

# Issue of Law Relating to Use of Trademarks in Export-oriented OEM: Interpretation of recent relevant judicial precedents

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As a result of international division of labour in industry triggered by the globalisation of economy, China has grown into the largest original equipment manufacturing (OEM) country in the world. In the real economic activities, since most overseas OEM entrusting parties only make their products in China, but do not sell them in the local market there, all the OEM products are exported after trademarks of the OEM entrusting parties are put thereon. This has brought about a series of questions, including: is it possible to deem use of a mark on such OEM products made only for exportation to be the use of mark in the sense of the Trademark Law? To be specific, if such a mark is a registered trademark, does the use satisfy the requirement on use for maintaining the registration of the mark valid? If it is a non-registered trademark, is it possible for such use inhibits others from applying for registration of a later virtually similar mark in respect of identical or similar goods? Besides, does use of a mark on such OEM products made only for exportation constitutes an infringement of another party's prior registered trademark right in China?

Three cases recently closed by the courts in China have been interpreted in this article in answering the above questions, hoping to accurately understand the condition for application of the trademark law to matters of use of marks in OEM activities and bring to bear the purpose of the most recent judicial practice in relation to the relevant issues by way of probing into the legal thinking and logic as shown in the way courts have adjudicated these individual cases.

## Case study

**1. Use of marks on such OEM products made only for exportation constitutes use in the sense of the Trademark Law, and is sufficient to maintain the registration of them valid in China**

To encourage practical use of registered trademarks in commerce and promote effective competition, registrants are required to put their registered trademarks to use in commerce in China in order to keep the registered trademark rights valid as also provided for in the Trademark Laws of many other countries. Article 44 (4)<sup>1</sup> of the Chinese Trademark Law provides where the use of a registered trademark has ceased for three consecutive years without justification, any person may request the Trademark Office to cancel the registered trademark.

In the administrative case of dispute over the reexamination of cancellation of the registered trademark "SCALEX-TRIC", the registrant of the mark in suit was required to produce evidence showing use of this mark in respect of "toys" in class 28 of the Nice Classification. The evidence from the registrant showed that the parts of toys on which the mark that was requested to be revoked was put were made into toy products by Chinese OEM businesses. These products were not marketed or advertised in China, and were all exported to other countries. The Chinese Trademark Office, Trademark Review and Adjudication Board (TRAB) and the Beijing No.1 Intermediate People's Court were all of the view that given the fact that the goods on which the mark that was requested to be revoked was put were not distributed in the market in China, even in the presence of use of the mark that was requested to be revoked in making the products, it was impossible for the relevant consumers to have access to the

goods within the territory of China, so such use, impossible to function to indicate the source of the goods there, should not be deemed to be the use in the sense of the Trademark Law.

In its final decision, the Beijing Higher People's Court concluded that Article 44 (4) of the Chinese Trademark Law was aimed at promoting real use of trademarks to put marks to genuine, commercial use. In determining presence of use of a mark required to keep its registration valid, efforts should be made both to prevent waste of the trademark resources and to prevent a registered trademark from being recklessly revoked to the detriment of lawful rights of the trademark registrant. In the case, while the OEM products were not marketed in mainland China, it would be unfair and contrary to the policy to promote foreign trade if use in OEM activities was not determined as use of trademark. Although the goods on which the mark requested to be revoked was approved to be used were toys, considering the character of the goods of toys and the way of OEM manufacturing thereof, the acts of using such a mark on the parts of the toys and making them into finished products by way of OEM for exportation should be deemed to be use of the mark in respect of the goods of toys it was approved to be used.<sup>2</sup>

In China, the Beijing Higher People's Court is the court of justice having the final jurisdiction over administrative suits involving the authorization and determination of trademark rights. For this reason, the preceding precedent is of pervasive guidance to adjudication of similar cases in the future. The case is of special significance to owners of trademarks registered in China who engage only in OEM activities in mainland China and market all their goods in other regions of the world, especially those of trademarks registered in China who are domiciled overseas, as it means that they are free from the potential threat of cancellation of their registered trademarks due to their failure to market their OEM products in China without the need to change their long-practiced OEM business model.

It needs to be mentioned that on 18 October 2011, the AIPPI expressly pointed out, in the relevant resolution reached on the topic for discussion relating to "requirements on real use of trademarks for the purpose of maintaining their registration" in Hyderabad, India, that manufactures of goods made only for the purpose of exportation should be viewed as genuine use of the trademark attached thereon. The Beijing Higher People's Court's above decision is of landmark significance, demonstrating harmonisation of the

China's relevant judicial practice on this issue of law with the AIPPI resolution.

