OEM and the concept of ‘reasonable use’ of a trademark

Recent civil decisions involving OEM and trademark infringement have led some to speculate that China’s courts may have departed from their earlier position that OEM of branded goods does not constitute trademark ‘use’. However, a review of the recent cases, together with the Trademark Law and guidance from the Supreme People’s Court, would suggest otherwise.

In the past few years, a Spanish company had its Nike products manufactured in Ningbo, eastern China’s Zhejiang province, but only sold them in Spain, where the trademark was registered. The American Nike company, which registered its trademark in China, used administrative enforcement methods including Customs to detain and seal the factory in Ningbo. But there was no violation of rights because the American Nike never had its trademark registered in Spain while the Spanish Nike, though manufacturing in China, was not selling here. But the Chinese manufacturing factory [which was held to have infringed] was unfairly treated.

Professor Zhang Ping of Beijing University, 2009.

In China, as in other countries, a registered trademark is infringed if it is used without authority on, or in relation to, the goods in respect of which it is registered.

In the past, Chinese courts took the view that applying a trademark in the context of original equipment manufacturing (OEM) constituted trademark ‘use’ for the purposes of China’s Trademark Law. However, a number of recent civil judgments have led to speculation that a different view may be evolving.

This article summarises several recent cases dealing with OEM manufacture and trademarks, and aims to demonstrate that despite recent suggestions to the contrary, the courts still consider that OEM involves trademark use, although in legitimate cases of OEM solely for export, this is a form of ‘reasonable use’. However, in trademark infringement cases involving reasonable use, it seems that use alone is no longer sufficient to determine whether trademark infringement has taken place; to find infringement, it is now necessary to establish a likelihood of confusion in the Chinese market.

This is certainly the pattern that appears to emerge when recent judgments are read in conjunction with earlier guidance from the Supreme People’s Court. The requirement to prove a likelihood of confusion in the China market in order to establish trademark infringement may not, in future, be restricted to cases involving OEM.

**Previous decisions relating to OEM and trademark infringement**

Article 52(1) of the Trademark Law provides that use of a trademark that is identical or similar to another person’s registered trademark on the same or similar goods amounts to trademark infringement. “Any of the following acts constitute infringement of an exclusive right to a registered trademark: (i) using a trademark that is identical with or similar to the registered trademark on the same or similar goods without permission of the owner of the registered trademark.”

The meaning of ‘use’ is further defined under Article 3 of the Implementing Regulations of the Trademark Law: “The use of trademarks referred to in the Trademark Law and these Regulations include, among other things, the use of trademarks on goods, packages or containers thereof and commodity trading instruments, or use of trademarks in advertisements, exhibitions and other commercial activities.”

In the past, Chinese courts have held that affixing trademarks to goods in the course of OEM constitutes trademark use, and that pursuant to Article 52(1) of the Trademark Law, OEM involving the unauthorised use of another person’s registered trademark on the same or similar goods amounts to trademark infringement.

In 2001 Nike successfully sued Spanish company Cidesport and Cidesport’s Chinese OEM manufacturer for infringing Nike’s registered China NIKE trademark (Nike v Cidesport (2001, Shen Zhong Da Zhi Chan Chu Zi No 55(2 CTMR 235)). Although all of the NIKE-branded goods at issue were intended for export to Spain – where Cidesport was the registered proprietor of the relevant NIKE mark – the Shenzhen Intermediate People’s Court in Guangdong Province held that the act of manufacture involved ‘use’ of the NIKE mark in China and therefore infringed Nike’s exclusive right to the trademark in China.

In two later trademark infringement cases involving OEM-manufactured goods destined for foreign markets only, the Higher People’s Court of Zhejiang Province (2005, Zhe Min San Zhong Zi No 284) and the Higher People’s Court of Guangdong Province (2006, Yue Gao Fa Xing Zhong Zi No 22 (8 CTMR 267)) took a similar view. They adopted the same reasoning as the Shenzhen Intermediate Court in NIKE: OEM constitutes use of a trademark, and the unauthorised use of another person’s registered trademark in the course of OEM, on the same or similar goods, constitutes trademark infringement.
There is one notable exception to this line of cases: Wuyi Mountain Xile Garments Manufacturer v Hugo Boss Hong Kong Limited (2007, Min Zhong Zhi No 459). Despite the fact that the OEM-manufactured goods used the mark NEW BOSS COLLECTION—a mark considered similar to the BOSS mark—on the same goods, the Fujian Province High Court ruled that there was no trademark infringement because, among other things, all goods in question were destined for a foreign market, which meant that there would be no confusion in the Chinese market.

