

# **Trademark Infringement of Original Equipment Manufacture (OEM) For Export in China**

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China has been known as "the world's factory." Original equipment manufacture (OEM) is thus very common in China. Due to the popularity of OEM, some trademark infringement issues arise in China as well as in Taiwan. For example, a foreign company may provide the drawings and samples of trademarks of the foreign country for a Chinese or Taiwanese OEM manufacturer to manufacture relevant goods. However, the trademarks are not registered in China or Taiwan. The question consequently prompted is: whether OEM is at the risk of infringing others' trademarks? In China, whether OEM constitutes trademark infringement is not clearly set forth in the law, and the courts have been giving various opinions. In Taiwan, the law clearly set forth that OEM is not a trademark usage, nor constitutes trademark infringement. According to the explanation by the Taiwan Intellectual Property Office (TIPO), "where OEM and import/export are conducted solely as OEM for a foreign trademark holder, and all of the goods manufactured are shipped to the foreign country or another country designated by the foreign company, such conduct does not constitute "trademark usage" in Article 5 of the Trademark Act because in the sell-back, the OEM manufacturer has no intention for marketing or promoting its goods as its own. Accordingly, in the current juridical practice, such conduct does not constitute trademark infringement"<sup>2</sup>.

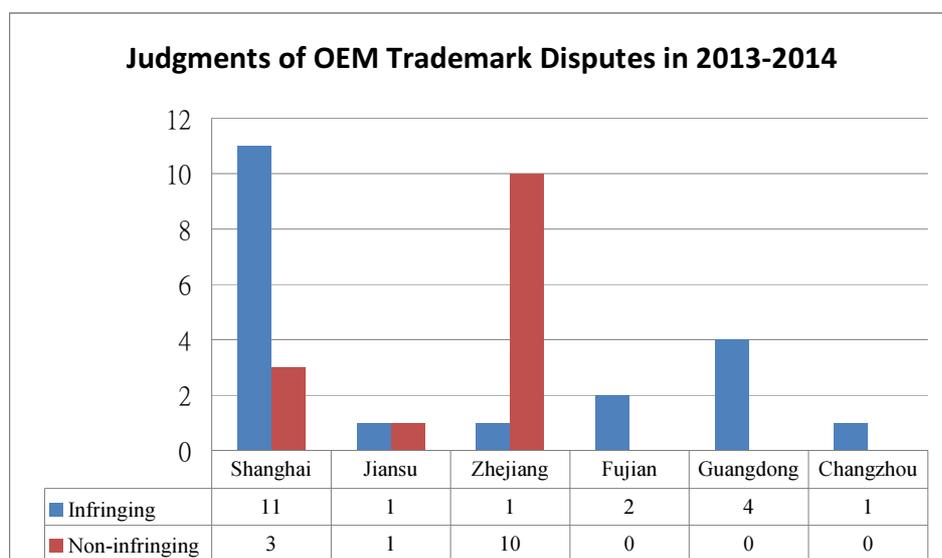
As for whether OEM in China constitutes trademark infringement, we collect the judgments of 34 relevant cases in China from 2013 to 2014. Among the 34 cases, the court has ruled infringing in 20 cases, and non-infringing in 14 cases. The main basis for rulings of non-infringement is: the subject case does not constitute trademark usage (20 cases). The main bases for rulings of infringement were: conduct constitutes trademark usage (11 cases), and the case does not meet the definition of OEM (3 cases). The geographical distribution of the courts shows that the court of Shanghai has ruled 11 cases non-infringing, the court of Zhejiang has ruled 10 cases infringing. The courts of Guangdong, Fujian, and Changzhou have handled four, two,

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<sup>2</sup> Criminal Judgment of Taiwan High Court Kaohsiung Branch Court (85) Zai Zi No. 4, and Criminal Law Seminar of Taiwan High Court Hualien Branch on June 1, 1993

and one case, respectively, and all of these cases were ruled non-infringing. As for Jiansu, the court has handled two cases, and one of the cases was ruled infringing.



