

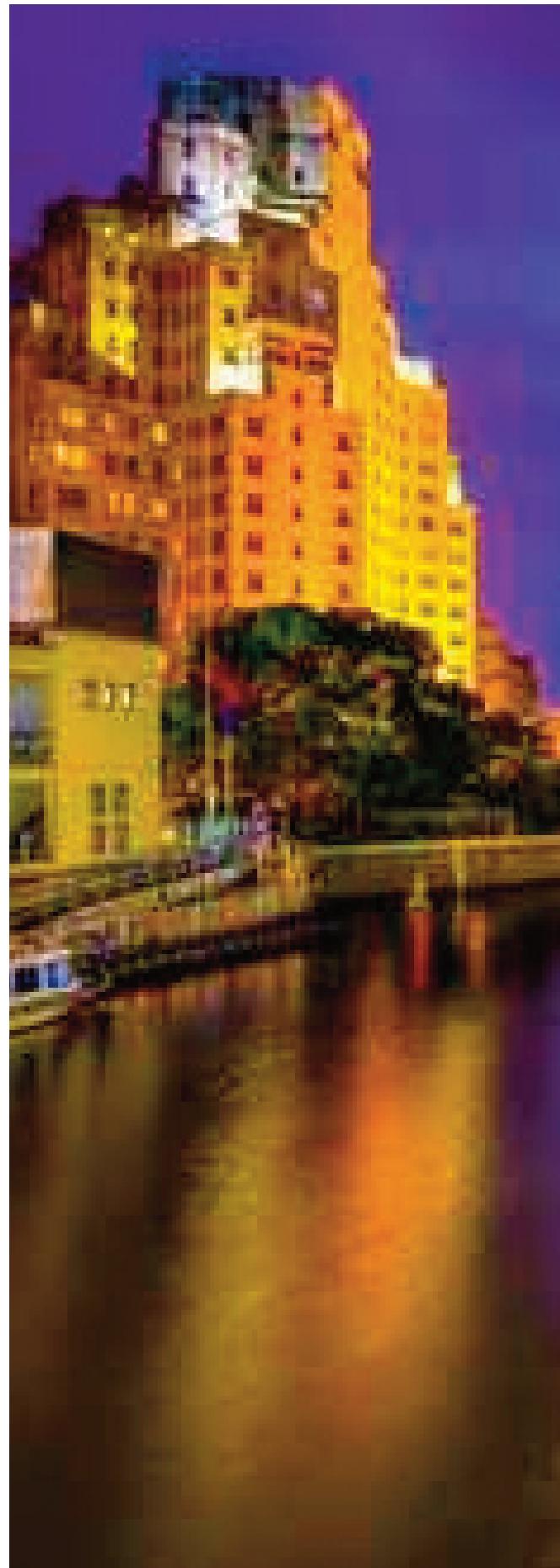
Is OEM use trade mark infringement?

In the light of the third revision of China's Trademark Law, **Hui Huang** and **Paul Ranjard** of **Wan Hui Da** look at the issues surrounding infringement by original equipment manufacturing

Original equipment manufacture (OEM) has several meanings. Technically, it designates a company that makes a part, or a sub-system, that is used in another company's end product. By extension, it also designates a company that makes end products that bear the brand of another company and are marketed by the other company. In China, the term OEM is generally used in an export context, where the production is shipped out of China to a foreign purchaser.

The OEM practice has revealed some problems, as this article will show, when the foreign brand is not registered in China by its foreign owner. What if another person filed an application to register this trade mark, or has registered this trade mark? Could they oppose such application? Would they be considered as infringers and be sued by the owner of the registered trade mark?

China has revised its Trade Mark Law for the third time, in 2015. Both the definitions of trade mark use and trade mark infringement have been updated, which influences the answer to the above questions. Before the law was revised, Chi-



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nese courts had already handled several cases where these questions were raised. And their answers were not always the same.

Evolution of case law

Chinese Courts in different regions and in different periods have demonstrated differing understandings of the issue.

In the first years of the century, decisions were strictly implementing the general principle of trade mark protection: that the use of a trade mark without the consent of the owner is an act of infringement. And, whether such use is for the manufacture of goods that are to be sold in China or exported (in the context of OEM) makes no difference. For example, in *NIKE v Spanish Side* (2001 Shenzhen Intermediate Court Civil Judgment 55) and in *Guangzhou Hong Xin v Guangzhou Customs* (2005 Guangzhou Intermediate Court Administrative Judgment 10 and 2006 Guangdong High Court Administrative Judgment 22), the Guangdong High Court declared that using a trade mark registered by another person, even when the products are exported (such as in an

