

Expertise Makes It
Possible

Media Center > Insights > Trademark

The SPC Honda OEM case - The end of a long story?

Time: Oct 10 2019

@Wanhuida Intellectual Property

www.wanhuida.com

Expertise Makes It Possible

The SPC Honda OEM case - The end of a long story?

Media Center > Insights > Trademark

Paul Ranjard & HUANG Hui

When goods are manufactured in China by an OEM factory for export, the foreign buyer is not always the owner, in China, of the trademark that is affixed on the goods.

Then, a serious question arises: what if the trademark is registered in the name of a third party, and such third party decides to sue the factory for infringement, and stop the exportation of the goods?

OEM cases in China

The question has long been debated.

People's Courts in different regions of China and at different times have demonstrated, indeed, different understanding of this issue.

In the early 2000, decisions were implementing strictly the general principles of trademark protection: use of a trademark without the consent of the owner is an act of infringement. And, whether the goods that are to be sold in China or exported makes no difference. For example, in *NIKE v. Spanish Side* (2001) and in *Guangzhou Hong Xin Co., Ltd. v. Guangzhou Customs* (2005), the Guangdong High Court declared that using a trademark registered by another person, even when the products are exported, is infringing.

However, this opinion was not shared by all the Courts of China.

In February 2004, the Beijing High Court issued an Answer to Several Issues Concerning Trial on Trademark Civil Disputes, which states (article 13) that "The products made by OEM are not distributed in China which cannot not cause confusion and misunderstanding among consumers, thus cannot be found infringing."

On November 2, 2009, the Shanghai No. 1 Intermediate Court and the Shanghai High Court held, in *Jolida v. Shanghai Shenda* (2008), that because the OEM products are exclusively exported to the US market without distribution in the Chinese market, Chinese consumers will not be confused as regards the origins of the goods. Therefore, the judges considered that, since the primary function of the mark is to indicate the origin of the goods in order to avoid confusion, if the goods are not marketed in China, the mark does not fulfill such primary function in China, i.e., there is no confusion in China, and therefore, no infringement.

However, there was still dissenting opinions in other Courts. On October 13, 2005, in *Ningbo Ruibao International Trade Co., Ltd. v. Cixi Yongsheng Bearing Co., Ltd.* Ningbo Intermediate Court and the Zhejiang High Court held that "territoriality is the basic characteristic of the trademark right...The defendant used a mark identical to the plaintiff's mark without authorization, which constitutes trademark infringement".

In February 2013, the Zhejiang High Court in *Focker Security Products International Limited v. Pujiang Yahuan Lock Co., Ltd.* (the Pretul case) (2012) held that "As long as the acts meet the requirement (Article 52 .1 of the Trademark Law defining trademark infringement), the trademark infringement is committed. According to current laws, regulations and Judicial Interpretations, we see no exceptions; Although the Defendant argues that the accused goods are solely for exportation to Mexico without domestic distribution in China, and that this will not cause confusion and misunderstanding among Chinese consumers as well as cause no harm to trademark right of the plaintiff...this argument is not tenable. The defendant's acts infringed upon the trademark right of the plaintiff".

Time: Oct 10 2019

[Media Center > Insights > Trademark](#)

This case attracted huge attention and the re-trial procedure before the Supreme People's Court was expected to clarify the debate, once and for all.

On November 26, 2015 the SPC reversed the decision of the Zhejiang High Court and held that "since [goods] are not for distribution in the Chinese market, the PRETUL marks do not fulfil the trademark function of 'distinguishing the origin of the commodities' in China. Therefore, such marks are unlikely to cause confusion and misidentification among the relevant public in China ...".

The issue seemed settled, definitely.

It was not...

One month later, on December 18, 2015, the Jiangsu High Court issued a decision (the Dong Feng case), dissenting from the SPC's views in the Pretul case and finding that the OEM manufacturer's activities constituted trademark infringement by examining the issue in the light of general principles such as good faith and duty of care (in this case, the exporter should have known that there was a conflict between the trademark owner in China and the buyer of the goods, in the destination country; and therefore, did not perform a reasonable duty of care).

Two years later, on December 28, 2017, the SPC, in a retrial procedure on the Dong Feng case, in which it reversed the Jiangsu High Court trademark infringement finding. The SPC starts with reiterating its reasoning in the PRETUL case, "Trademark use refers to the act of affixing a trademark to a product, product packaging or container, or using the same in the commodity transaction documents as well as in the advertising, promotion, exhibition or other commercial activities, so as to function as a source identifier. In principle, trademark use that is not purported for source identifying or distinguishing functions, does not constitute trademark infringement in the sense of the Trademark Law."

However, the SPC did not base its decision on this reasoning, but found that, in fact, the exporter had fulfilled its reasonable duty of care and therefore, did not commit infringement.

The issue was not settled yet.

Latest SPC Honda case

On September 22, 2019, the SPC made a retrial judgment in a case Hongda v. Hengsheng et al.), where the Chongqing High Court had strictly followed the reasoning of the SPC in the Pretul case: since the motorcycles bearing the (infringing) trademark "Hondakit" were exported to Myanmar, the trademark was not used in China, no confusion was possible and therefore, no infringement committed.

This time, the SPC did not follow entirely its "Pretul" reasoning. It affirmed that "The act of trademark use should be assessed as a whole. As long as there is a possibility of distinguishing the source of the goods, there is 'use of a trademark' under the Trademark Law". This possibility of distinguishing the source of the goods concerns not only the Chinese consumers (who may have access to the goods when travelling to the destination country), but also all the operators involved in the transportation of the goods.

Furthermore, the Court added an interesting comment about the circumstance where the foreign buyer of the goods owns the trademark in the destination country. "The trademark right is a regional right. A trademark registered outside China cannot enjoy the exclusive right of a registered trademark in China. Correspondingly, the licensee of such a foreign registered trademark cannot use the right to use the trademark as a defence against the infringement".

Comment

The Pretul reasoning, in its apparent logic, was a consequence of the structure of the Chinese trademark law, which is not the same as the TRIPS Agreement or the European legislation. In TRIPS, as in the EU, there is no article defining the use of a trademark. There is only an article defining what signs may be registered as a trademark and another article defining what rights are conferred by the registration. In the Chinese law, there is a specific article (48) which defines the use of a trademark, with its last words "...to indicate the source of the goods".

The Pretul reasoning, which was based on these last words, failed to ask one simple question: if the trademark affixed on the goods does not fulfil the function of indicating the source of the goods (because of the exportation), what other function does it fulfil? Is it generic use? Is it "fair use"? Obviously, the answer to such questions would have been that the mark was, indeed, affixed on the goods for the purpose of indicating the source of the goods, regardless of the place where the goods were to be sold.

In the recent Honda case, the SPC did not actually affirm that the simple act of affixing the mark to the goods does constitute, in itself, the use of the trademark. The SPC explained that even if the goods are exported, there is still a possibility that the mark affixed to the goods indicates the origin of the goods (hence the use of the mark), one of the reasons could be that, after exportation, it is possible that the goods might re-enter the Chinese territory. Another scenario quite more frequent, even SPC did not mention it, is that they might be refused by the purchaser because they are defective or for any other reason, even before they have been exported.

It may sound as bad news for those who have been using OEM manufacturing in China without owning the corresponding trademark. However, in case where they are prevented by a third-party trademark owner from obtaining the exportation of the goods, they might have some arguments, if they can demonstrate the bad faith of such third party. The SPC established the principle that a trademark that was filed in bad faith should not be enforced.