

China Update: Bona Fide Principle to Take a Significant Role in the Examination of Original Equipment Manufacturers (OEM) Infringement Cases

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Original equipment manufacturers (OEM) processing in China's trademark infringement cases has always been a source controversy and confusion. Since the Honda case in 2019, it is understood that OEM products in China solely for overseas export does not automatically stand as a defence against trademark infringement claims brought by Chinese trademark holders. This was not a welcoming development for foreign brand owners who have difficulty in obtaining their own Chinese trademarks because of the existence of squatters and bad faith pre-filings in China. That said, we have observed in recent cases that the bona fide principle has started to play a more significant role in determining the outcome in trademark infringement cases involving OEM processing, which is helpful to legitimate foreign brand owners to defend against squatters' "infringement" claims in OEM, and we shall take you into a deep dive into these cases in this newsletter.

WHAT IS OEM AND OEM INFRINGEMENT?

Foreign brand owners instruct OEM to label foreign trademarks on the goods manufactured in China for sales in foreign markets. However,

since the products are not sold in China, the foreign brand owners may not have registered trademarks in China. When the foreign brand owners may then wish to register Chinese trademarks, they may turn out to discover that the trademarks have already been pre-registered by squatters, and they may also face infringement cases filed by the bad faith squatters premised on the Chinese registrations.

CHANGING STANDARD OF EXAMINATION: INCREASING CONSIDERATION OF THE BONA FIDE PRINCIPLE

The courts used to adopt a more straight forward standard in OEM infringement cases based on the principles of territoriality of trademarks. Before the Honda case in 2019, the courts held that since OEM processed goods are not sold by the foreign brand owners within China, there is no likelihood of confusion between trademarks among the relevant Chinese public, and therefore OEM processed goods did not constitute trademark infringement against Chinese trademarks. However, the court's view has changed since 2019.

Honda Motor Company Ltd v. Chongqing Hengsheng Xintai Trading Co Ltd. (the Honda case)

In this case, the Supreme People's Court (SPC) ruled that Chongqing Hengsheng Group's (defendant) OEM processing for Burmese company Meihua by labelling the Myanmar-registered trademark "Hondakit" on the motorcycle parts infringed on Honda Motor's (plaintiff) exclusive rights for "HONDA" trademark registered in China on motorcycles.

In its judgment, the SPC ruled that despite the OEM products of motorcycle parts were intended to be exported to Myanmar for sale, with the ecommerce and increased overseas travel by Chinese people, the OEM products might still return to the Chinese market and be exposed to Chinese consumers. Hence, the foreign registered mark on the OEM products can still play the role of trademark identification and constitute the use of trademark under the Trade Mark Law in China. As the marks indeed constitute similar trademarks, the coexistence of the marks may mislead the consumer and cause likelihood of confusion.

In this case, the SPC has taken an opposite view from the previously established principle on territoriality of trademarks when determining likelihood of confusion. In other words, foreign trademark registration and the authorized use of a trademark on OEM products in China does not automatically stand as a defence against trademark infringement claims brought by Chinese trademark holders.

It should be highlighted that in this case, the Burmese Meihua's mark was only registered in 2014 while Honda's mark was registered in China as early as in 1988. Also, the OEM's intentional emphasis on the word "HONDA" in the trademark affixed on the OEM products could be seen as bad faith behavior against the Honda's well-known trademarks. Although not stated specifically, the defendant's bad faith behavior may have influenced the court's ruling.

While the Honda case gave a ruling that OEM may no longer be a defence, we see subsequent cases further illustrating how the good faith of one party (or the bad faith of the counterparty) may affect the determination of trademark infringement in OEM cases.

Casper Bilgisayar Sistemleri A.S. v. Shenzhen Zhong Shi Tai Electronic Technology Co., Ltd (the CASPER case)

In this case, Shenzhen Zhong Shi Tai Electronic Technology Co., Ltd ("Zhong Shi Tai"), requested Shanghai Customs to take measures against foreign brand owner Casper's OEM exporting from China based on their Chinese registered registration on the trademark. Responding to Zhong Shi Tai's request, the Shanghai Customs seized 675 Casper laptops. Casper then filed a request for declaration of non-infringement against Zhong Shi Tai at the People's Court of Shanghai Pudong New Area. In the first instance decision, the People's Court of Shanghai Pudong New Area held in favor of the Casper that the OEM products, which are to be exported to Turkey, did not constitute trademark infringement of Zhong Shi Tai's Chinese trademark. Eventually, the Shanghai Intellectual Property Court confirmed the same that Casper's OEM products does not constitute infringement after mediation.

