



Research article

Study on the application of the CISG IPR security regime to “cross-border e-commerce”

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ABSTRACT

Economic globalization promotes trade globalization, and trade globalization prompts countries to pursue trade facilitation and liberalization. Against this background, CISG came into being in 1980. With the advent of a new round of industrial change and technological revolution, cross-border e-commerce relying on Internet technology has become a new growth point of international trade. Based on the prerequisites, limitations and subjective conditions of the CISG IPR security regime, the paper analyzes the feasibility of applying the CISG IPR security regime to cross-border e-commerce, focuses on the OEM issue in the application of the CISG IPR security regime to cross-border e-commerce, and finally proposes the direction of China's reform and coping strategies, with a view to contributing to the development of cross-border e-commerce in China.

Keywords: cross-border e-commerce; CISG; IPR security regime; OEM

1. Introduction

Economic globalization promotes trade globalization, which in turn drives countries to pursue trade facilitation and liberalization. Against this backdrop, the United Nations Convention on Contracts for the International Sale of Goods (CISG), born in 1980, plays a crucial role in reshaping the global economic system. Based on principles of equality and mutual benefit, CISG respects economic and institutional differences among nations, aiming to eliminate trade barriers and legal obstacles, thereby promoting steady international trade development. Among these, the IPR security regime established in Article 42 of the CISG is a typical representation of compromise and accommodation among its contracting parties. With the advent of a new round of industrial and technological revolutions, “cross-border e-commerce” leveraging internet technologies has emerged as a new force in global trade. China, with over 1 billion internet users, is the world’s largest online retail market, and cross-border e-commerce has grown rapidly. According to statistics from the Ministry of Commerce, China’s cross-border e-commerce imports and exports reached 2.38 trillion yuan in 2023, a 15.6% increase. New developments will inevitably face new challenges. The paper focuses on the reciprocal interaction between the CISG IPR security regime and cross-border e-commerce, using the example of OEM manufacturing to explore innovative pathways for protecting IPR in cross-border e-commerce.

2. Conditions for the application of the CISG IPR security regime

According to Article 42 of the CISG, at least three conditions must be met for the application of the CISG IPR security regime: preconditions, limiting conditions, and exemption conditions.

The preconditions require clarification of the scope of “goods”, “industrial property or other intellectual property”, as well as the meaning of “any right or claim of a third party”. First, the goods referred to in Article 42 of the CISG are limited to “tangible goods” and do not include intellectual property itself. Second, the scope of industrial

property or other intellectual property should include or exceed the range of intellectual property rights covered by the World Intellectual Property Organization (WIPO) and the Trade-Related Aspects of Intellectual Property Rights (TRIPs), such as copyrights, trademarks, geographical indications, and industrial designs. Third, regarding the meaning of “any right or claim of a third party”, there are various academic opinions. However, the author believes that unless the third party acts in complete bad faith, any right or claim, whether or not it has a legal basis, should obligate the seller to bear the intellectual property guarantee responsibility once it infringes upon the buyer’s legitimate rights.

The limiting conditions mainly include time limits, geographic limits, and subjective limits. Regarding the time limit, due to the high risk of international goods sales, to balance the interests of both parties, it is appropriate to set the seller’s liability point at the “time of contract conclusion”. This means that if a third party raises any rights or claims after the contract is concluded, the seller is not liable. In terms of geographic limits, the CISG restricts the seller’s liability to the expected resale or use countries, or the buyer’s place of business. “Expected” can be determined through written, oral, or implied actions. Additionally, when the buyer has multiple places of business or no fixed place of business, the closest connection principle should be used to determine the buyer’s place of business or habitual residence. For subjective limits, the CISG limits the seller’s intellectual property security liability to situations where the “seller knew or could not have been unaware”. That is, if the seller did not know or could not have known, the seller is exempt from liability. There is significant debate over the interpretation of “could not have been unaware”. The author believes the seller has an initial duty to investigate the intellectual property status of the goods in the expected resale country, other usage countries, or the buyer’s place of business at the time of contract conclusion, limited to information available through public channels.

