

# A Proposal for a Nominative Fair Use Provision in Chinese Trademark Law

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## Abstract

The new Chinese Trademark Law in 2019 set forth several statutory limitation of trademark right, including descriptive fair use. However, it does not provide any defense for the nominative fair use. Absence of the nominative fair use defense against trademark infringement, China courts apply improper standard to determine such nominative use, and it results in frustrating purpose of trademark law and expanding trademark holder right. After many cases had been determined subject to the doctrine of nominative fair use, the United States well established the doctrine of nominative fair use, also there are statute basis of nominative fair use in the United States federal dilution statute. As this article will demonstrate, Chinese Trademark Law should adopt a nominative fair use defense. The main reason for allowing such use is that such use can reduce customer search costs and promote free flow of information in the market which is a goal of trademark law. So far there is not any satisfactory solution. The article proposes adoption of US common law nominative fair use doctrine with China civil law styled.

## Keywords

The Limitation of Trademark Right, Trademark Fair Use, Nominative Fair Use, Descriptive Fair Use, Trademark Infringement

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## 1. Introduction

Nominative fair use is a defense against to trademark infringement, which is set forth by the United States Ninth Circuit, in some circumstances court allowed person unauthorized use another's mark in their business to indicate mark owner's goods (Dunning, 2006). Under the China statutory model on limitation and exceptions to trademark law currently provides few exemption, namely Article 59 of the new Chinese Trademark Law adopts descriptive fair use and prior use

of mark as statutory limitation of trademark right. There has been common approach in several China courts that if nominative uses another's trademark cause likely to confuse consumers, it constitutes trademark infringement (Xue, 2012). However, the crucial question previously courts and commentators have been concerned with whether a nominative use could be justified under an existing limitation to trademark, but this article poses a different question: should Chinese Trademark Law have a nominative fair use defense? To be sure, trademark law contains limitation of trademark right to place a range of third party conduct beyond the control of the trademark owner, and former scholars spend much time talking about what those limits should be. However, the proposal suggest that the nominative fair use as affirmative defense added into existing limitation and exception of trademark right. This article is composed of three parts. Part I of the article introduces nominative fair use of historical development in US and also analysis current legislation situation on the nominative fair use in China. This part is ended by what is problem and issue China faces today in nominative fair use field. Part 2 of the paper incorporating analyses above, in order to solve the problems of China legislation and settle the disputes in practice; it puts forward the legislative suggestion of trademark fair use as a conclusion. Part 3 will face potential criticisms on the proposed provision and try to further support for the arguments.

## **2. Nominative Fair Use in US**

### **2.1. What Is Nominative Fair Use**

Nominative fair use doctrine developed by the US judicial precedent, court allows third party to use another's mark to indicate mark owner's goods as long as such use indicate true relationship (Arthur, 2010). It can be easily found that such use arise someone "refer to something is to use the trademarked term." For example, a repair store use "Audi" mark to indicate that they repair "Audi" car, a spare part seller use "For Nokia" mark on the spare parts to inform consumer that types of spare part for Nokia's product, an online seller use "Nippon" mark for advertisement in order to indicate this online store sell Nippon's product. Such circumstances, third party's product or services connected with the trademark holder's product therefore such use is necessary for the third party. So the nature of the use is informs such connection of two goods or services to the consumers, however, such use does not use "descriptive words" which is part of the trademark holder's mark rather use mark in "secondary meaning" (Spieler, 2008). Therefore, the purpose of the such use is to protect informative role of such uses that third party through such uses of a trademark to inform and indicate consumer that own product or services connected with that trademark (Arthur, 2010).

By contrast, descriptive use of mark means that third party use "descriptive words or terms" which is part of the mark to describe own product or services. Sometimes trademark owner choose descriptive mark as own trademark, although

through the use such “descriptive mark or term” acquire “secondary meaning” to identify source of good, trademark owner cannot prohibit to third party use those “descriptive terms” in “primary meaning”. So long as use the mark is being used in its “primary, descriptive sense,” “the secondary source-identifying meaning” is not being used; such use would fall under the descriptive fair use doctrine. Therefore, the main difference between the two types of fair use is that “whose product is being identified.” (Spieler, 2008). As a result, nominative fair use is using the mark in “secondary meaning” in order to indicate mark owner’s goods even though in order to describe own goods or services. However, descriptive fair use is using the mark in “its primary, descriptive meaning” to directly describe own product.

