

Tips on Trademark Use in OEM in China

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As China grows into a factory to the world particularly during the covid-19 pandemic, an increasing number of international companies entrust their production to local Chinese companies, for sales outside China in the manner of Original Equipment Manufacturing (OEM).

The trademark issues in OEM production have long been controversial in China. In this article, I would like to update the issues in 2020 and provide some tips, which I hope can be helpful for the international companies.

1. Whether OEM constitutes trademark infringement or not?

From precedents, we consider that the defendant's potential bad faith weighs a lot when the Courts decide whether the use constitutes infringement. The Courts would probably find bad faith trace from the following aspects:

- ◆ Whether the defendant had fulfilled the duty of proper care on the plaintiff' existing identical/similar mark(s);
- ◆ Whether the defendant owns registered trademark rights in the destination country or region; and
- ◆ Whether confusion and misidentification would be caused due to the defendant's OEM activities.¹

Accordingly, we should always stay alert. Before OEM activities, I strongly recommend assessing the risk or conducting trademark availability searches.

- ◆ If the search reveals some prior identical/highly similar mark(s), hire IP counsel to assess the potential risks, including but not limited to the potential trademark infringement, penalty and damage, etc.
- ◆ If the search reveals no obstruction, file trademark application(s) immediately. Upon registration, record the registration certificate(s) before the Customs. The Customs will be able to protect the companies' own export and import and prevent unauthorized other parties at the border.

2. Whether OEM use can contest non-use cancellation?

¹ Civil Lawsuit Ruling # (2016) Zhe Ming Shen No. 3607 – Zhejiang High People's Court

In mainland China, once a trademark is registered for more than three consecutive years, any party is entitled to initiate a three-consecutive-year non-use cancellation. If no valid commercial use evidence or no justifiable reasons can be submitted, the trademark shall be cancelled. Therefore, it becomes vital whether the use in OEM constitutes valid commercial use to contest the cancellation.

In 2019, the Beijing High People's Court issued the Guidelines for Trial of Trademark Right Granting and Verification Cases, which explicitly provides "Where the used goods of the disputed trademark are not circulated in China, but are directly exported, the registrant's claim to maintain registration of the disputed mark on the used goods could be supported."

3. Tips

Given the above, I would like to provide the following tips:

◆ Docket use evidence

It is always advisable to keep all the relevant use evidence in OEM activities, including the relevant agreements, invoices, customs declaration forms, etc. More importantly, it is better to have all the materials dated and marked with the used trademark(s).

If the right owner is not confident of their docketed use materials, it would be safer to re-file the applications every 2 or 2.5 years. The reason is that it currently takes the CNIPA around six (6) months on average to examine a new application substantially. This can provide the companies with stable registrations that are not vulnerable to the non-use cancellation.

◆ File non-use cancellation "anonymously"

During the course of the trademark registration, it is sometimes advisable to file non-use cancellation to clear obstruction. However, if the cancellation is filed directly by the obstructed companies, the challenged registrant might fight back. To avoid the backfire and avoid other revenge, it is advisable to file the cancellation "anonymously" by hiring an unrelated third party.

With the above in mind, you might be confused by the contradiction between the authorities' different attitudes towards trademark infringement and use. In general, whether the use constitutes trademark use is the basic factor in deciding trademark infringement. Then, why OEM infringement shall be decided case by case, but OEM use could be firmly regarded as valid use to contest non-use cancellation?

From some effective decisions/rulings, I find the Chinese authorities' pertinent responses. Their general opinion is that the Trademark Law is originally made to guide and encourage the trademark owners to use trademarks actively, give full play to trademark functions, and avoid the waste of trademark resources. Although OEM products do not enter the local market circulation field in mainland China, the denial of OEM use as valid trademark use will be detrimental to the local economy or employment.

The discussion over OEM trademark issues is not over yet. Let's continue to watch, think, and express our opinions.