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The "*Muji* case"- *Ryohin Keikaku Co., Ltd. v. TRAB*: *Does it define trademark use for brand recovery only or does it reopen the issue on whether OEM manufacturing constitutes use?*

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The Japanese company, Ryohin Keikaku Co., Ltd., is the holding company that operates the exclusive *Muji* stores seen internationally. Recently, the Supreme People's Court ("SPC") upheld a Beijing Higher Court's decision in an administrative litigation case and essentially rejected *Muji*'s plea to recover its hijacked mark by adducing evidence of use of its mark in the context of OEM manufacturing products for export. The SPC held that evidence of such OEM use is not sufficient for the purposes of showing that a mark has been *"used and achieved a certain amount of influence in China"* as stipulated in Article 31 of the PRC Trademark Law. Article 31 states that ***"****An application for registration of a trademark shall not be of such a nature as to infringe the existing earlier right of another person. An application shall not be made with intent to register a trademark which is used by another person and enjoys certain reputation"*. *Muji* was seeking to recover its hijacked mark on this basis.

There has been some discussion whether this decision indicates that, for infringement actions, OEM manufacturing purely for export will likewise no longer be deemed as trademark "use", and hence no trademark infringement can be proven. In our view, a more reasonable interpretation would be to consider this as an interpretation only for the combined phrase: *"has been used **and** achieved a certain amount of influence in China",* and not for the interpretation of what constitutes trade mark use generally. The decision does not directly refer to the *use* of a mark in OEM manufacturing *per se* and does not comment on the other articles in the PRC Trademark Law that pertain to use. Also noteworthy is that the *Muji* case is a decision regarding an administrative review. It is not an infringement action per se and also is not a formal judicial interpretation, which influences its level of importance.

Details of the case are discussed below.

Case Background

The mark at issue in the *Muji* case was the "无印良品" ("*Muji*" in Chinese characters) mark. *Muji* filed its Chinese character trademark back in 1999 in several classes (16, 20, 21, 35, 41). In the year 2001, "无印良品" was registered by Hainan Nan Hua Co., Ltd. and later assigned to a Beijing based company, Beijing Mian Tian Fang Zhi Pin Co., Ltd ("Beijing Mian Tian Co., Ltd."). The Japanese brand owner, who does not have a registration for "无印良品" in class 24 in China, opposed the mark based on its "prior use" of the mark at issue in China, by evidencing use of the mark on its OEM manufactured export goods. *Muji* lost at the administrative level, the China Trademark Office and Trademark Review and Adjudication Board ("TRAB") and thereafter filed an administrative review court appeal in 2009, challenging the TRAB's decision. The Japanese brand owner lost the case in both the first instance (Beijing No.1 Intermediate Court) and the second instance (Beijing Higher Court) in 2010. *Muji* therefore sought to challenge the decision in the SPC.

The Decision

The SPC finally upheld the Beijing Higher Court's decision to allow the registration held by Beijing Mian Tian Co., Ltd. While the result was the same, looking closely at the reasoning and comparing it to that of the lower courts, it becomes clear that the SPC reached its conclusion slightly differently. The SPC avoided directly addressing the issue of whether OEM manufacturing purely for exports constitutes trademark "use" under Article 31.

In its reasoning, the SPC held that *"Article 31 is aimed at preventing hijackings, but not to protect all unregistered marks. Only a mark that has been previously used and achieved a certain amount of influence in China should be prevented for registration as stipulated under Article 31"*. In order to reach the conclusion that the required elements of *"prior use and a certain amount of influence"* were not fulfilled, the SPC stated that evidencing use of a trademark in OEM manufacturing activities in China for export is insufficient to show that the mark has achieved a certain amount of influence in China through the "use". It is noteworthy that the SPC did not as such deny that trademark "use" can be achieved by way of OEM manufacturing.

The SPC relied on the theory that the basic function of a trademark is to distinguish the origin of goods or service, and that a trademark can only play a role of origin indication in its area of distribution. Without explicitly stating so, it appears that the *Muji* case demonstrates the SPC's position that it is difficult for brand owners to prove that a mark has achieved a

certain amount of influence if only providing limited evidence of trademark "use" in OEM manufacturing of products meant purely for export. In such cases where the said OEM products are not made available to the general public in the domestic market, the Court would thus have to consider whether 'certain influence' has been achieved within the supply chain and amongst parties in the same industry. The burden of proving certain influence within the supply chain and others in the same industry would thus be a heavy one – this is consistent with previous cases in China.