## 2.2. Nominative Use in US Trademark Law

After many cases had been determined subject to the doctrine of nominative fair use, the United States well established the doctrine of nominative fair use. The U.S mechanisms for limiting trademark right are statutory limitation combine with case-by-case analysis. In the US, nominative fair use doctrine originated by the common law practices. In the New Kids on the Block case, the decision by the Ninth Circuit Court created a new defense to trademark infringement: nominative fair use and set for the three-factor test for the nominative fair use. In New Kids on the Block, plaintiff is two newspapers, the Star and USA Today, they designed a poll for their readers that asked “Which one of the New Kids is the most popular”, it contain the phrase “New Kids on the Block,” which was a trademark held by the New Kids. The New Kids alleging that two newspapers used New Kids’ band name on the telephone poll is trademark infringement, in order to deciding in the case, the court firstly created a phrase “nominative fair use” as a name for such circumstances “where defendant use plaintiff’s mark to refer plaintiff’s product or services”, also the Ninth Circuit created three factor tests for determines whether the defendant’s use is nominative fair (Dunning, 2006). Those three requirements contain: First, the product or service in question must be one not readily identifiable without use of the trademark; second, only so much of the mark or marks may be used as is reasonably necessary to identify the product or service; and third, the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder; Third, use of the mark is not likely to create consumer confusion and there is no trademark liability (Dunning, 2006). Apply three requirements, Ninth circuit held that it is necessary for the newspaper use New Kids’ mark on their poll, because there is no other way to indicate New Kids group in their poll “without use their trademark”. Therefore the first requirement is met. It also met are the second and third requirements. The two newspapers only use the phrase of New Kinds on the Block, does not use their logo in their newspapers result in such use “within in the necessary and reasonable scope.” More importantly, during such use, two newspapers do not indicate any sponsorship between New Kids and newspaper or this poll. In Ninth circuit approach, court did not make

nominative fair as affirmative defense against trademark infringement rather court make three factor test “substitute for the traditional likelihood of confusion test”, under that approach, defendant use three factor test to prove there is no likelihood of confusion (Dunning, 2006).

However, in 2004, the Supreme Court in *KP Permanent Make-Up, Inc. v. Lasting Impression, Inc.* court firstly clarify the relationship between consumer confusion and fair use defense, stated that defendant fair use defense can coexist with the consumer likelihood of confusion and also hold that in the trademark infringement cases plaintiff always has burden to proof likelihood of confusion not defendant (Cheng, 2006). Supreme Court’s decisions lead to the Ninth Circuit’s approach questioning. Then Third Circuit alters the *New Kids* test in light of the Supreme Court decision. Firstly, the courts hold that nominative fair use was an affirmative defense against trademark infringement, then court divided nominative fair use analysis into two stages, in the first stage, plaintiff prove defendant such nominative use cause likelihood of confusion under the new likelihood of confusion test (Mayberry, 2012). If the first stage plaintiff successfully proved defendant such use cause consumer likelihood of confusion, then Court move on to the second stage where defendant has the burden to proof that its nominative use of the plaintiff’s trademark is fair under the following three factors: First, that the use of plaintiff’s mark is necessary to describe both the plaintiff’s product or service and the defendant’s product or service. Second, that the defendant uses only so much of the plaintiff’s mark as is necessary to describe plaintiff’s product. Third, that the defendant’s conduct or language reflects the true and accurate relationship between plaintiff and defendant’s products or services (Mayberry, 2012). The main distinguish between Ninth Circuit and Third Circuit test is whether nominative fair use as an affirmative defense and also whether defendant has burden to proof likelihood of confusion (Mayberry, 2012). Based on the Supreme of Court’s *KP Permanent Make-Up* decision, Third Circuit approach seems like more reasonable than Ninth Circuit’s approach, where Third Circuit correctly assign burden of proof of likelihood of confusion on the plaintiff.

