



China's OEM jurisprudence 1.5
years after the *Pretul* case:
OEM use may still infringe upon
Chinese trademarks

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Summary

A year and a half after China's highest court, the Supreme People's Court (SPC), handed down its landmark judgment in the Pretul case, the controversy surrounding the legal status of original equipment manufacturing (OEM) has not yet blown over. After the SPC ruled in the Pretul-case that OEM does not in principle infringe upon Chinese trademarks, the lower courts have taken a more pragmatic approach, and regularly deviate from this SPC jurisprudence on the basis of the concrete facts of each case. In other words: the dust on OEM trademark infringement has not yet settled in China.

Introduction

OEM is a business model whereby a trademark owner orders its products from a manufacturer, often located abroad, who manufactures and supplies products branded with the purchasers marks instead of his own marks. In China, which is often branded "the factory of the world", OEM is big business. However, from a trademark law point of view, OEM in China has been a legal grey zone, as it isn't clear whether the mere affixation of a mark by a manufacturer, without any further use, constitutes trademark use in China.

The Trademark Law does not give any clear-cut answers on the issue, and the judicial and administrative practice on the issue have been inconsistent. Political, macro-economic, social and public interest factors have so far heavily influenced the jurisprudence, as have the specific factual circumstances of each case. You can find earlier newflashes here: [Nokia prevails over OEM in trademark infringement lawsuit, Made in China, the legal status of OEM, OEM Jiulide Shenda case](#) , [OEM Revisited](#), [The Muji Case](#) and [China's SPC finally takes a stand: pure](#)

[OEM use in principle does not infringe upon Chinese trademarks.](#)

In short, according to the most recent SPC case on this issue, the *Pretul*-case, a trademark, affixed on OEM products exclusively designated for exportation does not function as a badge of origin of those products in China. In the Court's opinion, the mark is therefore not used as a trademark in China, and, consequently, cannot infringe upon a Chinese trademark.

This article discusses some of the jurisprudence that followed this case, and that takes a slightly different approach from the SPC's approach in *Pretul*.

The Dongfeng case

Less than a month after the SPC handed down its *Pretul*-judgment, the Higher People's Court of Jiangsu issued its judgment in the *Dongfeng*-case, in which the Jiangsu court reached the opposite conclusion as the SPC in the *Pretul*-case: OEM-manufacturing and export can in fact infringe upon Chinese marks, even if the products are not "commercialised" in China.

The facts of the case were as follows: the claimant, Shanghai Diesel Engine Co. (SDEC) was the owner of the registered complex mark:



in Latin letters and Chinese characters, registered for diesel engines. SDEC had been exporting diesel engines to a number of countries in Southeast Asia since the 1960s, and its logo had gained a reputation in the market there. In 2000, the *Dongfeng* logo was even recognized as a well-known brand in China by the Chinese trademark office. On January 17, 1987, the Indonesian company PT Adi registered the identical logo in Indonesia, 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, with OEM manufacturer Changjia. On October 8, 2013, the exit customs at the port of Changzhou seized the engines due to suspected trademark infringement of the Dongfeng brand (customs has been operating

¹ *Focker Security Products International Limited (莱斯防盗产品国际有限公司, "Focker") v Pujiang Ya Huan Locks Co., Ltd. (浦江亚环锁业有限公司, "Ya Huan")*

this way as per usual). However, the seizure of the goods was lifted because of PT Adi's trademark registration in Indonesia, and the goods were eventually shipped to Indonesia. SDEC therefore sued OEM manufacturer Changjia for trademark infringement. In the first instance procedure, the Changzhou's People's Court ruled that there could be no trademark infringement as the goods were not commercialized in the Chinese market (in other words, the court followed the reasoning that would later be adopted by the Supreme People's Court in its *Pretul*-judgment). SDEC therefore appealed the case to the Jiangsu Higher People's Court. In its judgment, the Jiangsu court explicitly referred to the reasoning in the SPC's *Pretul*-judgment, but held that OEM- trademark infringement generally depends on the factual background of the case.

The Jiangsu Court held that Changjia knew with certainty about the existence of the claimants' (= SDEC) marks, which were recognized as a well-known brand, but nevertheless decided to affix identical marks on identical products, thereby failing to fulfill their duty of care, which infringes upon the rights and obligations of plaintiff and constitutes trademark infringement.

The Jiangsu Court based this decision on the following elements:

- The plaintiffs had registered their brands in China and already sold their products in Indonesia (without local brand registration) before PT Adi owned trademarks;
- PT Adi could not explain why it applied for trademarks in Chinese characters in Indonesia, instead of registering a trademark in the local language;
- Changjia knew or should at least know that the plaintiff's brands were well-known brands in China and had to be aware of the legal battle between the plaintiff and the sender in Indonesia.

The Court therefore issued an injunction ordering Changjia to stop its infringing activities and granted RMB 216,750 in damages and reimbursements to the plaintiff.

This judgment was mostly welcomed by the Chinese IP practice, because it allows to mitigate the harsh effects of a strict application of the *Pretul*-judgment based on the concrete facts of each case, without openly refuting the ratio of the SPC's judgment. This judgment was also welcomed by foreign IP owners and lawyers who wanted to tackle counterfeit production in China at the source.

The *Peak* case

In a more recent judgment (dating back to April 2017), the Shanghai IP Court held that foreign party Morris, who authorized its Chinese OEM manufacturer to manufacture and export clothes bearing its mark ("PEAK SEASON") infringed upon the "PEAK"-mark owned by Chinese trademark owner Fujian Quanzhou Peak Sports Products Co., Ltd.'s covering clothes.

Even though Morris owned the "PEAK SEASON" mark in the USA, and the OEM products were designated for export (so the conditions for non-infringement set by the SPC in the *Pretul*-case seemed to be fulfilled), the Shanghai IP Court found infringement, on the basis of the following factual circumstances:

- The mark on the OEM products was different from the trademark as registered in the USA. Morris used the "PEAK" in an eye catching way which was much bigger than the word "SEASON" and constituted the main part for identification. Such use of the "PEAK SEASON" mark is confusing with the "PEAK" mark to the relevant public.
- Although the OEM products were designated for export, evidence on record showed that the OEM products were nevertheless accessible to Chinese consumers via Amazon's official website www.amazon.com. The court held that Chinese consumers could visit the product listing containing a clear picture of mark. Therefore, the mark on the OEM products does function as the indication of the source of the products and is confusing to the relevant public in China.
- Evidence on record showed that Quanzhou Peak's "PEAK"-mark enjoyed a good

reputation in foreign markets including the USA. Morris knew or should have known the mark. Therefore, its use of the "PEAK"-sign in an eye-catching way shows its bad faith, and intention to free-ride on the goodwill of Quanzhou's "PEAK" mark.

On the basis of these factual elements, the Court distinguished this case from the *Pretul*-case and held both Morris and the OEM manufacturer jointly liable for trademark infringement.

Conclusion

It appears from the cases discussed above that the Chinese courts have, somewhat as expected, with some leeway given by the SPC in the *Pretul*-case, continued to decide OEM trademark infringement cases on a case-by-case basis, depending on the factual circumstances of each case.

We will provide you with further updates when new developments become available.

Further information

If you would like further information please contact a lawyer mentioned below or the lawyer with whom you usually deal.

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