

Research on Trademark Usage in OEM*

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The issue of trademark in OEM is related to trademark law, and from the perspective of international trade, it is also the issue of trademark law relating to international trade. Generally speaking, the trademark system has two functions, that is, protection of private rights and maintenance of the competitive order. The trademark laws of most countries provide that the holder of a trademark right has the exclusive right to use the registered trademark in connection with the designated goods or services within the territory. However, from the perspective of international trade, there are some situations where this is not the case. OEM (original equipment manufacturer) is one form of international trade. When a foreign company conducts OEM operations in China and uses a specific trademark only in relation to OEM, for example, where the foreign company affixes the trademark to the product or its packaging, the Chinese district court tends to find that the relevant act falls under use as a trademark. In this case, if the trademark has been registered in China by a person other than said foreign company, the foreign company can be sued for trademark infringement. The Supreme People's Court of the People's Republic of China tends to find that use of a trademark in OEM solely for export purposes does not constitute trademark infringement. However, this conclusion is related to individual cases and is not a general idea. The issue of whether use of a trademark in OEM after registering the trademark in a deceptive manner can fall under unfair competition is worthy of attention. From the perspective of a blind spot where trademark law and unfair competition prevention law are in potential conflict, related issues become more complex in China and Japan. It is probably beneficial for related industries to provide for this point in the provisions on trademark use in an OEM agreement.

The civil and commercial laws of each country guarantee a company's right to adopt OEM in consideration of its own growth strategy and develop international trade as one of the freedoms of business. From the perspectives of production of products and the practice of international trade development by companies, OEM is a trade tool for global production and strategic moves. Although it is customary in trade for an outsourcee to affix a trademark to a product upon request of the

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outsourcer, each country's trademark law has yet to take common and institutionally fair action in relation to such custom. According to international treaties concerning trademark protection, companies engaging in OEM are not legally obliged to register a relevant trademark in each place of OEM, sell a relevant product on site, or actually advertise the trademark. Even looking at each country's legislative and judicial practice, it is impossible to draw the conclusion that such legal obligations are imposed, from any judicial decision concerning use of a trademark in OEM. It is the original form of free trade that a company makes a choice about whether to sell goods itself in the place of OEM in addition to manufacturing them. An OEM agreement often includes the adhesive terms and conditions in relation to use of a trademark for the product or the manual or packaging of the product, although the production modeling, OEM, is originally not related to trademark. Therefore, whether the act of affixing a trademark falls under the act of trademark infringement in the place of OEM is the issue of intellectual property right relating to trade, and the core of the issue is the issue of trademark law.

In the beginning, trademark was recognized as a sign that expresses the property right as a business sign, and was protected by legislation. With the development of commercial transaction, use of a trademark has come to be conducted by industry groups and countries as a trade control tool, and trademark has also come to be recognized as one of the property rights in common law countries. Although there are numerous documents on the functions of a trademark, the functions of a trademark that are recognized in the international trademark community are the source identification function, quality assurance function, and advertising function. Through trademarks, producers and importers can face consumers "over the retailer's shoulder," that is, over the retailer's counter. This fact does not need to be especially emphasized because it is the core of all the effective trademark protection systems. For a company with managerial ability, a trademark is not only the company's important intangible property but also a sign of the company's goodwill, and it is the company's most powerful spokesman as well as the bearer of the company's goodwill. The academic community and trademark laws of countries think that the modern trademark law has two important goals, that is, protection of proprietary interests of trademarks and prevention of fraud and consumers' confusion.

Trademark is not static intangible property but is originated in dynamic commercial practice. As trademark resources have limitative nature and are related to the competitive order, every country's trademark law sets the provisions on the legal force of non-use of a trademark, and "use it, or lose it" is a common recognition in terms of use of a trademark. Use of a trademark is an important method of exercising a trademark right. However, in what sense exercise of a trademark right by the right holder or by authorized another person falls under "use as a trademark" recognized under trademark law, that is, "use under trademark law," is theoretically an issue determined based on whether the trademark identification function is exerted, and in practice, it is directly related to the issue of the

evidence and fact of rescission caused by non-use of a trademark for a consecutive and certain period of time.