In addition, there are statute basis of nominative fair use in the United States federal dilution statute. It found at 15 U.S.C. § 1125 (c) (3) (A), also makes nominative fair use a defense to trademark dilution claims. Lanham Act only allowed nominative fair use defense against plaintiff dilution claim. Section 1125 (c) of the Lanham Act, discussing trademark dilution, includes the nominative fair use doctrine as an affirmative defense: “The following shall not be actionable as dilution... (A) Any fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person’s own goods or services...”

### **3. The Current China Approach**

#### **3.1. Overview on Research of Nominative Fair Use in China**

Chinese scholars gave very constructive opinions on the specific problems exist-

ing in the laws and regulations at that time. Even today, even though there are disputes on individual issues, it is still very meaningful. Nevertheless some scholars believe that fair use of trademarks can be divided into three categories, namely “descriptive fair use”, “dilution fair use of well-known trademarks” and “nominative fair use” (Xiong, 2013), professor Feng Xiaoqing indicated that the trademark fair use mainly includes four types: descriptive fair use, nominative fair use, illustrative use or parallel use (Feng, 2006). In addition, Professor Wang Qian believes that the trademark owner has no right to prohibit others from using the trademark to indicate that his goods or services match the trademark owner’s goods or services, or to indicate the real source of the goods or services, but this kind of use must be in good faith, reasonable and in line with business practices, and cannot convey the information that leads to consumer confusion (Wang, 2016). Professor Li Yufeng, combined with legal provisions and judicial practice, believes that when dealing with disputes over nominative fair use, the court should mainly grasp the following issues: whether it is used in a non trademark sense; whether it is used in good faith; whether it is necessary to explain or convey true information (Li, 2016). Dr. Huang Hui indicated that the permission of nominative fair use is mainly to limit the trademark right from the perspective of taking into account the general public’s understanding of the true information related to the product (Huang, 2016). And Professor Du Ying analyzed and answered some basic problems in the system of indicative fair use of trademarks, and discussed the relationship between fair use and confusion (that is, there can be a certain degree of confusion) (Du, 2012). In addition, there are many scholars’ research content is based on foreign judicial precedents, through the introduction of the latest foreign precedents, to study the latest theoretical results of foreign trademark fair use system, and to give opinions and suggestions for the construction of China’s trademark fair use system.

Nevertheless, so far, the research results of fair use of trademarks in China are not systematic, and the research content is not comprehensive. There is no unified view on some basic concepts in the system of fair use of trademarks, including the meaning of fair use of trademarks and the types of fair use of trademarks. As a result, the all types of fair use of trademarks have not been listed in the legislation, also in the current trademark law, nominative fair use is not included in the limitation of trademark right.

## 3.2. Nominative Fair Use in China

### 3.2.1. Legislative Practice: China Trademark Law

Contrary to the US approach, the China statutory limitation on trademark right does not yet contain nominative use defense. Hence, it has been necessary for courts to apply likelihood of confusion standard to determine whether nominative user was infringement. In its Trademark Law, the China has explicitly set forth several statutory limitations on trade mark rights (Qiu, 2005). This law in the China limits the scope of trade mark rights by providing that a third party

must be “using” the mark identical or similar with another’s protected mark on identical or similar goods or services to be liable for infringement. This law also contains several specific defenses to infringement in the “Limitation and exception on trade mark” provision in Article 59 of the Trademark law. It stated that a third party can use in the course of trade 1) signs that indicate the characteristics of goods or services (descriptive terms); 2) functional product designs 3) senior user can continue use mark against junior register mark.

Although China has amended its trademark law four times from the 1982 to now, the current new China trademark law in 2019 still does not contain nominative use defense which is developed from the US common law. Through the China trademark legislation history, some of the trademark exemptions related to nominative use provided by administrative regulations. Such regulations simply stated that such referral use another’s trademark is permissible, but must in good faith and does not impair trademark holder legitimate interest. However, this regulation did not apply to courts, but only to administrative procedures, and also the implementation of it suffer from the geographical restrictions, namely such regulation only has the enforcement in the Beijing jurisdiction, but cannot apply other jurisdiction (Diao, 2012).