OEM context), is infringement. Jiang Zhipei, former head of the Supreme People's Court (SPC) IP Tribunal, expressed his opinion that 'the legality of OEM use of mark cannot be supported without reason; Chinese judicial authority cannot make exceptions without legal basis' (Legal Risk of OEM, *China Trade Mark Magazine* Issue 12 2008)

This opinion was not shared by all the courts. In fact, the Beijing High Court issued an Answer to Several Issues Concerning Trial on Trade Mark Civil Disputes on February 18 2004, which stipulates in its article 13 that 'OEM is based on the entrustment of the trade mark owner. The products made by OEM are not to be distributed in China



Hui Huang

Hui Huang has been a senior partner of Wan Hui Da since 2002, and is the first doctor in trade mark law in China. Before practising in the private sector, he served for 12 years at China's State Administration for Industry and Commerce, where he gained a profound understanding of the lifecycle of trade mark proceedings both in theory and in practice. He is now an active attorney representing clients before various courts in China in a wide variety of IP litigation, some of which have become landmark decisions in the industry.

In 2012, Huang entered the first list of the *National Intellectual Property Leading Individuals* released by SIPO. In 2013, he was elected chair of INTA's TOPC China Trademark Office sub-committee for the 2014/15 term. He has also been listed as an Outstanding Individual by *World Trademark Review* since 2011 and a Recommended IP Lawyer by *The Asia Pacific Legal 500* in 2015.

so as not to cause confusion and misunderstanding among consumers, thus shall not be found infringing.

Chinese courts gradually changed their attitude. On November 2 2009, the Shanghai Number 1 Intermediate Court and Shanghai High Court held, in *Jolida v Shanghai Shenda* (2008 Shanghai Intermediate Court Judgment 317 and 2009 Shanghai High Court Judgment 65) that because the OEM products are exclusively exported to the US market without distribution in the Chinese market, Chinese consumers will not be confused with regard to the origins of the goods. Therefore, the judges considered that, since the primary function of the mark is to indicate the origin of the goods in order to avoid confusion, if the goods are not marketed in China, the mark does not fulfill such primary function in China. In other words, where there is no confusion in China, there is no infringement. This reasoning has been followed by Guangdong and Shandong High Courts. However, there are still some dissenting opinions in other courts, for example in Zhejiang Province.

More recently, on February 19 2013, the Zhejiang High Court in *Focker Security Products International v Pujiang Yahuan Lock Co* (2012 Zhejiang High Court Judgment 285, the Pretul case), held that:

Firstly, Article 52.1 (of the Trade Mark Law) provides the requirement to constitute a trade mark infringement. As long as the acts meet the requirement, the trade mark infringement shall be found. According to current laws, regulations and judicial interpretations, we see no exception that relates to the current case; Secondly, although Yahuan (the Defendant) argues that the accused goods are solely for exportation to Mexico without domestic distribution in China which will not cause confusion and misunderstanding among Chinese consumers as well as cause no harm to trade mark rights of the plaintiff...this argument is not tenable. The defendant's acts infringed upon the trade mark right of plaintiff.

This case is under re-trial by the SPC and has attracted huge attention. It is expected that the SPC will clarify the terms of the debate.

Chinese Courts in different regions and in different periods have demonstrated differing understandings of the issue

In a different use of article 52, the SPC delivered an opinion concerning the effect of OEM. On June 29 2012, the SPC in *Ryohinkeikaku Co v TRAB* (2012 Xing Ti Zi case 2, known as the the Muji case) rejected the plaintiff's plea to recover its mark by adducing evidence of use of its mark in the context of OEM production. The SPC held that evidence of such OEM use is not sufficient to show that a mark has been used and achieved a certain amount of influence in China as stipulated in article 31 (now article 52) of the PRC Trade Mark Law.

The 2015 Trade Mark Law: a new legal framework

The revised law introduces: (a) a more precise definition of the act of infringement; and, (b) a more precise definition of what constitutes trade mark use.

Trade mark infringement

According to article 16 of TRIPs, likelihood of confusion is a requirement of infringement. This general principle was already implemented in article 52(1) of the Trade Mark Law, which defines what is an act of infringement: to use an identical or similar trade mark on identical or similar goods, without authorisation. There was no reference to the likelihood of confusion. When China acceded to the World Trade Organisation in 2001, the law was revised but article 52(1) remained unchanged.

In its 2013 revision, article 52 was modified (and re-numbered 57). It is now split in two parts: 57 (1) which concerns the use of an identical trade mark on identical products, and 57 (2) which concerns the use of a similar trade mark on identical products, or the use of an identical trade mark on similar products, or the use of a similar trade mark on similar products. In this second part, the requirement 'where such use is likely to cause confusion' is added.