There are generally five aspects courts will consider when determining whether OEM constitutes trademark infringement.

- I. Meeting the definition of OEM: OEM for export generally refers to a trade method that involves processing supplied materials or designs, or assemblage, where the foreign entrusting party provides the drawings and samples of trademarks, and a domestic entrusted party prints the provided drawings and samples on the goods being processed, and where all the processed goods are then returned to the entrusting party instead of distributed for domestic sales<sup>3</sup>.
  
- II. The defendant must exercise the duty of care by examination, which includes the following (1) the entrusting party owns the legally registered trademark abroad. (2) Both parties shall sign a OEM contract (which must not be a sales contract). (3) The entrusted OEM manufacturer shall be legally authorized (e.g., provided with a trademark licensing agreement) by the entrusting party. If the duty to exercise care by examination is not met, the defendant is objectively at fault. In some cases, the plaintiff argued that the subject OEM conduct was improper because the classes of goods were not identical. However, the court did not strictly require that the processing party determine whether the two goods were the identical or similar, and did not impose overly

<sup>3</sup> Civil Judgment of 2012 SuZhiMinZhong Zi No. 0297

strict obligation of examination on the processing party<sup>4</sup>. Also, **in OEM, production should be conducted in strict accordance with the licensed foreign registered trademark**. Even if the entrusting party specifically instructs split usage, the processing party should not accept such instruction, or the processing party is objectively at fault<sup>5</sup>.

III. Determination of trademark usage: **the most significant split among the courts lies in whether OEM constitutes trademark usage**. For example, the courts of Shanghai area consider that the determination of trademark usage shall be based on the function of identification. If the usage has the function of identifying the source, such usage constitutes trademark usage. If not, such usage does not constitute trademark usage<sup>6</sup>. The court of Zhejiang holds the opinion that any usage that meets the provisions of "Using a trademark that is identical or similar with a registered trademark in connection with the same goods or similar goods without the authorization of the owner of the registered trademark" constitutes trademark infringement<sup>7</sup>. Specifically, the court of Shanghai, which holds the non-infringement opinion, considers that even if the trademarks are similar and used in connection with the same kind of goods, the goods are all shipped abroad after being processed and are not domestically available. Thus, the trademark on the goods does not have the function of identifying the source of goods, and does not result in confusion and misidentification of the domestic consumers about the source of goods<sup>8</sup>. As for the relevant community, it is defined as **persons who may get in touch with the goods at each step of circulation of the goods on the market**. Those who get in touch with the goods before the goods are on the market, such as the manufacturing and custom clearing personnel, should not be included as the related community<sup>9</sup>. Also, suit, damages is one of the required elements to establish a tortious conduct in a civil suit. Damages must be an established fact, not hypothetical or illusory. Damages can includes real damages that have already occurred and damages that have not occurred yet but will necessarily occur in the future. As trademark infringement is a form of tort, and the elements for trademark infringement should be the same as those of tort. Namely, trademark infringement is established only when the fact of damages is

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<sup>4</sup> Civil Judgment of 2013 HuYiZhongMinWu(Zhi)Zhong Zi No. 175

<sup>5</sup> Civil Judgment of 2013 XuMinSan(Zhi)Chu Zi No. 215

<sup>6</sup> Civil Judgment of 2014 PuMinSan(Zhi)Chu No. 373

<sup>7</sup> Civil Judgment of 2013 YonLunZhiChu Zi No. 58

<sup>8</sup> Civil Judgment of 2014 PuMinSan(Zhi)Chu Zi No. 373

<sup>9</sup> Civil Judgment of 2013 HuYiZhongMinWu(Zhi)Zhong Zi No. 209

present<sup>10</sup>.

