

ORIGINAL EQUIPMENT MANUFACTURING REVISITED – IS IT TRADE MARK USE IN CHINA?

Many foreign companies produce goods in China through Original Equipment Manufacturers (OEMs). In most cases it means that the Chinese OEM is licensed to produce certain (branded) products on behalf of the foreign company. In most OEM relationships, the foreign company authorizes the China OEM to manufacture its goods under a particular trade mark. This trade mark may or may not be registered in China.

In some cases, marks that are not registered by the foreign company are hijacked by the OEM or other third parties. In practice this means that the Chinese company registers the foreign company's trade mark in China before the foreign company does, and thus becomes the de facto rights holder in China. In other cases, an OEM may attach a trade mark on the goods, which infringes on the rights of a foreign trade mark owner in China.

Whether or not attaching a third party trade mark on products destined for export out of China infringes a China registered trade mark, is a hotly debated issue. Traditional trade mark doctrine indicates that attaching a trade mark, also for the manufacturing of goods destined for export, should be considered as *trade mark use* and therefore, if unauthorized, be actionable for trade mark infringement by the registered owner of the mark.

Recently in China, case law seems to be developing that is affecting this interpretation, causing uncertainty for brand owners, specifically for:

- Those who want to stop the manufacturing of fake, branded, products in China destined overseas; and
- Those who want to avoid hijackers, who use hijacked registrations to stop the brand owner from carrying out their OEM activities in China.

There have been a few cases, which illustrate OEM export related trade mark issues, including *Shanghai Shenda Audio Electronics v Jiulide Electronics* and *Nokia Corporation v Wuxi Jinyue Technology Co. Ltd.*, which we have written on. There is also another recent judgment for *A&A Wuxi Import & Export Corp. (A&A) v Crocodile Garments Limited* (Crocodile) which is discussed below.

It is noteworthy that these cases are all from the Shanghai courts. Further, only the Nokia case followed traditional trade mark doctrine and confirmed that attaching another party's trade mark on OEM manufactured goods for export can be considered as trade mark infringement of a China registered trade mark.

Below follows a short analysis regarding the most recent case, **A&A v Crocodile**:

A&A, based in Mainland China, received an order from a South Korean company in December 2009 for the OEM manufacturing of 3,500 pairs of women's jeans branded with the crocodile logo, owned by Singapore-based Crocodile International Pte. Ltd. The products were destined for export

to South Korea. However, Shanghai Customs officers confiscated the jeans in January, 2010 on suspicion of violating another company's China registered trade mark, Hong Kong Crocodile Garments Co. Ltd. A&A sued in March 2010, asking the court to rule that it had not infringed any trade mark rights through its OEM export activities. A&A held that Singapore Crocodile's trade mark was registered in South Korea and the South Korean order had been duly authorized. Hong Kong Crocodile argued that it is the only legal rights holder of the Crocodile trade mark in China and that, although the Singapore company's trade mark was registered in South Korea, it should not be *used* in China. The Pudong New Area People's Court in Shanghai ruled that the jeans, which featured Singapore registered Crocodile International Pte. Ltd.'s crocodile logo, did not infringe the similar trade mark owned by Hong Kong Crocodile; and further, A&A had a contract with Singapore Crocodile for the manufacturing. The court was of the view that A&A had used a legally authorized trade mark and that its' processing had neither caused market confusion in China nor damage to Hong Kong Crocodile since the products were for export and not sold in China.

Hong Kong Crocodile filed an appeal to the Shanghai No.1 Intermediate People's Court, claiming trade mark infringement. A&A stressed that the act of attaching the mark to the clothing constituted "production" rather than "use"; therefore it should not be regarded as infringement. Hong Kong Crocodile argued that "production" and "sales" are both based on the benefit that can be derived from the trade mark and must therefore be regarded as *use* of the trade mark, which would be a violation of its trade mark rights. The appeal court held that the production carried out by A&A was not regarded as trade mark *use* and was to be defined as foreign-related OEM processing. In addition, the trade mark was legally authorized by Singapore Crocodile to A&A for export production to the South Korean market. In addition to finding that the trade mark had not been used in China, the court upheld the first instance decision that A&A had not caused market confusion in China, nor inflicted any damage to Hong Kong Crocodile.

