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TRADEMARK

Analysis of the use of trademarks in OEM based on the legislative intent of trademark protection

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Whether OEM constitutes trademark infringement has been an area of controversy in the field of intellectual property for many years. The ongoing debate has arisen recently, mainly focusing on the following three points: a) whether export-related OEM constitutes trademark infringement regulated by the Trademark Law of the PRC; b) whether OEM satisfies the requirement of "prior use" with an ability to prevent others from registering the trademark on the same or identical goods by illegitimate means; c) whether OEM can defend others' cancellation requests on the grounds that the trademark has not been used for three years consecutively.

With regards to the abovementioned issues, the focus of the argument lies in whether the "brand-post" in OEM is a use of trademark in the sense of Trademark Law. If a) above is not satisfied, b) and c) will be problematic. This article summarizes existing case law and the prevalent literature, and concludes that the current controversy over the use of trademarks shall be weakened, but over the substance of trademark right protection.

1. **Whether OEM constitutes trademark infringement**

There are various opinions which may be categorized into the following: "non-infringement", "infringement", "neutral" and "exception to infringement". In all cases, the focus lies in whether the use of trademarks in OEM constitutes the "use of trademarks" in Trademark Law. Furthermore, the definition of the word "use" in a legal sense is of particular relevance. Moreover, determining whether manufacturing and printing trademarks in OEM is a trademark infringement under Trademark Law, is important to determine. These raise issues concerning confusion, the nature of contracts and the "regionalism" of the intellectual property.

From case law, we may conclude that there are four kinds of judgments: a) infringement exists with compensation; b) infringement exists with compensation at discretion; c) infringement exists without compensation and d) no infringement. For instance:

Infringement exists with compensation: Nike US v. Nike Esp. and Nokia v. Wuxi Kingyoo Technology Co. Ltd;

Infringement exists with compensation at discretion: Ruibao International Trade Co. Ltd in Ningbo tariff-free area v. Cixi Yongsheng Bearing Co. Ltd;

Infringement exists without compensation: Li Lisha v. Xiamen Huameijia Import and Export Co. Ltd;

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When discussing the issue of whether OEM constitutes trademark infringement, we should not be confounded by the concept of "use of trademark". Undoubtedly, without use, the function of a trademark cannot be fulfilled. However, where there is no clear interpretation in the laws and regulations on this OEM-related issue, when determining whether OEM constitutes trademark infringement, it is better look to the object and purpose of the Trademark Law which is for the protection of trademark rights.

Typical OEM patterns include (but are not limited to) the following circumstances:

- An overseas commissioning party has already registered the trademark within both its home country and the export destination. The OEM is entrusted to process or produce goods and export the products to the commissioning party's home country or the export destination;
- A domestic commissioning party entrusts the OEM to process or produce goods and the OEM delivers the products within China. The domestic commissioning party may sell or use all or part of the products in China;
- The OEM produces goods in China by its own means and exports all products to the overseas destination.

Whether or not OEM constitutes trademark infringement is a complicated issue. If there is an insufficient legal basis, it is problematic to be confined to the concept of "use" in Trademark Law to some court judgments which may challenge the use of the trademark. When deciding whether the OEM constitutes trademark infringement, one should not confine ones interpretation to the legislative intention of the concept of "use". The issue should be resolved based on a general understanding on the characteristics of the OEM, the trademark registration and use condition of the plaintiff, the registration history of the plaintiff (i.e. a conspicuous trademark squatting), the potential influence towards Chinese trademark owners in the domestic market and even in the relevant international market and the intention and reasonable duty of care of the manufacturer. After which, a conclusion can be drawn as to whether the OEM constitutes trademark infringement on a case by case basis. In essence, the exclusive right of trademarks is to protect trademark owners in China from any substantial damage, illegitimate diversion of its market shares, or any foreseeable damage caused by OEM.

Even if the trademark in OEM is not registered within China, it shall not be deemed as trademark infringement so long as OEM achieves the following conditions: a) the goods of OEM enter a market where the trademark in OEM is legally protected, (i.e. the commissioning party owns trademark registration in the export destination); b) all the goods are for export only and not for sale within China, which can be identified solely as reasonable export-related OEM in good faith; c) no evidence that OEM has any behavior jeopardizing the interests of the Chinese trademark registrant in both domestic and international markets. Once the OEM has provided proofs regarding circumstances mentioned above, they shall not to bear a heavier burden of proof regarding non-infringement.

Only proof of a lack of intention or ability to sell the products domestically will demonstrate that all products manufactured are provided for export only and will not reach the customers in China. Thus, it will not bring any substantial damage to or improperly occupy the market share of the trademark owner, and therefore do no harm to the trademark rights eventually. However, under any other circumstances, the OEM manufacturer could be requested to shoulder a heavier burden of proof, or even be deemed as trademark infringement.

Under A above, in a solely export-related OEM process, the OEM must not only have no intention to sell the products within China, but also cause no actual or potential influence on the Chinese trademark registrant in both domestic and international markets, especially when the OEM has examined the registration status of the overseas commissioning party's trademark and paid proper duty of care.

Such judgment should be made more prudently especially when the trademark of the Chinese registrant is obviously an act of squatting towards the trademark of the oversea commissioning party.

Under B above, the OEM cannot guarantee the goods delivered are not sold or used within China, nor do they examine the registration status of the domestic commissioning party, which poses a potential threat to the market of the Chinese trademark registrant. Therefore, it is appropriate to be deemed as trademark infringement based on the specific situation. In this case, the OEM will have a heavier burden of proof and whether they have exercised a duty of care should be taken into careful consideration.