### 3.2.2. Judicial Practice: The China Court Holding of Nominative Use

Due to absence of the nominative fair use defense, non-confusion test has been common approach in china court. When court deal with the trademark infringement cases aroused by nominative use, court held that if nominative use he’s’ trademark causes likely to confuse consumers, such use constitutes trademark infringement (Xue, 2012). Court treated nominative use as general trademark infringement case. Based on the court decision (summary of the court decisions selected cases in **Table 1**), court always back to fundamental question of trademark law to determine such nominative use: whether a defendant’s use of a plaintiff’s mark is likely to confuse consumers about the source of the parties (Xue, 2012). And court ultimately form a mutual consent on nominative use situation that if such nominative use another’s trademark causes likely to confuse consumers, such use constitutes trademark infringement. The similarity of the marks used by the defendant and plaintiff is only a one factor to determine likelihood of confusion under the China Trademark law. It is based upon the Article 56 of China trademark law, which is trademark infringement provisions, it stated: “Unauthorized using the identical or similar trademark on the identical or similar good and services deemed infringement”. It is different from the third circuit likelihood of confusion test. A good example of this is Ying Zhi Bao Automobile Sales & Service Co. v. Audi. In this case courts held that Ying Zhi Bao use “Audi” mark constitute trademark infringement. Because use identical mark of plaintiff for the advertising of his repair store is cause likelihood of confusion about that his repair shop was sponsored or authorized by Audi. Regard to the other’s cases, court also has same reasoning.

The summary of the relevant cases on the below:

**Table 1.** Summary of court's holding of typical cases.

Case Name	Fact	Holding/Legal Basis
ETS V. New Oriental Language School (China Intellectual Property, 2011)	Defendant used TOEFEL mark in its publications to refer its publications designed for the TOEFL tests	<ul style="list-style-type: none"> <li>➤ Infringement</li> <li>➤ Nominative use identical mark cause likelihood of confusion</li> <li>➤ Article 57 (a) of China Trademark Law (2001)</li> </ul>
VOLVO Trademark Holding Aktiebolag V. Longevity Filters Ltd. (China Intellectual Property, 2011)	Defendant used the sign "FOR VOLVO" on the spare parts to refer spare parts fit for VOLVO car.	<ul style="list-style-type: none"> <li>➤ Infringement</li> <li>➤ Nominative use identical mark cause likelihood of confusion</li> <li>➤ Article 57 (a) of the China Trademark Law (2001)</li> </ul>
Ying Zhi Bao Automobile Sales & Service Co. v. Audi. (China Intellectual Property, 2013)	Defendant used the sign AUDI in repair store to refer providing repair services for AUDI car.	<ul style="list-style-type: none"> <li>➤ Infringement</li> <li>➤ Nominative use identical mark cause likelihood of confusion</li> <li>➤ Article 57 (a) of the China Trademark Law (2001)</li> </ul>
Nippon v. Taobao (China Intellectual Property, 2013)	Defendant used Nippon mark on website for advertisement to refer selling Nippon's product in their online store.	<ul style="list-style-type: none"> <li>➤ No infringement</li> <li>➤ Nominative use identical mark did not cause likelihood of confusion</li> <li>➤ Article 57 (a) of the China Trademark Law (2001)</li> </ul>

### 3.3. Criticisms of the China Approach

Apply likelihood of confusion standard to determine nominative use cannot be seen as a final solution. Because current approach in China is not able to achieve the purpose of China trademark law. There is strong demand on the legislation of the new standard of nominative use.

#### 3.3.1. Frustrating the Purpose of Trademark Law

Trademark not only have the "source-identification function", but also have the "informative function." (Du, 2012). Informative function means that trademark as a tool to convey commercial information to the consumer or the public (Du, 2012). Such functions facilitate market transfers and to reduce search costs of consumer in the marketplace, which is the primary and overriding policy of trademark law (Mcgeveran & Mckenna, 2013). In order to achieve trademark informative function, trademark law allows third party unauthorized use trademark to convey commercial information in some circumstances even though such use be accuse cause likelihood of confusion, including nominative use (Mcgeveran & Mckenna, 2013).