The purpose of trademark-related treaties associated with trade and each country's trademark-related legislation is to protect consumers by delivering a blow to the unlicensed use of a trademark that causes damage to the trademark identification function and commercial goodwill of the holder of a registered trademark right. Where a trademark is used in OEM and a relevant product is solely for export purposes, consumers in the place of OEM are not likely to see the product and the trademark. In addition, the trademark affixed to the product does not exert the source identification function until it arrives at the destination designated by the outsourcer, and the person who registered the trademark in the place of OEM does not suffer any actual economic loss. Therefore, such use of a trademark cannot be deemed to be "use as a trademark" without hesitation.

From the perspective of comparative law, in both France which is the cradle of the modern trademark law, and Germany, where the manufacturing industry has developed, trademark law includes the provisions on the content of use of a trademark, and the act of exporting goods affixed with a trademark is provided as necessarily falling under use of the trademark. There is no exemption concerning use of a trademark solely for export purposes. In the proceedings of a case on the rescission of a trademark due to non-use for three consecutive years, the European Patent Office divided activities into commercial activities and sales promotion activities, required evidence concerning the nature of use, subject of use, and process of use, and requested open use of a trademark, that is, true use of a trademark in trade.

When Japan amended the Trademark Act, it set express provisions that also deem use of a trademark for export purposes to be use of a trademark, but did not set any exemption in relation to use of a trademark solely for export purposes. In the Japanese Trademark Act, use of a trademark is provided from the perspective of civil remedy for a trademark, and rules on the determination of a trademark infringement are provided from the perspective of the exclusive right to use a registered trademark and the prohibitive right. According to a Japanese scholar, Professor Shigeki Chaen, even if an act fulfills all the requirements for use of a trademark provided in Article 2, paragraph (3) of the Trademark Act, it is difficult to find whether the act falls under use of a trademark, and it is impossible to determine whether the act falls under use exerting the source identification function. The requirements for use of a trademark are not the requirements for establishment of a trademark infringement that are provided in the Trademark Act in express terms, but they are widely accepted in court precedents and theories as requirements that attract considerable interest in theories relating to the essence and substance of a trademark. If the function of a trademark, that is, the source identification function of a registered trademark, is not infringed, infringement of the trademark right

must not be found.¹ No court decision in which the court's opinion about this issue is expressed could be obtained through search of Japanese court cases. In addition, no valid answer could be obtained through a questionnaire survey for companies. Therefore, companies' requests and positions relating to this issue are not clear.

As the issue of domestic trademark rights is also related to OEM products solely for export purposes, it is necessary to mainly examine the provisions in trademark law and the legal positions of the judicial organ and the trademark enforcement organ in the place of OEM. China is one of the important regions for OEM. The provisions on the use of a trademark in the early Chinese Trademark Law defines use of a trademark mainly from the perspective of contributing to administrative management relating to the granting and establishment of a trademark right, and the corresponding provisions are the rescission of a registered trademark due to non-use for three consecutive years. This is clear from both the level and the position in the sentence construction of the legal document that includes the provisions. Through amendment of the Trademark Law in 2013, the content of the provisions was partially amended, and the position of the provisions in the text of law was changed. However, the original import that the provisions are managerial rules remains unchanged.

