



Chinese IP Services

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SPC Newly Rules OEM TM infringement

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As a controversial issue in China, the nature of trademark use in Original Equipment Manufacture (OEM) attracts much attention at home and abroad. The Supreme People's Court (SPC) of China determined in two earlier cases that the trademark use in OEM did not constitute trademark infringement and the rulings imposed heavy influence on the following cases. However, in a recent retrial ruling on the HONDAKIT trademark case on September 23, 2019, the SPC ruled that such use constituted infringement, which immediately made the issue hotter.

We hope to compare the SPC's three retrial precedents and find out the reasons or elements that caused the different results.

Case 1: Trademark PRETUL, #(2014) Min Ti Zi No. 38 on November 26, 2015

Truper Herramientas S. A. DE C.V. ("Truper"), the owner of the **Mexican** trademarks PRETUL and PRETUL & Device in international classes 6 and 8, entrusted a Chinese company Pujiang Yahuan Locks Co., Ltd. ("Pujiang Yahuan") with the manufacture of locks branded with PRETUL and PRETUL & Device, all of which were exported to Mexico directly without any local sales in China.

Focker Security Products International Limited ("Focker"), the owner of the registered **Chinese** mark PRETUL & Device, #3071808 in international class 6, sued Pujiang Yahuan for trademark infringement.

The SPC ruled that Pujiang Yahuan's production of OEM does not constitute trademark infringement mainly for the following two reasons.

1. Since all the manufactured goods branded with PRETUL and PRETUL & Device will be exported to Mexico, **they will not be sold in the Chinese**

market. Thus, the sign could not function to distinguish the source of the goods in China. There is no possibility that the relevant Chinese public will be confused about the goods to which the sign was attached with the goods produced by Focker. Pujiang Yahuan's physical attachment inside China, a necessary technical condition for Truper to use the mark in Mexico where Truper enjoys trademark exclusive right, should not be regarded as trademark use in the sense of the Chinese Trademark Law.

2. Whether the distinguishing function of trademark has been damaged is the foundation to determine whether the trademark right has been infringed. Where the trademarks cannot function to distinguish the source of the goods, it does not make sense to judge the trademark infringement.

Case 2: Trademarks DONG FENG & Chinese characters & Device, #(2016) Zui Gao Fa Min Zai No. 339 on December 28, 2017

PTADIPERKASABUANA ("PTADI"), the owner of the **Indonesian** trademark DONG FENG & Chinese characters. PTADI entrusted Chang Jia Company, a Chinese company, with the manufacture of diesel engine branded with DONG FENG & Chinese characters, all of which were exported to Indonesia directly without any local sales in China.

Shanghai Diesel Oil Co., Ltd. ("Shanghai Diesel Oil"), the owner of the registered Chinese marks #100579 and #624089 in international class 7, sued Chang Jia Company for trademark infringement.

The SPC ruled that Chang Jia Company's production of OEM does not constitute trademark infringement mainly for the following three reasons.

1. The essential nature of trademark is indicating the source of goods or services. If a trademark is not used for indicating the source, the relevant actions shall not be regarded as infringement in the sense of the Chinese Trademark Law. Chang Jia Company's manufacture and exportation did not affect the indicating function of Shanghai Diesel Oil's registered marks in the Chinese market.
2. Chang Jia Company performed the obligation of due diligence through prior check of the status of the entrusted Indonesian mark before reaching an agreement with PTADI.
3. As PTADI obtained the exclusive trademark right to DONGFENG & Chinese characters in Indonesia, it is impossible for Shanghai Diesel Oil

to lawfully export its products to Indonesia. Chang Jia Company's engagement in OEM manufacture will not cause substantial negative influences on Shanghai Diesel Oil's chances and profits in the Chinese market.

Case 3: Trademark HONDAKIT, #(2019) Zui Gao Fa Min Zai No. 138 on September 23, 2019

A Myanmar citizen Wu De Meng Ang, the managing director of a Myanmar company MEIHUA, the owner of the trademark HONDAKIT in **Myanmar**, entrusted a Chinese company Chongqing Hengsheng Group Co., Ltd. ("Hengsheng Group") with the manufacture of motorbike parts branded with HONDAKIT, all of which were exported to Myanmar directly without any local sales in China.

HONDA Motor Co., Ltd., the owner of the registered Chinese marks HONDA and HONDA & Devices, #314940, #1198975, #503699 in international class 12, was notified by a local Customs in Yunnan of detainment of the exporting motorbike parts of Hengsheng Group and its subsidiary Chongqing Hengsheng Xintai Trading Co., Ltd. Honda sued Hengsheng Group and its subsidiary for trademark infringement.