However, trademark informative function dose not achieve under China current trademark framework where China trademark law does not provide for the third party nominative use defense. Moreover, China current non-confusion standard also prohibit all nominative use as long as it cause likelihood of confusion. Generally, third party nominative use of trademark in their business primary purpose is "spread information" to the consumers rather than "identify

source of good and services.” (Mcgeveran & Mckenna, 2013). However, court current non-confusion approach derive third party of his right to tell public what they are doing and also derive consumer of getting benefit from free flow information in the marketplace. Especially in the repair store industry, even though non-authorized repair store provide same types of repair services like authorized repair store, they cannot able to inform consumer about their services types without using the trademark owner mark. Prohibiting such use will increase consumer’s searching cost in these types of transaction and seriously affect the facilitating of the market. This is clearly inconsistent with the intention and purpose of the trademark law. Therefore sometimes some uses of the mark should be allowed; even they cause confusion if they are beneficial for the market (Mcgeveran & Mckenna, 2013).

### 3.3.2. Expand the Exclusive Rights of Trademark Right Holders

In addition, due to lack of the proper legal basis for the nominative fair use defense, it results in expanding trademark owner rights (Qin, 2011). Under the China approach, third party is not possible be exempted from liability when there is likelihood of confusion. Since nominative fair use defense has not be set forth by the statute. Given the fact that China is a civil law country primarily relying on statutes, the court cannot just grant nominative fair use without referring any statutory basis for such claims (Merryman & Rogelio, 2007). However, such nominative use just convey real information, it does not constitute unfair competition; it does not imply any sponsorship by the trademark holder (Qin, 2011).

Expanding the exclusive right of trademark owner lead to the “monopolization of entire market”, only in terms of car maintenance areas, in order to prevent the “risk of free riding” and unfair competition, automobile manufacturers are likely to monopolize the entire automotive repair market where only allowing repair store authorized by trademark owner use trademark owner mark (Xue, 2012). It result other non-authorized repair store cannot use the mark in their business without the risk of infringement liability. Even though trade mark laws are protect right holder from the unfair competition and consumer confusion about a product’s source, it is not the purpose of trademark law to allow right holder to prohibit all unauthorized uses of their marks (Mcgeveran & Mckenna, 2013). Trademark law does not allow give the right holder such broad scope and unlimited of exclusive right (Li & Diao, 2012). Therefore, in order to ensure a reasonable balance between the interest of right holders and public, it is necessary to establish legal basis for nominative fair use.

### 3.3.3. Only Rely on Statutory Rule-Based Limitation—A Makeshift Solution

Even though China current approach is legally acceptable, but seems like a necessary makeshift approach. Court does not try to be excused such nominative use under existing statutory limitation of trademark right, rather apply alternative legal doctrine, namely non-confusion test to determine such use. When

there was no statutory exemption available for the nominative use, but such use seems may be excused, the China court treated nominative use situation as a general trademark infringement case, then eventually applied the likelihood of confusion standard to determine whether such use was infringement (Xue, 2012). Since a civil law country strictly relies on the statute, court cannot determine cases beyond the statute (Mayberry, 2012). Therefore this solution is legally acceptable.

However, Current statute always slow to able to contain all types of exception, thus the only strictly application of statutory limitation of trademark right in trademark infringement cases seems to be somewhat like a makeshift solution. Regarding to the new problem, court should have discretion to determine “in light of the purpose of the trademark law.” (Ramsey & Schovsbo, 2013). In the *New Oriental Language School v. ETS* case, defendant use plaintiff’s “TOFFEL” mark in own publications cover. The only purpose of defendant here is indicating to the consumer that defendant publication is design for the TOFFEL Test not indicates the publications come from the ETS. However, court only focus on the preventing confusion and hold that using the identical mark cause consumer likelihood of confusion and also it is not possible to excuse under the existing statutory exemption, therefore such use is infringement. Although court try to prevent consumer confusion, at the same time court also ignore and prohibited free flow information, prohibited right of third party to tell the public what they are doing. Here, even such use cannot excuse under the existing trademark limitation, court should also take into account of the other aspect. For example, court can held that use is fair in the meaning of trademark informative function, court also can held that such use reduce consumer search cost and facilitating the market therefore fulfill of the trademark purpose. Given such circumstances, in order to achieve the purpose of the trademark and ensure the customer’s interest, it is necessary to provide a statutory basis for the nominative fair use.

