



Has the dust settled on OEM trademark infringement?

China's SPC reaffirms that OEM does not infringe on Chinese trademarks

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Summary


In a recent landmark decision, the Supreme People's Court ("SPC") reversed the remarkable appeal decision in the Dongfeng trademark case¹ about Original Equipment Manufacture ("OEM"). The SPC reiterates its view expressed in its November 2015 landmark ruling in the *Pretul* case, holding that branded products produced through OEM generally cannot infringe upon Chinese trademarks, as long as the goods are not put into commercial circulation within China, and are exported to the trademark owner abroad.

This SPC judgment furthermore cleared up confusion about the "reasonable duty of care" for OEM producers, imposed by the reversed judgement issued in December 2015 by the Jiangsu Higher People's Court. The reversed judgment came only one month after the SPC's ruling in *Pretul*, and held that the respondent committed trademark infringement because it failed to meet its **reasonable duty of care** in reviewing the status of the marks affixed on the OEM products ordered by the brand owner abroad.


The SPC disagrees that the OEM producer in the *Dongfeng* case failed to meet its reasonable duty of care, and arrives at a non-infringement ruling, reaffirming that pure OEM use of trademarks is not deemed trademark use.

Factual background

The claimant, Shanghai Diesel Engine Co.

("SDEC"), is the owner of the logo:  which was registered as early as in May 1981 for diesel engines under numbers 100579 & 624089 ("Dongfeng Logo"). The Chinese characters in this mark mean "East wind" in English and are pronounced like "dong feng" in Chinese. SDEC said it had been exporting diesel engines bearing the Dongfeng Logo to a number of Southeast Asia countries since the 1960s. In

2000, the Dongfeng Logo was recognized as a well-known brand in China by the Chinese trademark office.

PT Adi, an Indonesian company, on the other hand, registered the identical logo:  as an Indonesian trademark on January 17, 1987, also covering diesel engines. An Indonesian opposition procedure by SDEC against this registration failed.

On October 1, 2013, PT Adi ordered a delivery of OEM diesel engines, with the Dongfeng-brand affixed on them, with Chinese OEM manufacturer Changjia.

In October 22, 2013, China's exit customs seized Changjia's diesel engines destined for export to Indonesia, because of presumed infringement of SDEC's Dongfeng Logo. However, the seizure of the goods was lifted because Customs was not sure Changjia's product were infringing, especially because these products were authorized by the Indonesian trademark owner of the same logo. Changjia's products were eventually shipped to Indonesia.

In January 2014, SDEC sued OEM manufacturer Changjia for trademark infringement in China. In the first instance procedure, the Changzhou's People's Court ruled that there could be no trademark infringement as the goods were not put into commercial circulation in China and the trademark affixed on the goods did not play any source-indicating function. In other words, the first-instance court followed the reasoning that would later be adopted by the Supreme People's Court in its *Pretul*-judgment.

SDEC appealed the case to the Jiangsu Higher People's Court who ruled in favor of SDEC. In its judgment, the Jiangsu appeal court explicitly referred to the reasoning in the SPC's *Pretul*-judgment, but distinguished it on the basis of the factual background of the two cases (more detailed assessment [here](#)). The appeal court

¹ *Shanghai Diesel Corporation v Jiangsu Changjia Jin Feng Engine Machinery Co., Ltd.* ("CJF")

held that Changjia knew the Dongfeng Logo was recognized as a well-known mark in China, but nevertheless decided to accept OEM orders and affixed the identical mark on identical products. Changjia was therefore held to fail in its duty of care by checking the status of PT Adi's brand. Moreover, the appeal court held that PT Adi had "improperly" registered the same Dongfeng Logo in Indonesia and had obviously caused substantive damages to SDEC by entrusting Changjia to make OEM products bearing the Dongfeng Logo.

Following the finding of failure in its duty of care and of substantive damages to SDEC, the appeal court decided to hold Changjia liable for trademark infringement.

The SPC's reversal judgment

In its final retrial judgment, the SPC reiterated its main ruling in the *Pretul* case: a sign can only infringe in China if it is *used as a trademark* in China.

The core function of a trademark is to be an identifier of source. Therefore, a sign is not used as a trademark *in China* if the products carrying it are only for export and sold abroad. In fact, in such case, the sign cannot cause confusion with the identical one registered in China, and there can therefore be no infringement *in China*.

This means that a trademark affixed on OEM products is not used as a trademark in China because it does not identify the source of those products in China.

The SPC's conclusion is, like in the *Pretul* case, that OEM products cannot cause trademark infringement in China if (1) the products are *all* exported without entering on the Chinese market; and (2) the OEM manufacturer did not fail to perform its duty of care: it has to review the registration of the trademark in the foreign destination market.

In this case, Changjia fulfilled its duty of care since it had reviewed the validity of PT Adi's trademark registration, which the Indonesian judiciary upheld.

Conclusion

It is clear from this judgment that the SPC is convinced to maintain consistency with its precedent first set in the *Pretul* judgment.

The **essence** of this landmark judgment is that mere OEM use of trademarks **does not infringe** upon Chinese trademarks as long as the following two conditions are fulfilled: (1) the products are *all* exported without entering the Chinese market; and (2) the OEM manufacturer exports its products to the trademark owner in the destination of the goods and reviews the status of its registration.

We expect that by unequivocally confirming its earlier judgment, the SPC has now drawn a clear line, which is likely to make the jurisprudence on this issue more consistent². The only potential room for factual distinction is now the interpretation and extent of the duty of care.

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² Some other OEM-related issues in the trademark prosecution sphere remain unclear, such as whether mere OEM use qualifies as genuine use to avoid non-use cancellations etc.

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