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NEWSLETTER
知产快报

"OEM Manufacturing" refers to foreign trademark owners entrusting Chinese manufacturers with production of goods bearing their trademarks, and exporting all products abroad instead of selling in Chinese market. Therefore, there have always been controversies in the identification of use area of the OEM Manufacturing in practice. Just like the case in this article, the registered trademark owner has produced related goods within the jurisdiction of Chinese Mainland but then exported all of them abroad, without distributing in Chinese Mainland. This article will focus on whether the use of a registered trademark in OEM manufacturing meets the requirement of use in Chinese Mainland.

Whether OEM Manufacturing Meets the Requirement of "Use" in the "Non-use Cancellation Action" ----Comments on the Administrative Litigation on the Review of Non-use Cancellation Action against the Trademark "CHARTER CLUB"

The "Use" is the core of the term "Non-use Cancellation Action" stipulated in Chinese Trademark Law. According to the Article 48 of the Chinese Trademark Law, the "Use" means that a trademark is used in goods, goods packages or containers and trading documents, or used in advertising, exhibitions and other commercial activities, in order to identify source of goods. Meanwhile, a trademark registered in one country while being used in other countries will not be considered as effective use in one country based on the territorialism and the principle of independence of trademark rights. Therefore, only use of a registered trademark in the jurisdiction of Chinese Mainland could be considered as effective use in Chinese Mainland.

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Current juridical practice

In the process of "Non-use Cancellation Action", it did not recognize OEM manufacturing as effective use in earlier practice, but it tends to recognize it as effective use recently. For example, in the case of review of non-use cancellation action against a trademark "SCALEXTRIC" No. 731233, the designated goods of the attacked trademark are toys in Class 28. Within the appointed three years, the trademark owner transported its toy accessories bearing the trademark to the Chinese manufacturers, entrusted the Chinese manufacturers with the processing of finished toys and then sold the finished toys abroad, without selling them in Chinese Mainland. As to the trademark owner's such kind of use, the judgment held that the essential attribute of a trademark was identification, and there was no possibility for Chinese consumers to contact the goods bearing the trademark which did not enter into Chinese market for circulation, though the mark was used in the processing of goods. Therefore, such way of use could not play the role of distinguishing source of goods, so it does not meet the requirement of "use" stipulated in Chinese Trademark Law[1] . However, the judge in the second instance held an opposite opinion and explained the reason in details: though the finished products bearing the trademark did not enter into Chinese market for circulation, it would be unfair to the trademark owner if the trademark was cancelled, and moreover it would be contrary to our policy of expanding foreign trading[2] .

In the case of review of non-use cancellation action against the trademark "Damiani" (International Registration No.710226), the judge held that only producing and processing clothes bearing the trademark were related to the trademark in Chinese Mainland, while the goods entering the market had nothing to do with Chinese Mainland, as the goods were purely exported out of China after being produced. Therefore, the relevant public in Chinese Mainland could not identify source of the goods bearing the trademark, so the trademark could not play the role of a trademark it should have. Based on the above, the trademark could not be considered as being used truly and publicly in Chinese Mainland[3] .

For another example, in the case of review of non-use cancellation action against a trademark "TOPMOST" No.3071813, the trademark owner authorized other parties to use its mark, and the use evidences submitted were all goods the licensees entrusting others with producing and processing bearing the trademark for purely exporting out of China. Both the Trademark

[1] (2009) No. 1 Middle Court No.1840 Administrative Judgment of First Instance

[2] (2010) Higher Court No. 265 Administrative Judgment of Last Instance

[3] (2013) No. 1 Middle Court No. 2070 IP Administrative Judgment of First Instance

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Review and Adjudication Board (TRAB) and the Court recognized this kind of use as effective use[4] .

Details of the Case

Our client, Macy's Merchandising Group, Inc. (the Plaintiff), an old US department store, registered a trademark "CHARTER CLUB" (the disputed mark) No.1192709 in China in 1998. The designated goods are related to "clothing" of Class 25. In February 2012, a cancellation application was filed against the Plaintiff's above trademark by a third party. In September 2013, the China Trademark Office (CTMO) ruled to support the evidences of use submitted by the Plaintiff and maintained the registration. But the third party unsatisfied with the decision and filed a review application to the Trademark Review and Adjudication Board (TRAB) in November 2013. Later in January 2015, the TRAB made a decision to cancel the registration of the trademark. Afterwards, the Plaintiff did not accept the decision and filed an administrative litigation to the Beijing Intellectual Property Court in February 2015.