#### **4. A China “Nominative Fair Use Provisions”**

In order to prevent to court applies the wrongly legal standard to expand to the right holder’s right, it is become convincing grounds to establish statutory provisions on nominative fair use defense in China trademark law. Some scholars have suggested nominative fair use solutions for China directly import the three factors which are developed from the US common law (Wu, 2002). Others have suggested China should develop own nominative fair use doctrine in Chine legal context (Qin, 2011). This comment proposes new provision which is combined to the US approach with the style of China’s legal system.

##### **4.1. A Proposed Chinese Nominative Fair Use Provision**

To ensure the necessary flexibility of the statutory limitation and reasonable balance of the involved interest, this paper proposes nominative use as new types of statutory limitation of trademark right and also proposes “Three factor” test learn from the US for whether determining nominative use is fair.

#### 4.1.1. Draft of a China “Nominative Fair Use” Provision

In order to guarantee enough clearly and consistent with the current legislation style, the nominative fair use defense as an affirmative defense suggested to be inserted in the Article 59 in Chapter 6 “Management of Trademark Use” of Trademark Law, which is set forth several statutory limitation on trademark right. A draft of the clause could look like the following:

*Chapter 6 Management of Trademark Use*

*Article 59*

*A third party can use another’s sign to refer another’s product or service in the course of trade that are necessary to indicate third party’s product or service, such as selling accessories or spare parts, offering repair services, advertisement of trademarked product or others circumstances. That such uses of the mark must within the reasonably necessary scope and amount and must reflect the true and accurate relationship between trademark owner’s product and own products or service.*

#### 4.1.2. Element Drawing from US Nominative Fair Use

The provision proposed in this paper adopted nominative fair use defense an affirmative defense against trademark infringement. Such defense apply where third party referral use of another’s trademark in course of trade. However, it is not limited to such circumstances and that if China’s courts hold that non-commercial use is potentially infringing, then these defendant may also able to argue that nominative fair use would be apply. The provision proposed also adopted three factors test which are developed in the US Third Circuit instead of non-confusion test for determining whether a third party is entitled to a nominative fair use defense. Compared to the Ninth Circuit test, Third Circuit test more comply with the China civil law general principle of burden of proof, which is “who alleged who prove”. Firstly, plaintiff prove defendant such nominative use cause likelihood of confusion and then defendant has the burden to proof that its nominative use of the plaintiff’s trademark is fair under the following three factors 1) Such use whether necessary for the third party 2) Such use whether within a reasonable scope and amount. 3) Such use whether reflects the true and accurate relationship between user and trademark holder.

The first factor require third party only the necessary circumstances use another’s mark. Necessary means for the third party, there is strong need to using the trademark owner’s mark, since it is hard to referring trademark owner’s goods without using the trademark owner’s mark (Dunning, 2006). Regard to the first factor, the Third Circuit court stated: “The use of other’s mark need not be indispensable; rather, the court need be satisfied only that the third party’s identification of the other’s product or service would be rendered significantly more difficult without use of the mark”. Since trademark not only has origin functions but also has a strong representative and indicating role. Especially in the repair service industry and selling spare-part industry inevitably will use a specific trademark to convey compatibility of their goods or services with trademark owner

goods and services. Necessities of use will a strong persuasive basis to make the court believe that the user does not attempt to deprive others' goodwill. So this character is of relevance for the purposes of provision.

The second factor focus on the scope and method used by third party of such uses. Regard to the second factor, Third Circuit rephrase Ninth Circuit second factor, stated that: "Such use must within a reasonable scope and amount." Therefore consideration should be focus on the two aspects, which are method and "quantum" in which the mark is used by third party. For example, trademark owner's mark consistent of the word, logo, and picture. If third party only used word mark to refer trademark owner in own advertisement and did not prominent use that mark rather than own mark, it is proper use in the meaning of second factor. Thus it is an important factor to balance the right between trademark holder and user.