Subjective conditions include “the buyer knew or could not have been unaware of such rights or claims at the time of contract conclusion” and “due to the seller having to follow the technical drawings, designs, styles, or other specifications provided by

the buyer”. On the one hand, at the time of contract conclusion, the seller should inform the buyer of any potential intellectual property defects in the sold goods, or the buyer already knows that the purchased goods may have intellectual property defects. If the buyer still agrees to the contract in such cases, it is presumed that the buyer voluntarily assumes the risk of infringement. On the other hand, when the seller produces the goods according to the technical drawings, designs, styles, or other specifications provided by the buyer, the seller is exempt from liability. However, if the buyer’s requirements are general or abstract, and the seller has the freedom to choose alternatives, the seller cannot be exempt from liability.

3. Feasibility of applying the CISG IPR security regime to cross-border e-commerce

Analyzing the feasibility of applying the CISG IPR security regime to cross-border e-commerce requires clarifying the transaction model of cross-border e-commerce. According to international trade practice, cross-border e-commerce refers to a trade model in which transaction entities belonging to different customs territories reach an agreement through a cross-border e-commerce platform, make payment settlements, and complete the transaction by delivering goods through cross-border logistics. This model has characteristics such as cross-border nature, anonymity, intangibility, and immediacy. It includes various modes such as Business to Business (B2B), Business to Customer (B2C), and Customer to Customer (C2C). The paper mainly studies cross-border e-commerce B2B.

Case Assumption: Seller A from Country M sells certain goods on a cross-border e-commerce platform. Buyer B from Country Z purchases the goods at a reasonable market price on the platform. A third party C from Country Z discovers that the goods purchased by Buyer B infringe upon their intellectual property rights and thus chooses to claim intellectual property infringement liability against Buyer B. In this scenario, does Buyer B have the right to request Seller A from Country M to assume

intellectual property security responsibility under the CISG, and does the cross-border e-commerce platform need to assume corresponding responsibilities?

Firstly, according to Article 1 of the CISG, if both Country M and Country Z are contracting states of the CISG, then Article 42 of the CISG naturally applies. If either or both countries are not contracting states of the CISG, Article 42 can still apply if both parties agree to choose the CISG. Secondly, due to the anonymity and immediacy characteristics of cross-border e-commerce, sellers on cross-border e-commerce platforms cannot and have no reason to know the true purpose of the buyer's purchase. In the absence of the exceptions outlined in Article 2 of the CISG, Article 42 can apply. Thirdly, sales contracts concluded through cross-border e-commerce between buyers and sellers from different customs territories inherently include intellectual property security clauses. According to either national law or the CISG, the goods delivered by the seller must not be subject to any third-party intellectual property claims. Finally, whether a cross-border e-commerce platform needs to bear corresponding responsibilities depends on its fault. The platform has a legal obligation to promptly take necessary measures to inspect for infringing goods. If the platform fails to take timely or any necessary measures, it must bear corresponding responsibilities when a third party claims infringement against the buyer and the buyer claims an intellectual property security from the seller. However, in practice, if the seller sells infringing goods in an apparently legal manner and the platform has fulfilled its basic inspection duties without discovering the infringement, the platform does not bear corresponding responsibilities. Additionally, if the buyer knowingly purchases infringing goods, the buyer has no right to claim an intellectual property guarantee from the seller, and in such cases, the platform also does not bear corresponding responsibilities.

4. OEM Issue

The above discussion on the applicability conditions of the CISG intellectual property security system, through case assumption analysis, suggests the possibility of

applying the CISG intellectual property security system to cross-border e-commerce. Given that cross-border e-commerce has new models, new entities, and new characteristics different from traditional international trade modes, and that China remains the world's largest OEM production country, it is necessary to rethink the issues related to OEM in cross-border e-commerce, analyze new systems, summarize new experiences, and address new challenges.

OEM (Original Equipment Manufacturing) refers to a business model where a foreign client commissions a domestic manufacturer to produce goods and attach the client's trademark. The domestic manufacturer delivers the goods to the client on the agreed delivery date, while the client determines the final destination of the goods and pays the processing fee. This model has been widely criticized for its numerous infringement risks. For example, the domestic manufacturer may have identical or similar trademarks to the client's designated trademark, or the category of goods approved for the trademark registration by the domestic trademark owner may be the same or similar to the goods processed by the manufacturer with the client's trademark.