It can be inferred from this change that the requirement of likelihood of confusion only applies when similarity is involved. When trade marks and goods are identical (double identity), the infringement is necessarily established.

Meanwhile, the Trade Mark Law adds the new 57 (6) which qualifies as infringement the act of providing convenience to the infringement when it is committed knowingly.



Paul Ranjard

Paul Ranjard is a French lawyer, and has been based in China since 1997. He has been representing the French association *Union des Fabricants* (Unifab) in its protection of intellectual property, and since the creation of the European Chamber of Commerce, he has co-chaired the IP Working Group. In this capacity, he has been involved in the drafting of all the EUCCC IP position papers and all the comments submitted by the Chamber concerning drafts of IP legislation. In addition, Paul is of counsel to Wan Hui Da Law Firm & Intellectual Property Agency.

Definition of trade mark use

In order to emphasise the function of trade mark, article 48 of the revised Trade Mark Law incorporates into law article 3 of the Implementing Regulations, which stipulates that the use of trade marks consists in 'affixing trade mark on goods, packages or containers etc...' and adds the following words '...to distinguish the origin of the commodities'.

The questions raised by the OEM system need to be examined in this new legal framework which now has a revised definition of infringement and a revised definition of trade mark use.

Can OEM be an infringement without likelihood of confusion?

The courts who rule against the qualification of infringement believe that if the goods bearing a trade mark are not put into the marketplace, the trade mark will not be seen by consumers, and since the consumers do not see the goods and the trade mark, no confusion is possible, hence no infringement.

This reasoning seems logical, but only on the surface. It overlooks the fact that when trade marks are identical and

used on the same goods, the likelihood of confusion is not a requirement. Under the new legal framework created by the revised Trade Mark Law, the answer to the question is clear: using an identical trade mark on identical goods without authorisation from the trade mark owner is an act of infringement regardless of whether the goods are sold in China or exported.

Does OEM constitute trade mark use?

The courts who consider that OEM cannot be an infringement, put forward another argument: since the goods are not sold in China, they have not entered the course of trade. Therefore, the trade mark does not fulfill its function of identifying the origins of goods required in the new article 48 of the Trade Mark Law, hence no actual use of the trade mark.

This is very much arguable. The courts apparently confuse the general concept of trade with the more precise notion of circulation of goods. Trade has a much broader meaning than circulation. In the course of trade includes not only circulation but also other acts related to commercial transactions such as preparation, storage, transportation,

Where there is no confusion in China, there is no infringement

and even manufacture of goods as long as they are related to business and transaction.

There is no doubt, therefore, that the act of affixing a trade mark on goods (in China) is an act of use of such trade mark, regardless of where the goods are to be traded.

However, the abovementioned Muji case where the SPC ruled that OEM cannot be considered as use in the context of article 32 of the Trade Mark Law, seems to bring an element of doubt to the minds of some commentators. They consider that the SPC has definitely ruled that OEM (export) is not equivalent to use of the trade mark in China, and therefore, cannot be an infringement. This is obviously wrong: in the Muji case, the real problem was not whether the plaintiff has used the trade mark in China, but whether they had acquired through such use, a 'certain influence' in China. If all the goods are exported, the trade mark cannot acquire any reputation in China, even if the mark is applied to the goods in China. The decision in the Muji case does not mean that the SPC has fixed its position on the infringement committed by the exportation of counterfeiting goods.

How about exempt the innocent manufacturer but determinate OEM as infringement?

On February 13 2006, the Beijing High Court published an opinion stipulating that:

A person (the trustee) who is entrusted by another person (the entrustor) to manufacture products bearing a registered mark shall verify whether the entrustor enjoys the right to use the trade mark. The trustee who fails to perform such verification and commits an act of infringement, will bear the joint liability with the trustee.

In 2009, the SPC added that: (Courts) should properly handle the trade mark infringement disputes concerning OEM. With regard to the cases where the infringement is established, the Court should properly decide legal liabilities by taking into consideration whether the trustee has performed its obligation of verification.

Interestingly, the European Court of Justice has resolved the famous Red Bull case (C-119/10) in a very similar way. The defendant was a service provider who filled the packaging supplied to it by another person who, in advance, had affixed the Red Bull sign protected as a trade mark. In this case, the ECJ considered that the service provider did not itself make use of the sign and was not an infringer. However, the third party who placed the order was found to be infringing the trade mark.