There is no water without a source in the world, and there is necessarily a cause behind a result. In exploring the issue of use of a trademark in OEM in China, it is necessary to find a clue by looking back at the development process of OEM in China. In the 1980s, many manufacturing businesses moved to China through Japan, South Korea, Hong Kong, and Taiwan, and the south east coast cities in China became the area of concentration of OEM. With economic development, export cases that infringe another person's intellectual property right occurred and were subject to criticism from the international society. In order to become a member of the WTO, China enacted the "Regulations of the People's Republic of China on Customs Protection of Intellectual Property Rights" based on the systems of intellectual property laws, including the Trademark Law, and in reference to the "Agreement on Trade-Related Aspects of Intellectual Property Rights," and thereby established the border protection system for intellectual property rights centering on the prohibition of export and import of goods infringing intellectual property rights. At that time, the important content of trademark-related administrative enforcement was whether or not an OEM manufacturer had fulfilled a reasonable duty of examination and care. Overlooking each country's trademark law, a registered trademark can enjoy legal protection only in the place of registration, except for well-known trademarks, based on the recognition that trademark law has geographical limitations. There are cases where the same trademark is registered by different persons from country to country due to the global trademark strategy of the holder of the trademark right. In this case, all the products are produced by

¹ Shigeeki Chaen, *Shōhyōhō* (Trademark Act) (Yuhikaku, 2012): 189-190.

OEM in China. However, if only one of the relevant companies registers a relevant trademark in China and conducts a recordation for customs protection of an intellectual property right, OEM products manufactured by other companies that have not registered the trademark in China become unable to pass Chinese customs. Moreover, one of the risks under the Trademark Law in relation to OEM in the case where a foreign outsourcer has not registered a relevant trademark in China is the induction of a trademark infringement action due to another person's registration of an identical or similar trademark in China.

In China, the "NIKE" trademark case (2000) is a typical example of OEM-related cases. In this case, the court expressed the following opinion. The "NIKE" trademark for which Nike, Inc. in the United States filed an application in China enjoys protection under the Chinese Trademark Law. A Spanish company holds the exclusive right to use a registered trademark for the "NIKE" trademark in Spain. However as the trademark has a regional characteristic, it is not subject to protection under the Chinese Trademark Law. Consequently, the acts committed by the OEM processor and the Spanish company jointly constitute infringement of the trademark right of Nike, Inc. in the United States. The legal standpoint shown in many similar cases at that time was that a trademark has a regional characteristic and if an outsourcer outside a country has not registered a trademark in China and there is another person who has registered an identical or similar trademark in China, the processor's act of affixing the trademark to the product or its packaging based on an agreement constitutes infringement of the trademark right.

A phenomenon called registration of a trademark in a deceptive manner has appeared due to various causes, such as the limitative nature of trademark resources, regional characteristic of trademark protection, and defects in trademark application and examination procedures. This had a certain influence when the holder of a trademark right outside the country develops OEM operations in China. Some district courts adopt the standard consisting of the "necessary duty of examination and care and substantial damage," and handled the act of using a trademark in OEM separately. The court in many regions, including Beijing and Shanghai, had a judicial standpoint that differed from the court in Guangdong, and expressed its opinion that use of a trademark in OEM does not fall under the act of use under the Trademark Law. Regarding this issue, there was a difference in recognition between Shanghai customs and the local court. The Shanghai High People's Court found in the final court decision that use of a trademark in OEM solely for export purposes does not constitute infringement of the trademark right. The General Administration of *Customs* sent a letter to the Supreme People's Court as a representative of intellectual property border enforcement organs to request the clarification of the nature of the act of using a trademark in OEM. In response to this, the Supreme People's Court indicated its legal standpoint recognizing that the relevant individual case does not fall under the act of infringement of the trademark right in its answer. When the Chinese

Trademark Law was amended in 2013, the subjective requirement for the use of a trademark, being the "act of using a trademark for identification of the source of goods," was added, and the concept of use of a trademark was substantially changed. In the two civil actions on "PRETUL" and "東風," the Supreme People's Court changed its decision at the stage of retrial and reversed the court's previous standpoint in the "NIKE" case, and instructed that, for the act of using a trademark solely for export purposes, the act of affixing a trademark does not fall under the act of using the trademark and does not constitute infringement of the trademark right because goods affixed with the trademark are not sold in China, Chinese consumers do not see such goods, and the affixed trademark cannot exert the source indication function.

