Trademark issue in OEM production arrangement in China

Description

OEM production is an important way of China collaborating with foreign businesses where a Chinese factory is requested to produce certain parts or end products under an OEM contract under which such parts or products will all be shipped to foreign markets. In this post, OEM production we discuss refers particularly to an OEM arrangement where the China OEM factories apply foreign trademarks on the parts and products.

Problems arise when the foreign trademarks are also registered for whatever reasons by persons within China. So when the OEM products pass through China customs, the Chinese persons or companies who hold the trademarks in China will apply to China customs to seize those products on the ground that those products have infringed upon their trademark rights, and then the Chinese trademark owners will sue the OEM factory and the foreign company that employs the OEM factory for damages. Such stories happen very often.

Now the question is: does the OEM factory or its foreign employer infringe upon the trademark rights of Chinese trademark owners? We can further break this question into two: does the OEM factory violate the rights of the Chinese trademark owners? and does the foreign employer commit the same violation?

Courts and legal professionals are deeply divided in respect of the answers to the question.

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Upon arising of such disputes, Chinese courts were conservative and initially most judgments found that OEM had infringed on the rights of the domestic trademark owners no matter whether the OEM factories had been properly authorized by the foreign trademark owners. The legal ground is predicated on the trademark territoriality principle whereby a foreign trademark is not entitled to protection in Chinese territory and the Chinese state apparatus will only protect the interests of Chinese trademark owners. The statutory provision cited for such decisions is Article 52 of China Trademark Law (amended in 2001) and now the Article 57 of China Trademark Law (amended in 2013) which provides:

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> Article 57 each of the following conducts constitutes an infringement of trademark right:

> ????????????????????????????????????

> (I) without the consent of the trademark registrant, use identical trademark on the same products;

> …..

Literally interpreting this article, there is no difficulty in finding the OEM factory and its foreign employer guilty of infringing upon the trademark rights of trademark registrant in China.

With regard to OEM factory, people realize over time that OEM factories' production of goods with trademarks does not constitute the "trademark use" under China Trademark Law. OEM factory business is actually about providing manufacturing service to clients for a fee and the use of trademarks on goods during manufacturing is not the trademark use that can lead to infringement of trademark rights.

However the argument above in favor of OEM factories gives no shield to foreign companies that employ OEM to produce goods. For those foreign employers, their use of trademarks in goods are exactly the "trademark use" provided in China Trademark Law. So they easily fall within the ambit of above-quoted article 57.

In the meantime, there emerges a new interpretation of this legal provision which claims that there is the implied premise for applying this provision in practice, namely, such use is likely to cause confusion in the market undermining the basic function of trademark. In other words, if there is no possibility of causing market confusion, then even the use of the same mark on the identical goods cannot be held as infringing on the trademark right. This is the view widely accepted in Shanghai courts (you can click here for a typical case ruled by Shanghai High People's Court but it is in Chinese language only) and has seen support from other courts in China.

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Based on that understanding, in the case of OEM production, the goods bearing the same or similar marks are shipped outside of China and there is no possibility of causing confusion in Chinese market, and therefore the foreign employer is also not infringing upon the rights of domestic trademark owners. In other words, the application of trademarks onto the products by OEM factory does not constitute the "use of trademark" under Chinese Trademark Law on the ground that the products are not yet set into circulation with no possibility of causing market confusion.

There have been a slew of cases esp in Shanghai where courts cited that interpretation of Article 57 to deny infringement claim by domestic trademark owners against foreign companies.

While these new understanding and interpretation have gained support, it does not mean that these views will be accepted by all courts. Conservative judges may find no reason why article 57 should not be applied with its literal meaning.

On the other hand, China Supreme Court has not shed any clear light over this issue. It shall have to strike the balance between protecting legitimate interests of China trademark owners and protection of OEM industry in China which is still robust in many areas of China.

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