

## Trademarks and Brands

### China

#### OEM PRODUCTS MAY NOT INFRINGE TRADEMARKS IN CHINA - SHANGHAI SHENDA AUDIO ELECTRONICS V JIULIDE ELECTRONICS (SHANGHAI), SHANGHAI HIGH COURT 3RD CIVIL TRIBUNAL (IP) FINAL NO.65 (2009)

The Shanghai Higher People's Court recently upheld a lower court's decision that OEM (original equipment manufacturer) products do not infringe a registered trademark in China if they are manufactured and exported to the order of a different owner of the same trademark abroad.

Many foreign companies have in the past failed to register their trademarks, or have allowed their Chinese partners to register their marks. This has in turn resulted in some of them finding themselves infringing their own brands in China.

Jiulide, the Chinese subsidiary of Jolida Inc., a US audio equipment manufacturer, successfully defended an infringement action in China by arguing that OEM products destined for export market under a foreign mark and not sold in China did not infringe a Chinese registration for the same mark.

Jolida had used the Jolida name and associated logo in the United States since 1986, and registered the trademarks there in 2005. Shanghai Shenda Sound Electric was set up as a wholly-owned foreign enterprise of Jolida in 1996. In 1997, Shenda was sold to an unrelated company and Jolida set up another wholly-owned foreign enterprise, Jiulide Electronic (Shanghai). In 1998, Shenda registered the Jolida name and logo for amplifiers, radios and video-disc players in China. A revised logo was registered in 2008.

The 1998 and 2008 PRC marks      The 2005 US marks



JOLIDA



In early 2009, Jiulide attempted to ship to the United States amplifiers it has manufactured in China for Jolida on an OEM basis under the Jolida and logo, but these were seized by the Shanghai customs authorities as infringements of Shenda's trademark.

#### Decision

The appeal court upheld the lower court's decision that since the products were manufactured solely for export to the US, they did not infringe. In reaching its decision the court took the following factors into account:

- The products were manufactured by Jolida's wholly owned company, Jiulide.
- The products were made to Jolida's order for export to Jolida.
- The trademarks had been previously used and registered by Jolida in the US.
- Jiulide had duly verified Jolida's trademark rights in the US.
- The products were not for sale in China and never reached the Chinese market.

The court relied on the theory that the basic function of a trademark is to distinguish the origin of goods or services and that since all the goods in this case were to be exported to US, there was no likelihood of confusion by the "relevant public" as to the origin of the goods in China.

In addition, in OEM manufacturing, it is the OEM customer who actually uses the trademark, not the OEM manufacturer. Since the OEM customer was an overseas part, the court concluded that there was no trademark "use" in China.

Under Article 52 of the Chinese Trademark Law, unauthorized use of a registered trademark on the same goods is an infringement. No evidence of likelihood of confusion is necessary to establish infringement. On the other hand, simply applying a mark to goods is not clearly an infringement.

Further, with respect to the issue of trademark use, only use by marketing to Chinese consumers was taken into account, contrary to traditional trademark theory, under which not only consumers but also those in the supply chain, as well as competitors and others in the same business who may be confused as to origin.

In this case it was successfully argued that an OEM producer acting to the order of the purchaser is not using any trademark. However, it is not clear whether the will apply in all cases since this argument has not been previously been successful in China whose courts are not bound by precedent.

Henry Wheare  
Partner, Hong Kong

Julia Peng  
Associate, Hong Kong