In the earlier, **Shanghai Shenda Audio Electronics v Jiulide Electronics**, the court held that the basic function of a trade mark is to distinguish the origin of goods or services, and that since the goods were exported to the US, there was no likelihood of confusion by the relevant public as to the origin of the goods in China. With respect to the definition of trade mark *use*, only use by marketing to Chinese consumers was taken into account by the court, and did not include the supply chain and others in the same business who may be confused as to the origin.

In **Nokia v Wuxi Jinyue**, the Shanghai Pudong New District People's Court held that the LCD television casings, branded with "Nokia Egypt" and manufactured for export by Wuxi Jinyue, infringed Nokia's exclusive rights to use its registered trade mark in China. The OEM's (Wuxi Jinyue) use of the

trade mark was deemed to cause confusion among the Chinese public with regard to the origins of the goods.

It should be noted that in the Nokia case, part of the court's considerations included that the Nokia brand is well-known in the Chinese market and to the Chinese public. The other two above mentioned cases did not include trade marks of a well-known nature. Therefore, it is not apparent whether the Nokia case would have had the same outcome had the trade mark been less famous in China. It should also be noted that, coming to different conclusions, the Shanghai Pudong New District People's Court rendered judgment in both the Nokia case and the A&A case within days of each other.

Out of the three cases, the OEM exporter was only found guilty of infringement in the Nokia case. The result of the Nokia case is thought to provide some solace for foreign brand owners as the other cases seem to have created a loophole for OEMs to produce branded goods for export while avoiding being committed for infringement of third party trade mark rights in China.

The key decisive factors considered by the courts in both the Shenda and A&A cases were that the products were for export only and would thus not be likely to cause confusion among the relevant public in China. In the Shenda case, the court also came to the interesting conclusion that the trade mark in question was *used* by the purchaser of the OEM manufactured products rather than by the OEM, and that since the purchaser was an overseas company, the trade mark *had not been used* in China. This would be regarded as disconcerting to most foreign brand owners in China. There were specific circumstances and relationships between the parties in these two cases, which influenced the courts' opinions. In both Shenda and A&A, the trade marks attached by the OEMs on the products were owned by the overseas purchaser; and the OEM had been authorized to produce the goods. This indicates that the circumstances and the relationship of the parties seem to play a large role in how these cases play out.

Although China does not follow precedents in the way that common law jurisdictions do, and it is not clear whether the Supreme People's Court will look at OEM export related infringement matters. Further, the above mentioned cases do seem to indicate a trend that at least the Shanghai courts are differentiating between sales and production when defining what constitutes the *use* of a trade mark. This could in turn further confuse and frustrate the efforts of trade mark owners in China to put an end to counterfeiting and manufacturing of unauthorized products.

In addition, since aside from the courts, China also has administrative agencies that enforce IP rights, these recent cases have led to uncertainty also within the administrative enforcement regime.

For example, according to sources within the General Administration of Customs, due to the sensitive nature of determining whether OEM manufactured products for export are infringing third party trade marks, local customs offices indicate they may stop seizing allegedly infringing OEM goods for export. Also, sources indicate that the State Administration of Industry and Commerce have been asked to provide internal guidance in the near future with regard to how these types of cases should be handled on an administrative level.

Both practitioners from the industry and profession are lobbying for clarity of the issue and we will keep you posted of developments. In the meantime, foreign companies should continue to ensure that their trade marks are registered both at home, in China and in export markets. To be on the safe side, it is also as relevant as ever for brand owners and their OEM's to have up-to-date agreements.

Links to previous Hogan Lovells articles on this topic:

[OEM Jiulide Shenda case](#)

[OEM Nokia Jinyue case](#)

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