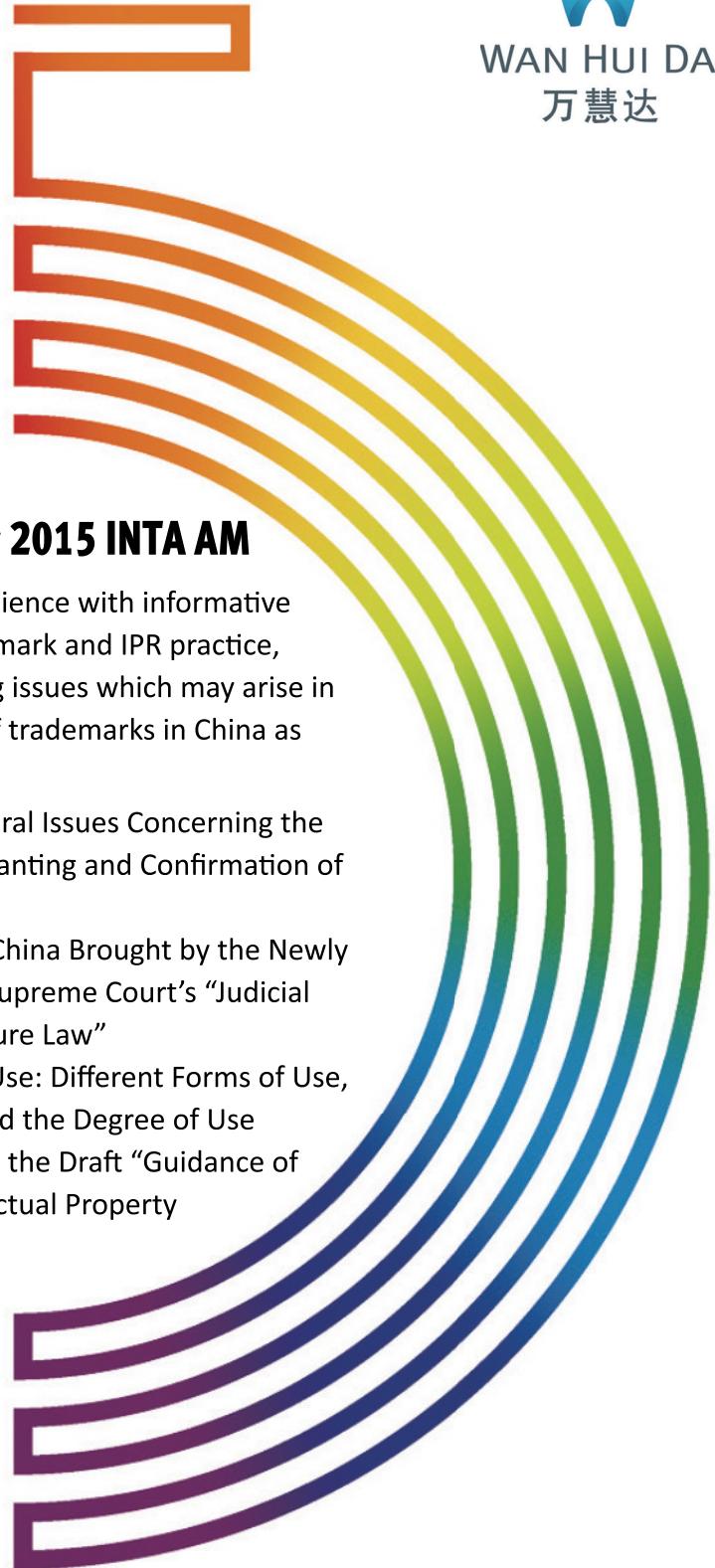
In the new legal frame (article 57.6), the manufacturer's role is more similar to a facilitator, who, if found innocent (not acting knowingly), should not be liable for the infringement. But the goods should still be seized by Customs.

We hope that the abovementioned Pretul case under SPC review will clarify the debate, once and for all. If the SPC confirms the latest decisions, and rules that export OEM can be an infringement, this will be good news for the rights owners who wish to stop the export of infringing products from China.



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WAN HUI DA Seminar on **May 3rd** during 2015 INTA AM

WAN HUI DA Seminar is expected to present its audience with informative and up-to-date legislative updates on China's trademark and IPR practice, together with hands-on tips and guidance regarding issues which may arise in the context of prosecution, use and enforcement of trademarks in China as described by the subjects as follows:

- China Supreme Court's Draft "Provisions on Several Issues Concerning the Hearing of Administrative Cases Involving the Granting and Confirmation of Trademark Rights"
- New Changes to the IPR Litigation Procedure in China Brought by the Newly Amended "Administrative Procedure Law" and Supreme Court's "Judicial Interpretation on the Application of Civil Procedure Law"
- Analysis on Some Debated Issues in Trademark Use: Different Forms of Use, Use on Different Goods/Services, Use in OEM and the Degree of Use
- Internet Trademark Infringement: Lights Shed by the Draft "Guidance of Beijing High Court on the Trial of Internet Intellectual Property Disputes"

8:30am~11:00am, Sunday May 3, 2015

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