Different from the above precedents, the SPC ruled that Hengsheng Group and its subsidiary's production and exportation have constituted trademark infringement and reasoned mainly as follows:

As objective acts, trademark use usually contains many links, such as physical attachment, market circulation, etc. When we judge whether the accused behavior constitutes trademark use, a consistent explanation should be made in a comprehensive way. Thus, if we use the sign by labeling it on the manufactured or processed products or in other ways, **so long as the possibility of indicating the source of goods exists, it should be regarded as trademark use.**

The relevant public does not only include the consumers relating to the goods or services to which the mark is attached, but also includes other operators who have close association with the said goods or services. In this case, the operators in transportation link, etc. have the possibility of accessing the accused goods. **With the development of electronic business and internet, even if the accused goods have been exported abroad, they might also flow back to China. In addition, more and more Chinese consumers travel to other countries for consumption, which also results in the possibility of accessing the confusing OEM products.**

The essence of trademark infringement lies in damaging the basic function of the trademark, namely indicating and distinguishing the source of goods, and confusing or misleading the relevant public. The liability principle in trademark infringement should follow the doctrine of no-fault liability and the actual damage is not the constituent element of trademark infringement.

In this case, when using the mark “HONDAKIT & Device”, the respondents zoomed in the part “HONDA” and zoomed out the part “kit”. In addition, they used the letter H and wing device in red, which has constituted similarity to Honda’s marks on identical or similar goods.

Although the development of economy gives rise to more complicated disputes, in the application of law, consistency should be maintained well. It is inappropriate to simply regard some types of trade as the exception to trademark infringement.

A. Brief comparison

In the PRETUL case, although the lower Courts in the first and the second instances adjudicated that the producer’s behavior has partially or fully constituted trademark infringement, the SPC mainly focused on analyzing whether attaching the mark to the goods should be regarded as trademark use and stressing that the trademark use is the premise of trademark infringement. Under OEM pattern, since the mark does not function to indicate the source of goods in the Chinese market, it should not be regarded as trademark use and the accusation of trademark infringement was not sustained.

In the DONG FENG & Device case, the Court in the first instance ruled that the producer’s behavior did not constitute trademark infringement, mainly based on the SPC’s same reasons in the PRETUL case. The Court in the second instance pointed out that the premise for non-infringement in OEM is that the producer has paid necessary attention or due diligence in advance. Considering that the two parties fought for the mark DONG FENG & Chinese characters in Indonesia for many years and the marks concerned enjoy quite high reputation in China, the second-instance Court adjudicated that the producer should have prior knowledge of the entrusted mark but it failed to pay necessary attention or due diligence. However, the SPC finally adjudicated that the producer had already paid necessary attention or due diligence and its behavior should not bring substantial negative influence on Shanghai Diesel Oil. Therefore, the OEM behavior did not constitute trademark infringement.

In the HONDA case, the SPC had some new points of view as follows:

1. If using the sign by labeling it on the manufactured or processed products or in other ways, so long as the possibility of indicating the source of goods exists, it should be regarded as the trademark use;
2. Even if the accused infringing goods have been exported abroad, the relevant consumers could also have access to them due to the development of internet and the change of lifestyle, which means the possibility of confusion exists; and
3. The actual damage is not the constituent element of trademark infringement. That is, the possibility can also constitute infringement.

In addition, compared with the traditional interpretation, the definition of the relevant public is expanded to some extent to cover any Chinese operators or consumers possible to access the mark online or offline and at home or abroad.

B. Further thoughts

1. In an OEM agreement, the relevant parties usually state that all the manufactured goods will be exported abroad without any local sales in China. If the producer breaches this obligation by circulating the products partly in the Chinese market, the producer shall be liable for the breach and the trademark owner in China might also suffer losses due to the producer's breach. To enforce its right, the trademark owner in China is entitled to separately initiate civil lawsuit based on trademark infringement.
2. With the development of technology and economy, the association of different countries becomes increasingly close and strong. Undoubtedly, the Chinese tourists and consumers might indeed have access to the goods made in China but exported outside of China, which might challenge the principle of territoriality in intellectual property in this time of globalization. Just like in the cross-border electronic platforms, many legal controversies arise as the internet has made territorial limitation useless or very weak.
3. Regarding the producer's obligation on paying necessary attention or due diligence, the legal concept and requirements are not explicitly provided in a consistent manner. If high reputation and bad-faith piracy are involved, more attention or due diligence might have to be paid.
4. From the SPC's above three verdicts, we can see that there is no definite conclusion on whether OEM constitutes trademark infringement. Just as mentioned by the SPC in the HONDAKIT case, it is incorrect to simply

regard the trading pattern OEM as the exception to trademark infringement.

As China is not a case law country, the HONDAKIT case ruled by the SPC is not binding on other future cases to be tried by the SPC or other lower courts. Instead, consideration should be given to such elements as the producer's obligation, the legitimacy of the disputed mark, the actual use form, the possibility of access to the alleged infringing goods for the Chinese consumers, the possible or actual damage, etc., to determine the trademark infringement.

5. As China adopts statute law, when and if new phenomenon arises, we might have to interpret or understand the law in accordance with the new characteristics of the current age.