Case Assumption: A client in Country M commissions a manufacturer in Country Z to produce goods bearing the X trademark. In Country Z, there exists a trademark holder with an identical or similar trademark to X, who then claims intellectual property infringement against the manufacturer in Country Z. After the goods bearing the X trademark are delivered to the client in Country M, the client or other authorized distributors sell the goods to a buyer in Country C through a cross-border e-commerce platform. In Country C, there also exists a trademark holder with an identical or similar trademark to X, who then claims intellectual property infringement against the buyer in Country C.

On the one hand, if the client in Country M has not obtained exclusive rights or usage rights to the trademark in Country M, the so-called "OEM" itself constitutes infringement. Since the manufacturer in Country Z has no legal basis for the production, both the manufacturer and the client in Country M are jointly liable for

infringement. If the client in Country M has exclusive rights or usage rights to the trademark, and the X trademark is well-known in Country M but not in Country Z, other entities in Country M that register the X trademark in Country Z legally can claim infringement against the client in Country M. However, if the X trademark is also well-known in Country Z, other entities in Country M may be deemed to have maliciously registered the trademark and thus lose their right to claim. On the other hand, once the manufacturer in Country Z delivers the goods bearing the X trademark to the client in Country M, the risk transfers to the client in Country M. When the client in Country M or other authorized distributors sell the goods bearing the X trademark to a buyer in Country C through a cross-border e-commerce platform, and if other trademark holders in Country C claim infringement against the buyer in Country C for the X trademark, the client in Country M or other authorized distributors have the obligation to deliver goods without intellectual property defects to the buyer in Country C. Therefore, the buyer in Country C has the right to require the client in Country M or other authorized distributors to assume intellectual property security responsibility.

Additionally, two situations require special attention: First, if other foreign authorized distributors sell goods bearing the X trademark to a buyer in Country Z through a cross-border e-commerce platform, and another trademark holder in Country Z claims infringement against that buyer, there is no claim if the trademark holder has maliciously registered the trademark. However, if the trademark holder is a legitimate rights holder, they can require the buyer to assume infringement liability. The buyer can then invoke CISG Article 42 to require the foreign authorized distributor to assume intellectual property guarantee responsibility. Second, if the manufacturer in Country Z, after completing the production of goods bearing the X trademark, produces additional goods with the X trademark without authorization and sells them abroad through a cross-border e-commerce platform, this constitutes direct infringement and the manufacturer must assume infringement liability.

5. China's Reform Direction and Response Strategy

Strengthen coordination among all parties to create a cohesive protection effort.

Government departments should fulfill their responsibilities by gradually raising the entry threshold for the cross-border e-commerce market, identifying and screening businesses with infringement records from the outset, and enhancing the supervision of cross-border e-commerce platforms and their merchants. Establish a risk control system that includes stringent preemptive measures, comprehensive monitoring during transactions, and effective post-incident handling. Increase the cost of violations, strengthen international cooperation in intellectual property protection within the cross-border e-commerce sector, and actively learn from the beneficial experiences of other countries. Cross-border e-commerce platforms should improve technology to enhance the fight against intellectual property infringement, establish a goods traceability system to track the flow of goods in real-time, promptly identify infringing parties, and strengthen platform supervision. Implement multi-criteria assessments for merchants on the platform, establish rules including those for intellectual property protection, and rigorously handle violations by merchants. Merchants on cross-border e-commerce platforms should enhance self-management, increase awareness of regulations, avoid infringing on others' legal rights, and focus on building their own brand and product quality. For example, in OEM processes, domestic processing enterprises must reasonably verify whether foreign clients have legitimate trademark rights or usage rights in their own country. While avoiding infringement of others' intellectual property, merchants should also protect their own intellectual property and actively safeguard their legal interests. Cross-border e-commerce buyers should enhance their knowledge of intellectual property, understand the societal and global trade harm caused by infringing on third-party intellectual property rights, and proactively increase their awareness of intellectual property protection.