## **2. Use of marks on OEM products made only for exportation is unlikely to cause confusion on the relevant sector of the consumers in China, and improper to find it infringing trademark right**

To protect trademark owners' legitimate rights and to effectively stop trademark infringement, Article 52 (1)<sup>3</sup> of the Chinese Trademark Law provides that use of a trademark that is identical with or similar to a registered trademark in respect of the same or similar goods without the authorisation of the trademark registrant is an infringement of the exclusive right to use a registered trademark.

In the case of dispute over infringement of the registered "JoLida and device" trademark, the plaintiff (trademark owner) claimed that the defendant used the trademark similar to its trademark registered in China on the Shanghai Customs detained goods suspected of infringement to be exported to the U.S., and the use infringed its trademark. The defendant contended that it only engaged in OEM activity, and was not infringing in the presence of both OEM contract and the legitimate authorisation from the party with whom it had concluded the contract on use of the trademark registered in the United States.

Upon hearing the case, the Shanghai No.1 Intermediate People's Court concluded that in the case the defendant engaged in OEM activity. The defendant put, on the inner and outer packages of the products, the registered trademark and enterprise name of the U.S. business placing the order for the OEM products; hence consumers in the U.S. market could find that the goods bearing the mark came from the U. S. business placing the order. Since the products in suit were all exported to the U.S. and not marketed in the market in China, it was unlikely for consumers in China to confuse about the source of goods. Accordingly, the court found the defendant's activity not infringing. The plaintiff then appealed to the Shanghai Higher People's Court. The Shanghai Higher People's Court concluded, upon hearing the case, that the basic function of a trademark was to distinguish the source of goods or services. Infringement of the trademark right was essentially to ruin this function of a trademark, causing confusion about the source of goods on the part of average consumers. In the case, the products in suit were all exported to the U.S. and not marketed in the market in China, and it was impossible for the relevant consumers in China to have access to them, and confusion was unlikely. Besides, In OEM

interactions or transaction, putting by a manufacturer within the territory of China a trademark on products it made was, in form, its use of the mark, but the true user of the mark was the OEM entrusting party overseas. The mark put on the goods in the case could, in essence, distinguish the source of the goods outside, not inside, the territory of China; hence, the OEM activity in the case was not infringing. The Shanghai Higher People's Court finally decided to have upheld the decision made by the first-instance court.<sup>4</sup>

The conclusion the Shanghai Higher People's Court made in its decision in the case was clear and thoroughgoing, having radically changed the general conception hitherto that if an entrusted manufacturer in the OEM transaction fails to meet its obligation to review the status of the involved IP rights, its act constitutes joint infringement, and should be held severally and jointly liable for the infringement; hence the decision drew wide attention from industrial insiders. It needs to be pointed out that after the final decision was made by the court, the General Administration of Customs of China wrote to the Supreme People's Court to require the latter to confirm the circumstances of the case, namely "absence of authorisation of the trademark owner in mainland China, not marketing all the products within the territory of China, and the overseas OEM entrusting party having the proprietary right in the registered trademark in the target country (or region)", were not acts of infringement of the exclusive right to use a registered trademark provided for in Article 52 of the Chinese Trademark Law. The Supreme People's Court confirmed in its Reply to the Matter of Whether OEM Products Constitute Infringement that since the mark put on the goods in the case could, in essence, distinguish the source of the goods outside, not inside, the territory of China, and were not marketed in the market in China, and it was impossible for the relevant consumers in China to have access to them, and confusion was unlikely, it indicates the court's agreement that the circumstances in the case were found not infringing the exclusive right to use the registered trademark.<sup>5</sup>

As this case clearly shows, even if the OEM trademark is not registered in mainland China, so long as the OEM transaction meets two conditions: 1) the OEM entrusting party owns the OEM trademark put on the involved OEM products in the target country (or region); and 2) all the products are not marketed within mainland China, and are made only for exportation, this business activity will be deemed to be pure, legitimate, and good-faith OEM transac-

tion, and is generally not found infringing trademark right. This adjudication standard has been embodied in the relevant judgments the higher people's courts in many regions made later in similar cases.<sup>6</sup>

**3. OEM only for exportation is insufficient to render non-registered trademarks on OEM products susceptible to the protection under the Trademark Law and to inhibit others from applying for registration of later trademarks in respect of same or similar goods**

The first-to-file principle is the fundamental principle for grant of trademark protection in China. To ensure observation of the good-faith doctrine, the Chinese Trademark Law, as necessary supplementation of the first-to-file principle, expressly inhibits applications filed in ones' own name in bad faith for registration of trademarks that other parties have put to use and that have certain influence. Article 31 of the Chinese Trademark Law provides<sup>7</sup> that no one shall file application in an unfair means for registration of a mark that is already in use by another party and has certain influence.

