its origin. The reuse of an internal part – without significantly altering the machine's overall quality or removing the original trademark – fell within the scope of trademark exhaustion.

3. Selling refurbished products as brand new

Refurbishers that sell old products as new and that are falsely labelled as original may also face criminal charges. In *Oppo* (2022), the Chengdu Intermediate People's Court found that replacing certain components (eg, phone back covers and screens) could affect functionality and performance, amounting to a "substantial alteration". Selling phones as new without disclosing such alterations would confuse consumers about the product's authenticity and quality, infringing on the trademark's source-identifying and quality-guarantee functions. Further, such activities constituted counterfeiting of registered trademarks as they harmed the brand's goodwill.

Patent protection

China has recognised domestic patent exhaustion since 1985, when the Patent Law stated that after a patentee has produced or authorised production of a patented product and sells it, the subsequent use or resale does not constitute infringement. In 2008, the revised Article 75 expanded this to include "international exhaustion", which clarified that using, offering to sell, selling or importing a patented product – once it has been sold or authorised by the patentee – does not constitute infringement.

Scholars and practitioners tend to agree that repairing a patented product generally falls within the scope of patent exhaustion, while remanufacturing constitutes patent infringement. The key disagreement lies in how to distinguish between the two.

Although judicial and administrative authorities have attempted to define and characterise the distinction between repairing and remanufacturing, consensus has proven elusive. This has led to repeated withdrawals or omissions of such provisions from final legal texts.

The debate in legal texts

The Beijing High People's Court Opinion on Several Issues Concerning the Determination of Patent Infringement (second draft, 2001) proposed that "restoring a patented product that has exceeded its service life to its original form" would be considered manufacturing, while "performing repairs or maintenance to maintain or extend the life of a product that has not exceeded its service life" would be non-infringing. However, this language was not adopted in later guidelines.

The Supreme People's Court Regulation on Several Issues Concerning the Trial of Patent Infringement Disputes (draft, October 2003) also included detailed distinctions between manufacturing and repair, but these provisions were later deleted following industry opposition and were not included in subsequent judicial interpretations.

Similarly, the Patent Infringement Determination Guidelines (draft for comment, 2016) from the then State IP Office contained provisions on assembly and repair of patented products, but these were also deleted from the final version.

Patent infringement cases involving this issue remain relatively rare. However, there are two notable examples.

Frame-style air filter case (2014)

The Henan High People's Court held that the defendant's "retrofit" of a patent-protected filter system to increase its purification capacity constituted manufacturing a new product rather than a mere repair, because the original device was still functional and the alterations substantially improved its performance. The modification thus fell within the scope of the patent claims and amounted to infringement.

Sealing device case (2023)

The Jiangsu High People's Court addressed a situation where the defendant replaced worn-out sealing boards in a patented product. Since the patentee had not claimed exclusive rights in these consumable parts, the court deemed the replacement a permissible repair to maintain normal product function, rather than the remanufacture of such product.

Practical takeaways for companies

Refurbishers and recyclers find themselves in a challenging position. On one hand, the government encourages recycling and reuse initiatives for environmental and cost-saving reasons (aligned with ESG principles). On the other hand, these activities must also respect the rights and legitimate interests of original IP owners.

Nevertheless, drawing upon administrative and judicial practices, the following consensus principles can guide corporate compliance and risk management.

Proactive and comprehensive disclosure

When refurbishing and reselling products, companies should actively and comprehensively disclose relevant information, such as:

- which parts are refurbished;
- which components have been replaced;
- who performed the refurbishing; and
- whether the product is still within the original warranty period.

Conspicuous refurbished labelling

All refurbished products should bear an indelible label that clearly shows that they have been refurbished on their outer casing, product manuals and packaging at the point of sale. For online sales, this label must appear prominently in product listings to ensure that consumers understand the product's nature and avoid deception.

Limit repairs to ordinary maintenance

It is advisable to restrict refurbishing to ordinary repairs that restore or maintain a used product's appearance and functionality, avoiding changes that substantially alter the original product's design, functionality or performance. Activities that cross into remanufacturing risk infringing IP rights.

Avoid confusing terminology and trademarks

Refurbished products should use clear and accurate markings. Avoid terms like 'officially refurbished', 'official replacement', 'brand new', 'original' or 'authentic second-hand', as they could mislead consumers. Under no circumstances should businesses highlight or display the original brand or trademark in a way that suggests non-existent authorisation or affiliation.

Ensure packaging and accessories do not infringe

Refurbished products should use packaging and accessories that are distinguishable from those of the original brand. Any new packaging or accessories must avoid infringing the original rights holder's trademarks, industrial designs or copyrights.

By adhering to these guidelines, enterprises can better harmonise ESG responsibilities with respecting IP rights.