Promote the establishment of internal online dispute resolution mechanisms for cross-border e-commerce platforms. Firstly, these platforms should formulate unified regulations for internal online dispute resolution. Upon their initial entry into the

platform, merchants and buyers should explicitly agree on clauses granting the platform management rights within the service rules of the cross-border e-commerce platform. Secondly, the platforms should establish mechanisms for online complaints and reports. For instance, intellectual property rights holders or buyers encountering infringement issues can directly use the complaint and report channels of the cross-border e-commerce platform to report the infringing behavior of resident merchants and provide corresponding evidence. Furthermore, the platforms should establish mechanisms for evidence collection and preservation. In case of disputes, the platforms can activate evidence collection mechanisms to proactively gather evidence and ensure its objectivity and legality. Additionally, they can set up legal consultation mechanisms where stakeholders can seek advice on relevant legal issues directly within the cross-border e-commerce platform. Finally, the platforms should establish mechanisms to interface with online mediation, arbitration, and litigation platforms. If disputes cannot be resolved through internal online dispute resolution mechanisms, the platforms can establish interfaces with online mediation, arbitration, and litigation platforms. In cases where disputes remain unresolved, the platforms should provide fixed and extractable functions for materials such as evidence and dispute focuses during the dispute resolution process, and based on this, they should categorize and provide links to online mediation, arbitration, and litigation platforms.

Accelerate the establishment of a unified and efficient online dispute resolution platform. Firstly, establish a set of rules that adhere to procedural justice. Whether it's online mediation, arbitration, or litigation, adherence to principles of procedural justice should ensure maximum fairness in procedures. Secondly, clarify the jurisdiction of online dispute resolution platforms. These platforms should fully respect the autonomy of all parties involved, allowing them to mutually agree on the jurisdiction of the online dispute resolution platform. The platform should not refuse jurisdiction without legitimate reasons. Thirdly, clarify the legal applicability of online dispute resolution platforms. On the one hand, respect the autonomy of all parties involved by allowing them to choose the international conventions, practices,

and domestic laws they wish to apply. On the other hand, enhance China's legal system to strengthen the supply of laws for resolving cross-border e-commerce disputes online. Fourthly, utilize technology to address evidence challenges. Due to parties being in different countries, collecting and utilizing evidence presents many challenges. Therefore, countries can introduce emerging information technologies such as blockchain, smart contracts, and cloud platforms in the development of online dispute resolution mechanisms to address evidence challenges. Fifthly, establish an efficient cross-border enforcement model. Countries should enhance mutual assistance in enforcement and establish a cross-border enforcement model that prioritizes voluntary compliance, supplemented by compulsory enforcement, with judicial enforcement serving as the final safeguard.

Improve legislation for comprehensive protection. On the one hand, China's Civil Code only stipulates the seller's obligation to guarantee against defects in rights, but does not specifically address the seller's liability for defects in intellectual property rights. Drawing on CISG Article 42, appropriate amendments to the Civil Code could introduce Article 613 (and subsequent articles) to specify the sellers liability for defects in intellectual property rights under the seller's warranty system. CISG Article 42 imposes geographical limitations on the seller's warranty for intellectual property rights, whereas the Civil Code's general warranty against defects does not have such limitations, which could potentially expand the seller's liability for intellectual property rights indefinitely, contravening principles of good faith and fairness. Furthermore, the Civil Code could adopt CISG Article 42's provisions on two grounds for seller's exemption: where the buyer knew or could not have been unaware of the intellectual property defect, or where the infringement was at the buyer's instruction, thereby balancing the interests of both parties. On the other hand, it is recommended to add a second clause after Article 17 of the Electronic Commerce Law: "Cross-border e-commerce operators shall ensure that the goods they sell do not infringe upon the intellectual property rights of others. Otherwise, they shall be liable for defects in intellectual property rights in accordance with Article 612 of the Civil

Code (or Article 613 as suggested above)". Amend Article 45 of the Electronic Commerce Law to state: "E-commerce platform operators who know or should know that operators on their platforms are infringing intellectual property rights shall take necessary measures such as deletion, blocking, disconnection, termination of transactions, and services; failure to take necessary measures shall result not only in joint liability for direct infringement but also in joint liability when operators on the platform assume liability for intellectual property guarantees". This aligns with Article 17 of the Electronic Commerce Law and Article 612 of the Civil Code (or Article 613 as suggested above).

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