The third factor is crucial factor to rebut the presumption of likelihood of confusion, which is proved by the plaintiff in the first stage. It examines whether exist actual confuse the public as to the relationship between the two. Accusing infringer can apply this factor to prove even there is risk of likelihood of consumer confusion, actual confusion is eliminated by reflect the true and accurate relationship between trademark owner's product and own products or service. It does not cause actual confusion of the consumers because reasonable consumer is already informed by the disclaimer of third party. It should be mentioned that third factor did not require every user must apply such "disclaimer," but it require user must "take reasonable and affirmative measure" to clarify and inform to the consumer own true relationship with the trademark owner (Johnson, 2006). Then such use will be no prejudice on the trademark owner's interest and also does not deceive the public. Thus it is most important factor to determine whether such use is fairness.

## **4.2. Reason for Adopting the Proposal**

The proposed provision not only contains the US elements, but also designs in order to fit the China legislation framework. Most importantly, as a supplement to the existing fair use provision to loosen up the narrow catalogue of exemption in China trademark law.

### **4.2.1. Make Nominative Fair Use an Affirmative Defense**

The provision proposed nominative fair use as affirmative defense to an action for infringement. It means that permitting unauthorized uses of marks even where such uses cause likelihood of confusion. Make it as an affirmative defense has several advantages. Firstly, it would "clarify who has the burden of proof under nominative use defense". Apply to the third circuit approach to the China court, firstly, courts apply likelihood of confusion test to determine whether such use cause likelihood of consumer confusion. Here plaintiff has the burden of proof to likelihood of confusion. If there is exist likelihood of consumer confusion of such use, then move to the next stage. The second stage defendant has burden of

proof of the nominative fair use, namely defendant apply nominative fair use test to prove such use is fair. Secondly, such approach could prevent improper findings of infringement. Since in nominative use third party “use trademark owner’s identical mark,” court always held improper outcome that “all nominative uses cause likelihood of consumer confusing” under the China current non-confusion test where the similarity of mark is only one factor of that test (Johnson, 2006).

#### 4.2.2. Flexibility vs. Legal Certainty

The proposed provision makes reasonable balance between flexibility and certainty. Proposed provisions provide certain types of nominative use and also contain new test for the nominative use, which capable to deal with new problem will arise in the future (Ramsey & Schovsbo, 2013). The current China statutory limitation does not such flexibility. The proposed provision will be added into the current China Trademark Law as a supplement to existing statutory limitation of trademark right. Then it is well established statutory limitation in China trademark. When trade mark laws contain statutory categorical limitations on trade mark rights, it has several benefits. For the public, a specific list of statutory limitation can provide clear rule for third parties who want to use trade mark owner’s mark to convey information to regulate their act (Ramsey & Schovsbo, 2013). They can follow such certain limitation to determine whether such use is allowed by the law before start to use. For the court, certain legal basis for trademark limitation can prevent court to apply improper standard or interpretation beyond the public interests (Ramsey & Schovsbo, 2013). Thus proposed provision provided single and uniform legal basis for the nominative fair use. Court directly applies this provision when address nominative fair use cases.

However, court discretionary is also necessary. Proposed provision does not enumeration all specific circumstances in order to balances flexibility, rather adapt open-ended design with three factor test learned from US fair use approach as standard of nominative fair use. The specific circumstances on the nominative fair use do not limit those, rather court have possibility of a discretionary to interpretation “other circumstances” in light of these three factor test. Current statute always slow to able to contain all types of exception, this approach capable to deal with new problem will arise in the future by the innovation technologies (Ramsey & Schovsbo, 2013).

### 5. Conclusion

This paper introduces and summarizes the methods of American nominative fair use, also analyzes the current legislation situation on the nominative fair use in China, summarizes the dilemma and problem China faces today in nominative fair use field, and then puts forward suitable legislative suggestions for China nominative fair use on the basis of comparative study. As this article has shown, the lack of statutory regulation of nominative fair use constrains the free flow of information. In order to solve the problems of China legislation and set-

tle the disputes in practice, this article proposed a nominative fair use as affirmative defense against trademark infringement added into current China trademark limitation and exception provision and also proposed three factor test learn from the US approach as new standard to determine nominative fair use instead current non-confusion standard. Such design could provide a maintainable balance of legal certainty and flexibility. More importantly, it meets the informative need of consumers in the marketplace and well-balanced interest between right holder's and public.

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## Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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