All things have two sides. While the court does not find the act of affixing a trademark in OEM for export purposes without registering the trademark with the designation of classification in China by the holder of the trademark right outside the country to fall under the act of using the trademark, it considers that the act does not produce the legal effect of the right of priority based on prior use. This is the opinion expressed by the Supreme People's Court in the administrative action on the "MUJI" trademark. The following tendency can be seen from the court's opinion in the administrative action on the trademark. "Use" provided in the Trademark Law means the open, true, and legitimate use of a trademark in commercial activities. The legal grounds in determining whether or not the act of using a trademark is legitimate are not limited to the Trademark Law and its related laws and regulations. If the act of using a trademark in production or management activities that goes against compulsory or prohibitive provisions in laws and regulations is recognized as having legal effect, it could stimulate and encourage illegal acts. This runs counter to the purpose of the provisions on the act of using a trademark in the Trademark Law.

The standpoints of the court rendering different decisions on the same case caused different trends at different times, different places, and different organs. Therefore, it became increasingly necessary to review the policy and legal standpoint behind the legal interpretation and application in the cases of this type again. In the process of mutual action and conflict between customs and the court over the standard for determination of use of a trademark in OEM, the subjective purpose of use of a trademark has become clearer day by day, and customs and the court have gradually broken away from dependence on an optical effect, that is, consideration of objective acts and actual physical phenomena, and have gradually come to investigate the more comprehensive examination of evidence and the effect and influence of use of a trademark. A comprehensive consideration that connects this whole process, specifically, the process and things after the process, was established as a rule through amendment of the Trademark Law and brought a uniform standard to the trademark-related administrative enforcement and judiciary. This can be deemed to be the advancement of Chinese trademark judiciary in relation to the issue of use of a trademark.

The legal opinion expressed by the Supreme People's Court of the People's Republic of China in three trademark disputes relating to NIKE, JOLIDA, and PRETUL is interesting, but it cannot be considered as the final conclusion concerning use of a trademark in OEM. In the PRETUL case, etc., the recognition that the act of using a trademark for a product or packaging of a product solely for export purposes does not fall under the act of using a trademark under the Trademark Law and does not constitute infringement of another person's right for a Chinese registered trademark was established. Where a trademark was registered in a deceptive manner and cannot be immediately rescinded, the aforementioned judicial standpoint is advantageous to the holder of the trademark right outside the country. As the aforementioned judicial standpoint does not oblige a foreign right holder who does not plan to use a relevant trademark in China to register the trademark, it conforms to the spirit of international trade. However, attention must be paid to the point that a foreign company that conducts OEM operations in China and exports all the products faces double difficulties in terms of the registration and use of a trademark. That is, where a company manufactures products by OEM but does not sell them in China after filing a trademark application and registering the trademark in China, it has a legal risk that the trademark will be rescinded on the grounds of non-use for three consecutive years. Therefore, such company needs to reevaluate its own trademark strategy for OEM operations in China. That is, it needs to decide whether to register a trademark and how to use the trademark, make adjustments with a focus on the provisions on the trademark in an OEM agreement, strengthen the monitoring and management of the production process of OEM products, maintain the quality of the products, and control raw materials and the amount of production. Regarding infringement of the trademark right and the act of unfair competition, it adopts a mixed route of assertion of right and protects interest in the trademark to a maximum extent.

Differences in countries' trademark laws provide an opportunity to blend the systems of use of a trademark. However, it is difficult to unify countries' legal standpoints in relation to OEM solely for export purposes because their trademark enforcement and experience in judicial practice are not uniform. In the short term, it is conceivable to promote legal application by judicial organs and establish directional judicial rules. Regarding a higher level of legal amendment, a method with relatively high feasibility is probably to encourage the unification of countries' legal standpoints after reaching a common recognition by concluding a regional free trade agreement.