IV. Determination of confusion: According to Articles 9 and 10 in "Explanation on Issues Concerning Applicable Legal Basis in the Examination of Trademark Civil Disputes", identical trademarks means two trademarks are of no difference visually when comparing the allegedly infringing trademark and the registered trademark of the plaintiff. Determination of identicalness shall be based on the regular attention of the relevant community. Moreover, the comparison should be made based on the overall trademarks and the main parts of the trademarks. Regarding the usage of a trademark similar to the registered trademark, based on the above explanation, the trademark similarity in connection with the infringement of trademark exclusive right should be confusing similarity. Namely, only a trademark that creates confusion of the relevant community about the source of goods will be deemed as similar trademarks and thus constitutes trademark infringement<sup>11</sup>. However, the court of Zhejiang considers that "creating the confusion of the relevant community" is not set forth as an element constituting trademark infringement in the Trademark Law. Even if confusion is considered as a factor, whether an OEM behavior may easily result in confusion should be determined by taking relevant Chinese consumers and other business owners closely related to marketing of goods as the relevant communities, instead of denying the possibility of creating confusion by virtue of the allegedly infringing products being for export purposes<sup>12</sup>. In addition, Article 9.2 of "Explanation on Issues Concerning Applicable Legal Basis in the Examination of Trademark Civil Disputes" does not limit the relevant community geographically, and Article 3.1 of "Regulation of Custom Protection of Intellectual Property Right of the P.R.C." specifically stipulates that the state prohibits import and export of goods infringing intellectual property rights. Thus, the argument that OEM products are not circulating in China and thus should not result in confusion of Chinese consumers shall not be accepted<sup>13</sup>.

V. Applicability of the territoriality principle of trademarks: The court of Shanghai holds the opinion that the domestic trademark right holder filing an infringement complaint in China, directly interfering the business conduct (e.g., commissioning to manufacture in China and sales in the country of a foreign

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<sup>10</sup> Civil Judgment of 2012 SuZiMinZhong Zi No. 0297

<sup>11</sup> Civil Judgment 2014 RongMinZhong Zi No. 1322

<sup>12</sup> Civil Judgment of 2014 ZheZiZhong Zi No. 25

<sup>13</sup> Civil Judgment of 2012 ZheZhiZhong Zi No. 285

entity or other foreign countries) actually extends the range of enforcement of the domestic trademark right and is incompatible with the territoriality principle of trademarks<sup>14</sup>. The court of Zhejiang holds the opinion that according to the territoriality principle of trademarks, even though the trademark is registered abroad, such trademark is not registered in China, and is thus not protected by the laws of China.

Lastly, regarding the issue of jurisdiction, Article 6 of "Explanation on Issues Concerning Applicable Legal Basis in the Examination of Trademark Civil Disputes" stipulates that the jurisdiction belongs to People's Court include the following: the location where infringement occurred, the location of the storage of the infringing goods, the location where the infringing goods are seized or held in custody, and the defendant's residence. The location of the storage of the infringing goods refers to the location where a large quantity of the infringing goods are stored or hidden or the location where the infringing goods are commonly stored or hidden. The location where the infringing goods are seized or held in custody means the location where the custom or other relevant administrative authorities seize or hold the infringing goods in custody by law. In most of the 34 cases under our analysis, the prosecuting court is in the same region where the goods are seized by the custom. However, in the case of Honeywell<sup>15</sup> and the case of SPEEDO<sup>16</sup>, the infringing goods were both seized by the custom of Shanghai. However, the plaintiff did not file the lawsuit with the court of Shanghai (the location where infringement was practiced and where the goods were seized and held in custody), but chose to file the lawsuit at the defendant's residence. Thus, in terms of litigation strategies, the trademark right holder should carefully choose a favorable court, and the OEM manufacturers should choose a favorable custom.

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<sup>14</sup> Civil Judgment of 2013 PuMinSan(Zhi)Chu Zi No. 174

<sup>15</sup> Civil Judgment of 2014 HangBinChu Zi No. 38

<sup>16</sup> Civil Judgment of 2014 ZheZhiZhong Zi No. 25