In support of their request for declaration of non-infringement, Casper adduced evidence including notarized and certified foreign trademark certificates to prove that they own the registered trademark "Casper" in Turkey on computers goods; agreement between OEM and Casper to prove that according to the license granted by Casper, OEM could not alter the trademark and it was expressly stated that the products are not to be sold in China; customs declaration forms and invoices proves that the laptops produced by the OEM are to be exported to Turkey. In this case, in contrast with the Honda case, the foreign brand owner Casper is a long-established, award-winning

brand on laptops in Turkey, while Zhong Shi Tai had only registered its marks in China 20 years later than Casper's foreign registrations.

Shenzhen Times Weike Soldering Technology Co., Ltd. v. Zhejiang Laston Technology Co., Ltd. (the STAHLWERK case)

In this case issued recently in 2022, the Zhejiang High People's Court further clarified the Honda case and established that no one rule fits all. The Court recognizes that OEM processing is a major player in foreign trading in China, and it expects that trademark infringement issues shall be examined in light of the country's economic developments. It emphasized that OEM processing shall not be considered an exception to trademark infringement activities, nor shall trademark use under OEM processing be automatically considered as infringement. Several factors are to be taken into account, including both the territoriality rules and the bona fide principle.

In this case, the OEM processing was duly authorized by the foreign company, STAHLWERK Schweissgeräte GmbH ("STAHLWERK Company"), and the alleged infringing OEM products bearing the "STAHLWERK" mark were exported to Germany for sale. In contrast, the Chinese trademark owner, Shenzhen Times Weike Soldering Technology Co., Ltd. ("Weike") was a trademark squatter who had prior business relationship with the STAHLWERK Company. As shown from email correspondences adduced by STAHLWERK Company, an affiliated entity of Weike had cooperated with STAHLWERK Company from 2008 to 2011, and was commissioned to design and process products for their "STAHLWERK" welding machines in China. Weike then filed the cited Chinese trademark in October 2011 on the same goods. It was held that Weike had deliberately filed the STAHLWERK mark in bad faith. The Court held that Weike's use of the Chinese trademark violated the bona fide principle under Article 7 of the Trade Mark Law

of China and held that STAHLWERK Company's OEM processing did not constitute trademark infringement against Weike.

KEY TAKEAWAYS

It can be seen that the bona fide principle places an important role in the determination of OEM infringement cases and the Chinese courts now take a holistic approach when assessing liabilities of the parties, taking into account the history of the respective parties and their prior relationships, etc. While OEM use only may no longer be an automatic defence against squatters' infringement claim, legitimate brand owners may still obtain non-infringement declaration against squatters with relevant proofs and records. In view of the above changes, foreign brand owners involved in OEM processing shall take note of the following in order to avoid potential liabilities in China:

- 1) Even if the foreign brand owners do not plan to sell products bearing the foreign trademark in China, as a rule of thumb, we still recommend the foreign brand owners to register the relevant trademarks in China in advance to avoid any uncertainty and the risk of infringement. For maintaining such registration, OEM processing is considered as valid use evidence to defend against non-use cancellations. Some examples include production agreements with the OEM, invoices to the OEM or payment records of bank, customs documents such as customs declaration, packing lists, photos of products showing the trademark used on the OEM products.
- 2) In case the mark cannot be registered in China, the foreign brand owners should keep proper evidence of the OEM processing in order to defend against possible infringement claims. For instance, foreign trademark registration certificates are a must and generally

legalization and notarization will be required for submitting copies before Chinese courts; trademark license agreement showing the specifications for the licensed trademark use and the requirements for exportation to abroad only; and evidence such as media reports or sales volume to prove the reputation of the mark and the owner's brand abroad could be helpful to establish legitimacy of the foreign brand.

- 3) To minimize the risk that the products may be circulated in the Chinese market, the foreign brand owner shall also avoid selling on online platforms where products may be imported back into China.

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