In the administrative case of dispute over reexamination of opposition to the "无印良品" (pronounced as "wu yin liang pin") mark, the plaintiff (trademark opponent) claimed that its prior trademark was of relatively salient distinctiveness and originality, and used much in mainland China, so it was a mark "having certain influence". The mark under opposition and the prior mark were identical and used in respect of same or similar goods, and the application for the registration of the former was obviously filed in bad faith. Under Article 31 of the Trademark Law, the mark under opposition should not be approved for registration. The plaintiff's claim was not supported in the administrative lawsuit following the trademark review and adjudication phase. In its final decision, the Beijing Higher People's Court noted: "the function of a trademark is to distinguish one manufacturer of the same goods or provider of the same service from another. Consumers can select goods or services with the help of a mark, so the mark has its function in the circulation or commerce of goods. The evidence produced by the plaintiff in the phase of trademark review and adjudication, and in the first and second instance of the case only proves the plaintiff's OEM products made by domestic manufacturers for exportation, and its products are both advertised and reported outside mainland China; hence it cannot be proved that the prior mark has been used in respect of certain goods and is known to the relevant sector of the public in a region or scope within the territory of China. The plaintiff's claim that

the mark under opposition was of the circumstance mentioned in Article 31 of the Trademark Law was not based on facts and law provisions.”

Dissatisfied with the final court decision, the plaintiff petitioned the Supreme People's Court to retry the case, contending that it was erroneous in application of law to exclude activities of manufacture, processing and exportation from “those of use of trademarks” in the appellant decision. The prior judicial practice in China also accepted that use of a trademark was not limited to the use in the circulation of commerce of the goods, and should cover the use in exportation and manufacturer of goods. The Supreme People's Court accepted the retrial petition, and decided, upon hearing the case, that the fundamental function of a trademark lay in the distinctive character thereof, i.e. distinguishing the source of goods or services; hence a trademark could only function in the circulation of commerce of goods. The legislative aim of the provision that “no applicant shall register in an unfair means a mark that is already in use by another party and has certain influence” of Article 31 of the Trademark Law was to prohibit registration in bad faith, but the provision was not concerned with all non-registered trademarks. It only prohibited registration, in bad faith, trademarks that were already in use by another party and had certain influence. The opinion of the court of appeal that the plaintiff's OEM products made by domestic manufacturers only for exportation, and its products were both advertised and reported outside mainland China, which was not in line with the legislative aim of the law provision that “a mark that is already in use by another party and has certain influence of Article 31 of the Trademark Law.”<sup>8</sup>

The Supreme People's Court's elaboration made in the case shows that whether a trademark in suit is one that is already in use by another party and has certain influence provided for in Article 31 of the Trademark Law should be determined by comprehensively considering the circumstances of a case. Use of a mark only in OEM activities for exportation, which does not render the mark known to the relevant sector of the public within a certain scope in China, would be difficult to be found to be the use of the mark provided for in Article 31 of the Trademark Law.

## Analysis and explanation of the relevant issues of law

The preceding three cases respectively involve three most important issues of law in the Trademark Law: acquisition, maintenance and protection of the trademark right.

In Article 3 of the Regulations for the Implementation of the Chinese Trademark Law<sup>9</sup>, “use of a trademark” is defined as that “the use of a trademark, as referred to in the Trademark Law and these Regulations, shall include the use of the trademark on goods, packages or containers of the goods or in trading documents, and the use of the trademark in advertising, exhibition or any other business activities”. The first part of the definition may be understood as affirmation of the form of carrier of a mark in use while the second part lists the situations and places where a mark is used. But what does “any other business activities” mean? Obviously, it should not be simplistically confined to business activities in the circulation of commerce, but should be understood from an open perspective with account taken of the practical circumstances of the real market.

For this writer, whether use of a mark in OEM merely for exportation constitutes use in the sense of the Trademark Law is by no means a proposition of either black or white. As the explanation of the above three cases possibly shows, as for whether use of a mark in OEM constitutes use in the sense of the Trademark Law, the courts in China are inclined to make their determination in line with the legislative purpose of the provisions of the Trademark Law and according to the specific facts of a case, rather than treat the matter all alike. To be specific, Articles 44, paragraph four, 52, paragraph one, and 31 of the Trademark Law, which applied to these cases, are all concerned with “use” of trademarks. But, the “use” mentioned in Article 44, paragraph four, is directed to use for maintaining the validity of the registration of a mark; the “use” in Article 52, paragraph one, to use infringing the trademark right; and that in Article 31 to use in relation to authorisation and determination of trademark rights. Since the legislative purpose of the three law provisions in relation to “use” are not exactly the same, the involved “uses” naturally differ in the practical meaning of the expression and in the scope of application of the word “use”. Just as Kong Xiangjun, President of the IP Tribunal of the Supreme People's Court once pointed out, only if they conform to the true purpose of the law provisions and produce good result from application of law were interpretation and application of “use” appropriate and due.<sup>10</sup>

