CHINESE HIGH COURT DECISION CONFIRMS THE OEM EXCEPTION TO TRADE MARK INFRINGEMENT FOR THE FIRST TIME

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For years, overseas companies that manufacture goods featuring their brands in China only for export have faced issues where a Chinese National had registered their trade mark in China. This is because the owner of the Chinese trade mark has been able to successfully stop the export of genuine product by the overseas brand owner. The question of whether the manufacture of product featuring a trade mark for export, known as Original Equipment Manufacturing (OEM), is an infringement of a registered Chinese trade mark was uncertain in China. However, China's Supreme People's Court (SPC) has recently handed down its decision in Focker Security International (Focker) v Pujiang Ya Huan Locks Co., Ltd (Ya Huan), which has found that the OEM manufacturing of goods will not infringe a Chinese trade mark so long as the relevant goods are manufactured exclusively for export.

THE OEM EXCEPTION

OEM for export refers to the process by which a foreign party instructs a Chinese domestic manufacturer to affix its trade mark to the goods being manufactured. These goods are then exported to the foreign party instead of being distributed for domestic use and sale within China and the foreign party is the rightful owner of the relevant trade mark in the overseas market to which the goods are being delivered.

THE SUPREME PEOPLE'S COURT DECISION

Ya Huan was the manufacturer of various goods in China including padlocks bearing the PRETFUL mark under instruction from the Mexican manufacturing company, Truper Herramientas, S.A. DE C.V (Truper). Focker has been the registered owner of the PRETFUL mark in China since 2003, while Truper has owned the PRETFUL trade mark in Mexico since 2002. Focker had registered its trade mark registration for the PRETFUL trade mark with Chinese Customs.

Upon the seizure of goods manufactured by Ya Huan featuring the PRETFUL mark by Chinese Customs, Focker sued Ya Huan for trade mark infringement. The first and second instance decisions held that the production by Ya Huan of the goods bearing the PRETFUL mark for export to Mexico constituted trade mark infringement. Ya Huan consequently appealed to the SPC.

The SPC held that a trade mark affixed on OEM products exclusively designated for export, where the person who ordered the goods has a valid trade mark in the exporting country which predates the domestic registration, does not constitute trade mark infringement.

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The SPC primarily concerned itself with the function of a trade mark, which is to serve as a badge of origin for certain products or services in the Chinese market. Applied to OEM products, the SPC held that the trade mark does not function as a badge of origin for those products since it never enters the Chinese market and thus does not amount to use for the purposes of trade mark infringement in China. In addition, the Court held that use of the trade mark in such circumstances merely made it technically possible for the Mexican importer, Truper, to exercise its trade mark rights in Mexico.

Deciding whether a mark functions as a trade mark depends on the facts of the case, however, the following factual elements may be influential for OEM products to be labelled as non-infringing:

- the domestic OEM manufacturer exports all the products
- the instructing foreign party is the owner of the trade mark in the destination country and the registration of this trade mark predates that of the Chinese mark
- the domestic OEM manufacturer is authorised to produce the products by the foreign party
- the domestic OEM manufacturer undertakes searches to ensure the valid ownership by the foreign party of the trade mark.

REMAINING QUESTION FROM THE DECISION

While this decision confirms the OEM exception, many questions in relation to the wider application of this decision remain unanswered, such as whether companies with a trade mark registration in China who only use OEM for export purposes can be subject to a non-use cancellation. Further, the practical effect also remains to be seen. For example, whether exporters will be able to prevent their goods being seized by Customs or if it will only be a defence once already embattled in litigation.

CONCLUSION

This decision is significant for overseas brand owners that manufacture their products in China for export. However, whether or not the OEM exception will apply to a certain situation will depend on the individual facts of the case.

If you manufacture your goods in China and wish to know more about the consequences of this decision on your business and your intellectual property rights, please contact us for more information.

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