The disputed mark has always been an important trademark for the Plaintiff. In this case, the evidences provided by the Plaintiff, including contracts and invoices with its Chinese manufacturers, shipping orders, customs declarations, etc., could form a complete chain of evidences, to prove the Plaintiff entrusting Chinese manufacturers with producing goods bearing the trademark during the appointed period. Especially, the customs declarations, which clearly record Chinese manufacturers producing goods bearing the disputed mark by the way of processing and then exporting the goods to the US after domestic transshipment, are documents examined by China Customs. The evidences can truly and effectively prove the Chinese manufacturers authorized by the Plaintiff producing goods bearing the disputed mark and exporting them out of China.

On December 26, 2017, the Beijing IP Court ruled to revoke the TRAB [2015] No.18035 Decision on Review of Non-use Cancellation Action, and meanwhile ruled the Defendant TRAB shall re-issue a decision on the review of non-use action initiated by the third party[5] .

Our Comments and Analyses

Respecting the understanding and the appliance of articles of non-use cancellation action stipulated by Chinese Trademark Law in the Opinions on Several Issues Concerning the Trial of Administrative Cases of Authorization and Confirmation of Trademark Rights released in 2010 by the Supreme People's Court of the PRC, the Supreme People's Court of the PRC points out that, "We should correctly determine whether the behavior involved constitutes the actual use in accordance with the legislative spirit of the relevant provisions of Chinese Trademark Law". It is thus clear that grasping the legislative spirit is essential for the correct understanding and appliance of the non-use cancellation action. The aim for the Chinese Trademark Law to stipulate, that a trademark which has not been used for three consecutive years would be cancelled, is to promote trademark registrants to actively use their trademarks, to bring trademark functions into play and to avoid the idleness and waste of trademark resources. Therefore, when considering whether trademark use happens within Chinese Mainland, we should consider whether the use is sufficient to play the role of distinguishing source of goods within Chinese Mainland. The disputed trademark in this case has been put into production in Chinese Mainland. Though the goods were directly exported to foreign countries instead of being sold in Chinese market, the processing and production of products, OEM manufacturing, freight, customs declaration and export, as well as the contract execution between the trademark owner and Chinese manufacturers occurred in Chinese Mainland.

The "use" in the non-use cancellation action means activating a trademark and maintaining the rights on the basis of existing rights instead of creating rights. The requirements for use of trademarks based on this legislative purpose are clearly different from those for creating rights. The OEM manufacturing is essentially a kind of foreign trading behaviors. If OEM manufacturing is not recognized as effective use of trademarks, the goods produced by OEM manufacturing would not be normally exported out of China, causing the trading not being able to continue in China. Therefore, based on the principle of equity, the recognition of OEM manufacturing as effective use of trademarks is in line with China's current policy of expanding foreign trading.

Of course, concerning the cases in which

[4] (2012) No. 1 Middle Court No. 179 IP Administrative Judgment of First Instance
[5] (2015) Beijing IP Court No. 2592 Administrative Judgment of First Instance

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evidences of OEM manufacturing would be used to prove effective use of a trademark, the trademark owners need to retain and actively collect relevant evidences, such as contracts for processing and invoices with Chinese manufacturers, shipping orders, customs declarations and cargo lists, etc., in order to form a complete chain of evidences to prove use of its trademark in Chinese Mainland.

The newsletter is not intended to constitute legal advice. Special legal advice should be taken before acting on any of the topics addressed here.

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Ms. Wu is a partner and senior trademark attorney at Lung Tin, and the head of the Trademark & Copyright Department. She focuses on all trademark matters ranging from trademark registration, opposition and review, licensing and transaction, particularly in dealing procedures after trademark right affirmation, such as trademark opposition, review, litigation, etc. as well as other complicated trademark matters. She is familiar with Japanese clients and their demands, and is accomplished in Japanese. She joined Lung Tin in 2011.

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Ms. Sui is a trademark attorney and attorney at Law at Lung Tin. She is experienced in Chinese legal system, particularly in trademark practices including the trademark registration, cancellation, monitoring, opposition, dispute, review, administrative litigation, complaint, and legal documents written for both foreign and domestic clients. Furthermore, she offers high qualified services in connection with Customs recordation, Customs detainment, copyright, domain and other relevant property matters in China for domestic and foreign clients.

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