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Trademark usage for OEM's: China SPC decision

Nikita Xue, HongFangLaw, investigates the Chinese courts' latest opinion towards "trademark usage" on OEM as non-trademark infringement.

China contributes a good few supplier sources for Original Equipment Manufacturer ("OEM"), and local factories produce the products based on orders from overseas buyers, then export to buyers once completing the manufacture. Along with the increasing demand from overseas buyers, more local factories in China participate in the business circle as OEM providers, and therewith it comes more legal disputes that are raised from the usage of trademarks during the OEM activity.

Hereinafter, we would like to explore more insights on the situation whether the usage of a trademark during the OEM production by the manufacturer (usually as the defendant) constitutes the trademark infringement against other proprietor's prior registered trademark in China (usually as the plaintiff). Following are the key legal grounds for judicial and administrative (enforcement) authorities to refer to when deciding in such circumstances as the "Gold Standard" in a legal field:

- "A person infringes the exclusive right to use a registered trademark if he: (1) uses a trademark that is identical with a registered trademark in relation to identical goods without the consent of the owner of the registered trademark; (2) uses a trademark that is similar to a registered trademark in relation to identical goods, or uses a trademark that is identical with or similar to a registered trademark in relation to similar goods, without the consent of the owner of the registered trademark, and liable to create confusion." – Article 57 (formerly as Article 52), Chapter VII, Trademark Law of China, constituted in 1982, amended in 1993, 2001 and 2013 respectively.

- "The use of a trademark, as referred to in this Law means the use of the trademark on goods, packages or containers of the goods or in trading documents, or the use of the trademark in advertising, exhibition or any other business activities so as to distinguish the origin of goods." – Article 48, Chapter VI, Trademark Law of China, constituted in 1982, amended in 1993, 2001 and 2013 respectively. (Similar term was stipulated by Article 3 of the Trademark Implementation Regulation of China 2001)

Trademark dispute examples

There have been a few trademark disputes with a similar situation that happened about in the last decade, for example Nike vs. a local manufacturer in Zhejiang Province (authorized to produce the sportswear using "Nike" trademark by a Spanish buyer – CIDESPOT), and Nokia vs. a local technology company in Jiangsu Province (authorized to produce the television with "NOKIA EGYPT" trademark by an Egyptian buyer). However there came different judgments ruled by different courts in China, even some of the judgments have contrary rulings towards the usage of a trademark, identical, or confusingly similar with other's prior registered trademark in China. The most recent civil lawsuit about the "PRETUL" trademark case between a Hong Kong company (owner of PRETUL trademark in China) and a Chinese manufacturer (OEM supplier for a Mexican company) has determined a keynote in the judicial practice area.

Involved trademarks:

Focker Security  Registered in China	TRUPER S.A. DE C.V.   Both registered in Mexico
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On November 26th, 2015, China Supreme People's Court (hereinafter as "SPC") issued the final decision to the case brought by Focker Security Products International Ltd. (hereinafter as "Focker Security") against the original equipment manufacturer (OEM) Ya Huan Lock Industry Co. Ltd (hereinafter as "Ya Huan" from Zhejiang Province). Focker Security alleged that Ya Huan's use of the trademark "PRETUL" on locks has infringed the exclusive rights of

Résumé

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Ms. Xue has been practicing in the IPR industry in China since 2002 and has rich experience in trademark acquisition, brand protection and dispute solution in China. She was recently awarded with Excellence Performance by a famous brand from USA. Nikita has been a member of the International Trademark Association (INTA) since 2006 and served as a committee member of the INTA Pro Bono Committee (2013-2014 & 2014-2015) and the INTA Bulletin Committee (2016-2017).



their registered trademark “PRETUL” in China. Focker Security is a Hong Kong company and they own the trademark “PRETUL” with oval device (Trademark Registration No. 3071808) in class 6 in Mainland China, while Ya Huan was manufacturing the locks for Truper Herramientas S.A. DE C.V. (hereinafter as “Truper”), which is the owner of the trademark “PRETUL” (Trademark Registration No. 770611) and “PRETUL with oval device” (Trademark Registration No. 2783496), both registered in Mexico. Truper asked Ya Huan to manufacture locks bearing the PRETUL trademarks for export to Mexico.