Considering the judicial logic and theory as shown in the court decisions made in these three cases, one may con-

clude that the “use” mentioned in Article 44, paragraph four, is of a relatively low requirement in that any association of a mark with goods in commercial activities in a broad sense may be found by a court to be a public, genuine use of a registered trademark, functioning to distinguish the source of goods and being sufficient to maintain the validity of the registration of the mark. The “use” mentioned in Article 31, however, is limited to business activities in a narrow sense in the circulation of commerce of goods. In its decision, the Supreme People’s Court emphasises that the distinctive character of a mark performs its function only in the circulation of commerce of goods, which is a proper interpretation of the provision in line with its legislative purpose. It is known to all that trademark protection in China follows the first-to-file principle. The lawful, valid trademark right comes from the registration procedure conforming to the provisions of the Trademark Law. A non-registered trademark does not possess any natural statutory right. A mark can have certain influence in the market, and achieve certain goodwill only by virtue of use of it in the circulation of commerce. Only when the relevant sector of the consumers have clear knowledge of the goodwill and association of a non-registered trademark is it possible for it to become a prior right recognised by the Trademark Law and susceptible to the protection thereunder. For this account, the circumstances of the “use” mentioned in Article 44, paragraph four do not naturally apply to those of the “use” mentioned in Article 31 of the Trademark Law. As for “use” provided for in Article 52, paragraph one, of the Trademark Law, it is not limited to use in business activities in the circulation of commerce according to its legislative purpose, rather, it resides in all business activities in a broad sense. However, whether a mark is infringing is a pure judgment of law. Therefore, the “use” under Article 52, paragraph one, of the Trademark Law in direction to infringement actually implies that such use should have caused or be likely to cause confusion on the part of the relevant sector of consumers and would possibly cause prejudice to the interests of the trademark owner. Therefore, presence of use in the sense of trademark infringement should be determined in line with the trademark confusion doctrine, with specific account taken of the use in specific cases.

Without any doubt, a judicial decision is made on the basis of the legal norms and law provisions are the specific carrier and form of expression of such legal norms. But, law provisions do not invariably consist of legal norms in all

events. All prudent, vital court precedents are reflections of social life, and are guided by a certain law spirit, theory, and even policy consideration and values. In the above three cases under the present study, the courts are praiseworthy for their efforts made to avoid rigid and mechanic application of the law by appropriately narrowed or over-broaded interpretation of the term of “use” under the relevant provisions of the Trademark Law. ■

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<sup>1</sup> Article 44 of the Trademark Law: Where any person who uses a registered trademark has committed any of the following acts, the Trademark Office shall order him to rectify the situation within a specified period or even cancel the registered trademark: ...; (4) where the use of the registered trademark has ceased for three consecutive years.

<sup>2</sup> See the Beijing Higher People’s Court’s Administrative Judgment No. Gaoxingzhongzi 265/2010.

<sup>3</sup> Article 52 of the Trademark Law: Any of the following acts shall be an infringement of the exclusive right to use a registered trademark: (1) using a trademark that is identical with or similar to a registered trademark in respect of the same or similar goods without the authorisation of the trademark registrant.

<sup>4</sup> See the Shanghai Higher People’s Court’s Civil Judgment No. Hugaominsan(zhi)zhongzi 65/2009.

<sup>5</sup> See the Supreme People’s Court’s General Office Document No. Faban 350/2010.

<sup>6</sup> See the Guangdong Province Higher People’s Court’s Civil Judgment No. Yuegaofaminsanzhongzi 467/2011.

<sup>7</sup> Article 31 of the Trademark Law: No trademark application shall infringe upon another party’s existing prior rights. Nor shall an applicant register in an unfair means a mark that is already in use by another party and has certain influence.

<sup>8</sup> See the Supreme People’s Court’s Administrative Judgment No. Xingtizi 2/2012.

<sup>9</sup> Article 3 of the Regulations for the Implementation of the Trademark Law: The use of a trademark, as referred to in the Trademark Law and these Regulations, shall include the use of the trademark on goods, packages or containers of the goods or in trading documents, and the use of the trademark in advertising, exhibition or any other business activities

<sup>10</sup> Kong Xiangjun, Trademark and Unfair Competition Law: Principles and Precedents, the Publishing House of Law, 2009, P.84.