The definition of trademark "use" in other OEM related cases

In several cases the courts have discussed the application of other articles (primarily 44 and 52) in the PRC Trademark Law and relevant regulations that concern trademark "use". At this stage there is little indication that the *Muji* case was intended to affect existing doctrine under those articles.

Firstly, Article 44 of the PRC Trademark Law provides that: *["Where any person who uses a registered trademark has committed any of the following, the Trademark Office shall order him to ratify the situation within a specified period or even cancelled the registered trademark: (4) where the use of the registered trademark has ceased for three consecutive years".]*

Can OEM manufacturing solely for export be deemed as "use" under Article 44 (4) of the PRC Trademark Law sufficient enough to maintain a registration of the trademark?

The Beijing Higher Court clarified this issue in *Hornby Hobbies v TRAB* in December 2010. Essentially, the Beijing Higher Court held that Article 44 (4) is aimed at encouraging the actual use of trademarks. In determining the use of a registered trademark, the court mentioned that one should not imprudently cancel a registered trademark to create prejudice towards the legitimate rights and interests of the registrant. The court found that use of the trademark on assembled finished toys for export constituted use.

Secondly, Article 52 of the PRC Trademark Law provides that: *"Any of the following acts shall be an infringement of the exclusive rights to use a registered trademark: (1) to use a trademark that is identical with or similar to a registered trademark in respect of the identical or similar goods without the authorization from the trademark registrant."*

Does OEM manufacturing solely for export constitute "use" and therefore infringement of the prior trademark rights of others under Article 52? This question has been the subject of on-going discussions among local and national judges, as well as administrative enforcement authorities.

As we see it, the *Muji* case mainly discusses Article 31 and as such does not provide definitive guidance on what constitutes trademark "use" under Articles 44 and 52 as regards OEM manufacturing in China solely for export.

Continuing Debate

Rather than seeing the recently debated cases as an indication of departure from the common understanding that unauthorized use of a trademark in OEM manufacturing would constitute infringement of a China registered trademark, they could more reasonably be considered as anomalies and therefore should be less of a concern to foreign brand owners involved in OEM manufacturing. Notable court cases including *Nike International v Cidesport & Zhejiang Livestock Products Import & Export Company & Jiaxing Apparel Factory*, *Nokia v Wuxi Jinyue*, and *Deckers Outdoor v Guangyu Leather Industry,* deemed OEM manufacturing as trademark use and trademark infringement. Even though cases such as *Shanghai Shenda Audio Electronics v Jiulide Electronics* and *A&A Wuxi Import & Export Corp. v Crocodile Garments Ltd.* have affected the conventional doctrine and potentially create ambiguity both in civil and administrative enforcement, those views do not necessarily signify a conclusive shift in the reasoning of the Chinese courts at large.

Therefore, for brand owners the more prudent approach would still be to consider unauthorized use of marks in OEM manufacturing as infringement and regarded as trademark use, on a prima facie basis. There will be cases where, in the current China legal environment, policy and political considerations will occasionally have an influence on the decisions but these should be viewed as more an exception rather than the rule.

As we see it, customs and other types of administrative enforcement against infringing OEM manufacturers will continue to exert their strength in the IP protection regime in China, at least for now. We will keep you posted of further developments.

We have previously published articles on this topic:

OEM Revised - Is It Trade Mark Use In China?[1]

Nokia Wuxi Jinyue OEM Case [2]

OEM Jiulide Shenda Case [3]

Please view these articles by clicking the links in the footnotes below.

[1] **OEM Revised - Is It Trade Mark Use In China?**
http://www.hoganlovells.com/files/Publication/d67303bf-374e-4316-8836-d18b69970391/Presentation/PublicationAttachment/41178cf0-1ece-4609-b102-8d87f0670cd3/OEM%20Client%20Alert%20Oct%202011.pdf

[2] **Nokia Wuxi Jinyue OEM Case**
http://www.hoganlovells.com/files/Publication/d67303bf-374e-4316-8836-d18b69970391/Presentation/PublicationAttachment/75888fa7-f4cb-45c5-a6ba-8dee71ab2221/Nokia%20OEM%20case.pdf

[3] **OEM Jiulide Shenda case**
http://www.hoganlovells.com/files/Publication/d67303bf-374e-4316-8836-d18b69970391/Presentation/PublicationAttachment/2800e1fc-bb04-4916-9a6c-914c2272b974/OEM%20Jiulide%20Shenda%20case.pdf

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