Compared to earlier decisions, which held that the mere act of OEM could constitute trademark infringement, the Hugo Boss case appeared to be something of an outlier. However, it seems that this reasoning has been adopted in some of the more recent cases involving OEM and trademark infringement.

**Recent OEM decisions**

**Jolida**

In 2008 Shanghai Customs seized an export shipment of JOLIDA-branded products, on the basis that they infringed Shanghai Shenda’s registered JOLIDA mark in China. The goods in question had been manufactured by an OEM manufacturer under contract to Jolida Inc, a US-based electronic sound equipment manufacturer. Jolida Inc owned the JOLIDA mark in the United States, and all JOLIDA-branded goods were destined for export to the United States.

Jolida Inc successfully challenged the seizure at the Shanghai Intermediate People’s Court, which held that there was no infringement (2008, Hu Yi Zhong Min Wu (Zhi) Chu Zi No 317).

In its reasoning, the court noted that the function of a trademark is to distinguish the origin of goods or services. As all of the OEM-manufactured goods were scheduled for export to the United States, there could be no likelihood of confusion as to their origin in the Chinese market and, hence, no infringement of Shanghai Shenda’s registered JOLIDA mark.

Shanghai Shenda unsuccessfully appealed to the Shanghai Higher People’s Court, which used the same reasoning to decide that no infringement of its Chinese registered JOLIDA mark had taken place (Shanghai Intermediate People’s Court (2011) Hu Yi Zhong Min Wu Zhi Zhong Zi No 130).

**A&A Wuxi Import & Export Corp v Crocodile Garments Limited**

In 2010 A&A Wuxi Import & Export Corp, an OEM manufacturer, sought a declaration of non-infringement following the detention of one of its shipments of clothing destined for South Korea (2010, Pu Min San (Zhi) Chu Zi No 146).

A&A claimed that it had been contracted to produce crocodile-branded goods for Singapore-based Crocodile International Pte Ltd, a company that held a valid South Korean trademark registration in relation to the relevant goods. All of the goods in question were to be exported to South Korea.

Hong Kong Crocodile Garments, which initiated the seizure, was the owner of a China-registered trademark for a similar crocodile logo. It argued that trademark rights are territorial, and that since it had registered the crocodile logo mark in relation to clothing in China, it was the only party entitled to use the mark in relation to such goods in mainland China. By applying a similar mark to clothing, A&A had therefore infringed its exclusive right to use the mark in China.

The Shanghai Pudong New District People’s Court held that Hong Kong Crocodile’s Chinese registration had not been infringed. The court found that because the OEM-manufactured clothing was for export only, it would not cause confusion among the relevant public or result in any harm to Hong Kong Crocodile Garments.

Hong Kong Crocodile appealed unsuccessfully to the Shanghai Number 1 Intermediate People’s Court. The appeal court held that A&A Wuxi’s production did not involve trademark use, but rather constituted ‘foreign-related OEM processing’.

It seems that in reaching this conclusion, the court may have taken the view that ‘foreign-related OEM processing’ is a form of ‘reasonable use’. This concept of ‘reasonable use’ may explain the addition of a confusion analysis to the test for trademark infringement, which is found in later decisions involving OEM.

**Basis for requirement of confusion for finding of trademark infringement**

The notion of confusion has been a part of Chinese trademark law since the Supreme People’s Court Interpretation on Application of Law in Trademark Civil Cases was issued in 2002 (Article 9, Fa Shi (2002) No 32), which refers to confusion as the basis for determining whether trademarks, goods or services are similar.

However, neither the interpretation nor a literal reading of Article 52(1) makes confusion, or a likelihood of confusion in the marketplace, a necessary element of trademark infringement. It is therefore unsurprising that the earlier trademark infringement cases involving OEM did not consider confusion in the marketplace to be relevant.