This battle between Focker Security and Ya Huan dated back to early 2011, and Focker Security first sued Ya Huan in Ningbo City, Zhejiang province for trademark infringement, and after the hearing, Ningbo Intermediate People’s Court made the 1st instance judgment that Ya Huan has constituted the trademark infringement against Focker Security. They stated that Ya Huan should cease using the “PRETUL” with oval device trademark on same product immediately, in addition to an economic compensation of RMB 50,000 (approx. USD 7,735) to Focker Security, but the usage of “PRETUL” trademark did not constitute the trademark infringement (Court Docket Number 2011ZYZZC No. 56). The Court deemed that although the products were exported to Mexico without any distribution in China, the usage of “PRETUL” with oval device trademark on locks, packaging, and user guide materials should be regarded as the trademark usage, as stipulated by Article 3¹ of the *Trademark Implementation Regulation of China*. Thus, according to Article 52² of the *Trademark Law of China*, Ya Huan’s behavior has constituted the trademark infringement against Focker Security, and damaged their trademark rights. It seems that the court interpreted Ya Huan’s production activity as kind of “the use of the trademark on goods, packages, or containers of the goods or in trading documents, or the use of the trademark in advertising, exhibition, or any other business activities so as to distinguish the origin of goods”. Moreover, even though Truper has registered the same trademark in Mexico, but based it on the trademark’s territorial feature, Truper’s trademarks could not enjoy legal protection from China laws. However, both parties disagreed with the court judgment and appealed.

Later in 2012, Zhejiang Provincial Higher People’s Court heard the appeal, but they also disagreed with Ningbo Intermediate People’s Court. The Higher court revoked the first instance judgment by deeming the usage of both “PRETUL” trademarks by Ya Huan has infringed Focker Security and also increased economic compensation from RMB 50,000 to RMB 80,000 (approx. USD 12,380) (Court Docket Number 2012ZZZZ No. 285). Even though Ya Huan explained that their products were all exported to Mexico and did not distribute in China region, which could not cause public confusion, the Higher Court did not support their claim. However both the Higher Court and Intermediate Court have made their judgments by according to the same legal ground – Article 52 of the *Trademark Law (2001)*.

Disagreeing with the 2nd instance judgment, Ya Huan submitted an application to China Supreme People’s Court (hereinafter as “SPC”) for a review. On November 26, 2015, the SPC revoked both the first and second instance judgments (Court Docket Number 2014MTZ No. 38), ruling that the use of the PRETUL trademarks by Ya Huan was not a kind of substantially significant trademark use and Ya Huan did not constitute trademark infringement against Focker Security.

From the final judgment made by SPC, it tells that the primary purpose of a trademark is to distinguish the source of the commodity or the service, and even though the *Trademark Law* and the *Trademark Implementation Regulation* have clearly defined the meaning of trademark usage and its presentation methods, there is also an important factor to consider: circulation in the market. As we all know, usually the products produced via OEM are only exported to buyer’s destination and would not be sold or circulated in China region, so the local customers in China have no channel to know or buy the products, and furthermore they would not get confused between Focker Security’s PRETUL products and Truper’s PRETUL products. Thus the “PRETUL” trademarks on the locks produced and kept in Ya Huan could not be functioned as the important marks to distinguish the source of the product. Instead, the manufacture of locks with “PRETUL” trademarks by Ya Huan could be regarded as a purely physical production process to adhere the labels on the products, and this is not the so-called truly trademark usage, according to the essence of the *Trademark Law*. This is the final judgment on this case, and effective.

Conclusions

This judgment, and other similar judgments ever made by SPC, have delivered high impact to the judicial practice, the IPR enforcement authorities, and also the OEM business in China. Firstly, for the border protection side, it would increase the difficulty to local Customs and decrease their determination on border inspection. Once the Customs seize some potential infringing goods, upon the recorded IPR in General Administration of Customs, they might be challenged by the potential infringers by filing the lawsuit, and there is also possibility that the Customs would lose the case.

Secondly, as for the MultiNational Corporations (MNC) which face a global challenge of being counterfeited, they might be not satisfied with such judgment, and it would shake their effort on brand protection against counterfeiters in China for their global market. However, on the other hand, it would not always be bad news for foreign brand owners, which could not enjoy the trademark exclusive rights in China due to being squatted by other trademark-squatters. They might feel more comfortable for keeping using their OEM sources or their own facilities for producing the products and supplying to global markets with exception of China domestic market.

Nevertheless, it might not be a conclusion on whether the trademark usage in OEM is genuine use, although it is a judgment made by SPC, since China is not the Case Law country. The game still continues. It should also be considered that one of the legal grounds cited by the SPC to support the final judgment is also the same one as cited by both Ningbo Intermediate People’s Court and Zhejiang Provincial Higher People’s Court – Article 52 of the *Trademark Law (2001)*³.

¹ When hearing the case in 2011, the court referred to the Article 3 of the *Trademark Implementation Regulation of China (2001)*, which has been amended into Article 48 of the *Trademark Law (2013)*.

² When hearing the case in 2011, the court referred to the *Trademark Law of China (2001)*, which Article 52 has been amended to Article 57 (2013).

³ Amended as Article 57th of the *Trademark Law of China (2013)*.