

Just Manufacturing in China? Trade Mark Infringement Considerations for the UAE

Stephen Jiew - Senior Associate - Intellectual Property
s.jiew@tamimi.com - Dubai International Financial Centre

April 2014

You need to consider the registration aspects of your trade mark in China.

China wears the crown of being the factory to the world. A staggering volume of the products on the world market today are made in China. From basic home appliances to the highest end luxury goods, China is often the source of such products.

The OEM (Original Equipment Manufacturer) business is massive in China. Arguably, it is the backbone of Chinese industry insofar as Foreign Direct Investment is concerned and is largely the driver of the Chinese manufacturing economy in its early years of leaping forward to its current position as the world's second largest economy.

What's OEM?

The classic OEM model is where a foreign trade mark proprietor authorizes a local Chinese manufacturer to manufacture products under the foreign trade mark proprietor's trade mark.

The issue for Middle East and other foreign businesses which have an export manufacturing base in China is whether OEM constitutes trade mark infringement in China.

While such businesses would have trade mark protection in the countries where sales of their products are made, they often neglect to consider trade mark protection in China thinking that it is only a manufacturing base, where products are shipped out upon manufacture.

This could prove to be a costly error.

Issues

There are broadly two issues to consider:

- Could the local manufacture in China be a trade mark infringement?
- How do you mitigate the risk of your trade mark being hijacked by your local Chinese OEM or third parties in China?

Trade Mark Infringement

Whether it is trade mark infringement by an OEM if the goods manufactured in China are only offered for sale in overseas markets is a murky area of law. In one case the Shenzhen Intermediate People's Court found that the manufacture of clothing bearing the NIKE trade mark for overseas markets by a local Chinese manufacturer at the behest of its Spanish principal was found to be an infringement of Nike, the USA company's trade mark.

Then again, there have been a number of recent court cases whereby the reverse position was found. In

Shanghai Shenda Audio Co. Limited v. Jolida Electronics (Shanghai) Co. Limited, the court held that there was no infringement even though the goods were manufactured in China given that they were clearly intended for the USA market and the goods were never meant to see the light of day in the Chinese market. No Chinese consumer would ever be misled as to the origin of the goods and, therefore, there was no infringement. Similarly, in a case involving the well known CROCODILE trade mark where the Chinese factory manufactured products destined for the Korean market where the trade mark was registered in Korea by the OEM's Singaporean licensor but not in China, the court found no infringement. Again, the court reasoned that given the CROCODILE marked products were not offered for sale in China, it was not possible for any confusion amongst Chinese consumers.

Alas, there has yet to be any Supreme Court level judgment on this issue so the Chinese People's Courts in the various localities have been free to arrive at conflicting conclusions.

Hence, the legal situation remains murky at this time and in order to avoid costly litigation, brand owners are generally advised to ensure that their trade marks are registered in China even though their only activity there may be via OEM manufacturing for products, which are ultimately destined for overseas markets.

Misappropriation of Trade Mark

The use of OEMs can lead to difficulties. The OEM may try to set itself up as a competitor, or become a rogue OEM which manufactures counterfeit products after hours, perhaps even managing to register your trade mark in China. Sorry tales of such errant OEMs abound in the factory to the world, where OEMs seek greener pastures in making a greater buck quicker.

Invalidation actions are possible to recover your trade mark but why suffer anxiety at the Chinese courts when you can be assured of certain trade mark rights upon registration of your mark. Be prudent and seek registration of your trade mark the moment you embark on OEM aspirations in harnessing the might of the Chinese manufacturing prowess to get your products to market in your ultimate export markets outside China.

Foreign brand owners are encouraged to register their trade marks lest they be hijacked by their OEMs or third parties even though their products are never intended for sale in China.

The Bottom Line

Foreign trade mark owners would be prudent to secure trade mark registrations in China to ensure that their OEM manufacturing activities are not hindered by trade mark infringement claims. Such trade mark registrations would avoid costly recovery actions via litigation against rogue OEMs or third parties who might misappropriate your trade marks.

As part of Al Tamimi & Company's IP Department's portfolio management services for brand owners, our intellectual property lawyers work with our international network of associates to routinely advise brand owners with manufacturing interests all over the world particularly in Asia including China by devising holistic programs for comprehensive protection of their trade marks.