On what basis do recent cases suggest that confusion in the China market is a relevant consideration in determining whether OEM constitutes trademark infringement? The most likely answer to this question may be found in the Opinions of the Supreme People’s Court on Several Issues Concerning the Trial of Intellectual Property Rights Cases Serve the Overall Objectives of China Under the Current Economic Situation (Fa Fa (2009) No 16), issued in 2009.

The opinions, as issued by the Supreme People’s Court, are intended to help China’s courts to adjudicate IP rights litigation in a manner that is consistent with the advancement of one of the main objectives of China’s National IP Strategy: the development of a knowledge-based economy. The opinions also contain the first indication from the court that confusion in the marketplace should be considered when adjudicating trademark infringement.

Article 3 of the opinion provides as follows:

*Enhancing the protection of business logos, actively promoting the development of brand economy, regulating market order and safeguarding the principles of fair competition.*

In addition, protection of the core exclusive right of trademark shall be enhanced on the basis of certified commodities and certified and approved trademarks, and the sphere of exclusion of trademark right shall be properly defined in light of market confusion, so as to set clear and definite separation lines for the use of trademark and to provide sufficient legal space for the creation and development of self-owned brands. Where in the absence of due authorization by the registrant of a trademark, another party uses the trademark for the same kind of commodities, under the condition that the trademark is registered, such infringement may be determined without considering the factor of confusion, except where such use is deemed reasonable.

Article 3 therefore provides three key points of reference for trademark infringement:

- The scope of protection afforded to a registered trademark shall be defined with reference to confusion in the market.
- When a person uses a trademark that is identical to another person’s mark on the same goods or services without authorisation, there is generally no need to consider whether

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there is confusion in the market.

- When a person uses a trademark that is identical to another person’s mark on the same goods or services without authorisation and the use is deemed ‘reasonable’, the courts should consider whether there is confusion in the market.

The first and third points are relevant when assessing whether OEM for export constitutes infringement.

In reviewing the Crocodile decision, which involved similar rather than identical trademarks, the courts performed an analysis as to whether use of the mark in the course of OEM for export would lead to confusion among the relevant public in China. This would fall under the first point.

Since there was no possibility of market confusion, the OEM for export was deemed not to infringe Hong Kong Crocodile’s registered trademark right.

In the Jolida case, which involved the use of an identical trademark on the same goods, the court also performed a confusion analysis in determining whether Jolida Inc had infringed the JOLIDA registered trademark. Article 3 of the opinion provides that when a person uses a trademark that is identical to another person’s mark on the same goods or services, an assessment as to whether there is confusion in the market should be performed only in cases where the use is deemed ‘reasonable’. As such, it can be inferred that if legitimate OEM strictly for export and involving use of an identical mark on the same goods constitutes ‘use’ of a trademark, such use may be further categorised as ‘reasonable use’. The same may be true in relation to OEM export involving the use of similar marks on the same or similar goods.

Accordingly, while legitimate OEM for export might be regarded as ‘reasonable use’ of a China-registered trademark, it will still amount to infringement if a likelihood of confusion or actual confusion among the relevant public in the Chinese market is established.

**Nokia Egypt**

After the Jolida decision was affirmed by the Shanghai Higher People’s Court, brand owners contending with counterfeiting and infringement in China were troubled by its implications – in particular, how it might affect enforcement efforts in China and whether it might open the floodgates to the export of counterfeit and infringing goods from China.

Nokia v Wuxi Jinyue is especially relevant in this context. The issue faced by the Shanghai Pudong New District People’s Court involved determining whether Wuxi Jinyue’s OEM of NOKIA EGYPT-branded LCD television casings for export to Egypt infringed Nokia’s Chinese registered NOKIA mark.

The facts in the case were very similar to those in Jolida and Crocodile:

- Wuxi Jinyue argued that the NOKIA EGYPT mark was registered in Egypt by the party placing the order for the LCD casings;
- The goods were produced under contract and were for export to Egypt only; and
- The finished goods would not be assembled or sold in China.

Irrespective of the similar facts shared by the Nokia Egypt, Jolida and Crocodile cases, the Shanghai Pudong New District Court held that in the context of OEM for export, Wuxi Jinyue’s use of the NOKIA EGYPT mark would cause confusion among the relevant Chinese public with regard to the origin of the goods, and that it therefore amounted to infringement of Nokia’s exclusive rights to use the NOKIA mark in China.

