

# VIVIEN CHAN & Co.

YOUR GREATER CHINA LAWYERS

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## NEWSLETTER

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### IP UPDATE



**Vivien Chan** SBS BBS JP

Senior Partner

LLM, King's College, University of London  
Lifetime Achievement Award, AmChams WO1 Awards 2017



**Fandy Ip** ASSOCIATE



BSSc, Chinese University of Hong Kong  
JD, University of Hong Kong

## Original Equipment Manufacturer (OEM): New Supreme People's Court Decision and Implications to Brand Owners and Manufacturers

The Supreme People Court (SPC)'s ruling in *Pretul* case in 2015 established the general position that use of trademarks on Original Equipment Manufacture ("OEM") products exclusively for export does not constitute trademark infringement. The SPC considered that trademark use has to be "use" in China, and since OEM products are only for export, manufacturing of OEM products will generally not constitute trademark infringement in China. This decision was well received by foreign brand owners who were held ransom by trademark squatters holding their mark in China and threatening to block exports of brand owners using the trademark registration in China.

This position was further tested and reaffirmed by the Supreme Court in the case of **Dongfeng** recently.

### II. HIGHLIGHTS OF THE DONGFENG CASE

In January 2014, the claimant, Shanghai Diesel Engine Co., sued the OEM manufacturer, Changjia for infringing their trademark "" registered in China for diesel engines (Registration Nos. 100579 & 624089) by accepting OEM order from an Indonesian company, PT Adi to manufacture diesel engines bearing an identical trademark "" registered in Indonesia. The appellate Court took into consideration that the claimant's "Dongfeng" mark was recognized as a well-known trademark in China and there is reason to believe that the PT Adi's trademark registration in Indonesia is illegitimate, and held that the OEM manufacturer ought to know of the fame of the registered Chinese mark and the

long term dispute between the two trademark owners. Given the previous dispute the OEM manufacturer had with the claimant, by accepting order from PT Adi, the OEM manufacturer failed to discharge its duty of care and duty to avoid using the same famous trademark, and is liable of trademark infringement.

However, such a widened duty of care imposed on OEM manufacturers by the Jiangsu High Court was overturned by the SPC in the re-trial, and the SPC reaffirmed the general position in *Pretul* that manufacturing of OEM products does not constitute trademark infringement, as long as the mark is validly registered in the country which the goods are to be

exported to. However, the SPC qualified this general position and stated that such position may not be applicable if there is evidence showing that the OEM manufacturer did not fulfil its reasonable duty of care, and the OEM manufacturing causes actual damage to the registered mark owner's interests.

In the re-trial judgment, the SPC relied on the fact that the OEM manufacturer had checked the registration certificates of the mark in Indonesia before accepting the order from PT Adi. This was held to be sufficient to discharge the duty of care in confirming the registration status of the mark. Also, there was insufficient evidence to show that OEM manufacturing caused actual damage to the registered mark owner in China. Accordingly, the OEM manufacturer was held not liable for trademark infringement.

### III. IMPACT ON TRADEMARK INFRINGEMENT

**The SPC retrial case is important as it reaffirms the general principle in the landmark Pretul case that OEM manufacturing does not amount to trademark infringement in China. It also treats a valid registration certificate in other jurisdictions as sufficient pre-requisite to accept an OEM order, thus removing the obligation on OEM manufacturer to determine whether a foreign mark is "illegitimate".**

Given this ruling, brand owners should register its trademarks and cancel registrations owned by third parties in jurisdictions other than the brand's country of origin and the country of manufacturing. Brand owners are also encouraged to review its worldwide portfolio from time to time to identify gaps in filing, especially in developing countries where the brand does not have presence yet. This is to avoid a third party acquiring legitimacy just through a rogue registration.

### IV. IMPACT ON NON-USE CANCELLATION

**While the SPC retrial decision clears up the doubts on trademark infringement issues by OEM use of trademark, it**

**re-opens the debate over whether OEM use is sufficient to defend against non-use cancellation.**

As the SPC held that OEM trademark use is not "use" of a trademark under the *PRC Trademark Law*, one may logically deduce that OEM use will equally not qualify as use evidence in defending against non-use cancellation actions. Such approach was similar to the one adopted by the Beijing High Court in the *MANGO* case (2017) in which it was held that the interpretation of trademark "use" shall be consistent in the context of trademark infringement and non-use cancellation. In the *MANGO* case, the trademark squatter's registration in China was successfully invalidated by the real brand owner on basis that the squatter's OEM use was not sufficient to defend against non-use cancellation in China.

However, without a SPC decision, the position is still highly unsettled, especially with the contrary decisions by the Beijing IP Court and/or the Beijing High Court in the landmark *DCLSA* case (2015) and the *SODA* case (2016 & 2017). In these two cases, the Court accepted OEM use in defending against non-use cancellation and recognized the trademark owner's large amount of resources involved in preparing the OEM products to be exported as actual and honest intent to use the registered trademark for business purpose. In particular, it was pointed out that such OEM trademark use fulfills the legislative intent of the non-use cancellation procedure which is to encourage the use of trademark resources and to reduce the number of idle registered trademarks.

Although the issue remains unsettled in China, brand owner should note that even in cases where trademark owners have successfully defended against non-use cancellation by OEM use, their success vitally lies in the ample use evidence gathered. Examples of OEM use evidence that has been accepted by Court include license agreements between the brand owner and the Chinese OEM manufacturers, purchase orders and delivery notes of the OEM products, customs declaration form, as well as dated photos of the products, and brand owners should ensure a clear document trail of such evidence being maintained and periodically reviewed.