Under C above, if the Chinese trademark registrant has also registered the trademark in the export destination, then such behavior might cause damage to the trademark registrant's market in the export destination. In order to prevent such infringement at the initial stage, it is necessary to deem the OEM as trademark infringement. Even if the export destination is just a transit trade spot for a third country, when goods have reached there, both the OEM and the Chinese trademark registrant possess no control over the goods. Thus, the possibility of damage cannot be eliminated. If that is the case, it is justifiable to deem the OEM as trademark infringement.

2. Whether OEM entitles the trademark with prior use and enough influence

We posit that even though the export does not influence the popularity of some trademarks in their business fields, the operator involved in the manufacturing and logistic process of OEM is not the purchaser of products, regardless of its close relationships with the goods. It became aware of the trademark merely through business interactions and product delivery for the manufacturer. These parties do not need to identify the origins of the goods by the trademark attached to processed products, where the trademark does not implement its function of identifying the origin of goods. Therefore, the OEM itself does not necessarily constitute an unregistered trademark. In the MUJI case, the Supreme Court stated that the evidence was “not enough to prove prior use and the trademark was influential”, nevertheless it leads to confusion of understanding as to whether the court means “OEM does not constitute the use of trademark” or “the trademark is used but without forming enough influence”.

However, in the case of Chao Hanliang, the High Court of Beijing overturned the ruling of Trademark Review and Adjudication Board in the first instance judgment, stating that the prior use of the trademark should enable the goods with attached trademark to enter the trading circulation and therefore enable the public to formulate a bond between goods or service and its provider through trademark. Applying Article 32 of the Trademark Law in this issue remains to be problematic. This article is set to prohibit squatting others’ trademarks by unlawful means. And the prior use and popularity is also one of the conditions to prove that the squatter should have been aware of the existence of others’ trademarks. Even if the OEM products have not entered the Chinese market, the likelihood of the public knowing the trademark cannot be eliminated due to the business interactions by the OEM and the commissioning party. Besides the evidence of trademark use in OEM, if there is other evidence that can prove the trademark of the commissioning party has been made popular among the public (e.g. the testimony materials from the Association and Chamber of Commerce, which are accepted by the Trademark Review and Adjudication Board and the Court of First Instance), it is inappropriate to deny the use of the trademark being squatted only because the product is not put into trading circulation in the Chinese market.

3. Whether OEM can defend others’ requests of revocation on the basis that the trademark has not been used in three consecutive years

The concept of “use” regulated in Article 49 of the Trademark Law is an “active use of the trademark” aiming to acquire or maintain the trademark right. Any behavior in the business activities that can link the trademark to a specific product should be considered as an open and valid use of the trademark, which can implement the function of identifying the origin and maintain the registration status.

We believe that the existence and maintenance of the trademark registration is of great significance to the right holder where registration is a prerequisite. If it is deemed absolutely as “not used” due to the need to judge export-related OEM infringement issues, it will bring damage to the right holder in another way.

Article 49 in the Trademark Law is set to prevent the waste of the trademark resources when the right holder does not use it. Furthermore, as the opinion was suggested by the Supreme Court in the case of “Castel”, the legal purpose of setting this article is to activate the trademark resources and clean up unused ones, not simply for cancellation. Hence, establishing the system of revocation when not being used for three years consecutively is to urge the right holders to use the trademark rather than punish them for not using the trademark. When applying this article, caution should be taken to prevent losses of the trademark owners due to imprudent revocation. The trademark owners’ choice of OEM for the past three years rather than selling goods to China does not necessarily mean they do not intend to sell their goods to China in the future. Thus, their trademark right should not be revoked.

When deciding whether the use of trademark in OEM is sufficient to maintain the trademark registration, consideration should be given as to whether owners have true needs to keep their registration commercially and whether they intend to sell products in China in the future. If the commissioning party has registered the trademark in China and has manufactured the goods for a long period of time, we have every reason not to eliminate its intention to sell the goods in China in future. Especially when the trademark owner is capable of showing its intentions, for instance, the advertisement for the product or the internal market development planning, the OEM should be deemed as a public and valid use of the trademark and the registration status should be kept.

To take a step back, even if the trademark is only used in China by export-related OEM, such use is enough to show that the commissioning party has actual needs to keep this registered trademark to a certain extent, suggesting the party’s business activities in China using the trademark. Thus, it is clearly legitimate to keep the registration.

4. Conclusion

To sum up, we are inclined to take the stand of “an exception to non-infringement” regarding whether OEM belongs to trademark infringement (i.e. export-related OEM does not constitute infringement in certain situations, which accounts for the majority situation in nowadays dispute). However, the author also holds that dispute and research should not be confined to whether the behavior of attaching

trademarks on the goods in the process of OEM is equal to the use of trademarks. We should focus on the core function of the trademark to identify the origin of the goods. When applying relevant laws and regulations, we should also consider the crucial issue which is whether certain OEM can bring damage to the actual benefits and predictable potential interests of the trademark owner registered within China. Only in this way can we avoid the puzzle of whether OEM constitute a use of trademark when preventing others from squatting as well as keeping registrations and achieve justice in every single case.

(This article was originally written in Chinese, the English version is a translation.)

TAGS: intellectual property, OEM, Trademark, trademark infringement, trademark protection

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