Since the court did not identify the relevant public in its confusion analysis, it is difficult to see how it concluded that there would be a likelihood of confusion in the Chinese market. However, it seems that even in cases where the issue of confusion among the relevant Chinese public may be difficult to assess, such an assessment remains relevant in the most recent reported legal decisions involving trademark infringement and OEM.

**Future considerations**

In addition, while Egypt Nokia would suggest that the courts will not treat all OEM for export as involving ‘reasonable use’ of the trademark concerned, and therefore non-infringing, it is not clear what is required to prove that OEM activity constitutes ‘reasonable use’ of a trademark. The Jolida, Crocodile and Egypt Nokia decisions together suggest that the following questions will be considered in determining whether there is reasonable use of another person’s trademark right:

- Are all of the OEM goods destined for export or will some be introduced onto the Chinese market?
- Were the OEM goods produced under contract?
- Did the contracting party hold a valid trademark registration in relation to the OEM-manufactured goods in the destination country?

However, these questions also relate to a determination of who is the legitimate trademark owner not only in China, but also in the OEM goods’ destination country. As trademark rights are territorial, how will Chinese courts determine who is the legitimate owner where the mark has been registered in both China and the destination country by different parties (eg, in the Nike decision)?

Further, the recent cases requiring confusion as a prerequisite for trademark infringement raise a question as to the identity of the ‘relevant public’, which is the basis for any confusion analysis. While it has been assumed that Chinese courts will consider end consumers in China when determining whether there is confusion among the relevant public in China, Nokia Egypt appears to suggest that the ‘relevant public’ is broader than just end consumers in China: the NOKIA EGYPT-branded goods were not intended for the Chinese market at all. Accordingly, identifying the ‘relevant public’ for OEM for export will be central in managing counterfeiting and trademark infringement.

On December 28 2012 the National People’s Congress released a draft of the revised Trademark Law. The draft law narrows the definition of ‘use’ to use that distinguishes the origin of goods or services.

While some believe that this amendment to the definition of ‘use’ may have been made to address OEM for export, this would be likely only if the ‘relevant public’ were Chinese end consumers: when marks are applied to goods exclusively for export, they cannot serve to distinguish the source of goods within China. Based on Nokia Egypt, which suggests that the ‘relevant public’ for OEM for export is broader than Chinese end consumers, there remains a strong possibility that OEM for export will continue to involve ‘use’ pursuant to China’s amended Trademark Law.

Lastly, while the main focus of this article has been OEM and whether it involves trademark ‘use’ under the Trademark Law, a more general question is whether the requirement of a likelihood of confusion in the China market will in future be relevant for all trademark infringement cases. Given that the opinion was not issued to address OEM specifically, but was rather intended to aid
in the achievement of a broader objective – the development of a knowledge economy in China – we believe it likely that it will be.

Conclusion
Recent civil decisions involving OEM and trademark infringement have led some to speculate that China’s courts may have departed from their earlier position that OEM of branded goods does not constitute trademark ‘use’. However, a review of the recent cases, together with the Trademark Law and guidance from the Supreme People’s Court, would suggest otherwise.

It would appear that the courts continue to view OEM of branded goods as involving trademark ‘use’ in the context of infringement – albeit that when the manufacture is legitimate in the OEM context and solely for export, it may constitute a form of ‘reasonable use’.

In terms of what might constitute a form of ‘reasonable use’ of another person’s registered trademark for the purposes of OEM, the courts may ask whether the party contracting for OEM has a legitimate right as a basis for manufacture (eg, in the form of a registered trademark right for the branded goods in the destination country), perhaps in order to assess whether ‘use’ is truly in the context of OEM.

In addition, even when OEM for export constitutes ‘reasonable use’, the courts appear to have adopted the Supreme People’s Court’s opinions and now take into consideration the state of the Chinese market when determining whether a trademark has been infringed.

Together these considerations should serve as a starting point as to how the use of a trademark may be viewed as a form of ‘reasonable use’ in the context of OEM for export and whether there is trademark infringement. In anticipation of more guidance from the courts, brand owners meanwhile may need also to concern themselves with how to define the ‘relevant public’ for OEM and the evidence necessary to establish whether OEM involving another person’s registered trademark on the same or similar goods is a form of ‘reasonable use’.

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