
China: Use in OEM Manufacturing Could Give Rise to Trademark Infringement

By [Janet L. Hoffman](#)

Honda Motor Co., Ltd. v. Chongqing Hengsheng Xintai Trading Co., Ltd. et al. (Sup. People's Ct., Civil Retrial Judgment (2019) No. 138, September 23, 2019)

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We remind our clients of an important decision issued in September 2019, in which the Supreme People's Court ("SPC"), the highest court of the People's Republic of China, held that an entity's original equipment manufacturing ("OEM") activities—namely, manufacturing goods in China for export only—constituted trademark infringement of another party's registered trademark. The case was *Honda Motor Co., Ltd. V. Chongqing Hengsheng Xintai Trading Co., Ltd. et al.* ("Honda").

This decision is a radical departure from the SPC's earlier rulings in prior cases, such as the PRETUL and Dongfeng cases.[1] Pretul involved a customs seizure of certain goods manufactured in China for a foreign company. A local PRC trademark owner claimed that the mark affixed to the subject goods infringed its rights in the PRETUL mark. The SPC concluded that OEM manufacture would not constitute trademark use that could form the basis of infringement if these three elements were present: (1) the OEM was authorized by a foreign company, (2) such authorization was limited to manufacture for export only and (3) the foreign company owned a valid right to the subject trademark(s) in the country of destination. The subsequent Dongfeng case affirmed the ruling in PRETUL, adding another element, namely, placing the burden on the OEM manufacturer of checking the foreign party's right to the trademark in the country of destination. As a practical matter, this duty would be discharged

when the OEM manufacturer receives from the consignee copies of the foreign company's trademark certificates in the destination country/ies.

These rulings were effectively overruled in Honda. In this case, the SPC held that OEM could well constitute trademark infringement if a determination is made that use of the trademark in this context could cause confusion among the relevant public in China. The "relevant public" was deemed to include not just local consumers of the allegedly infringing goods, but also operators of businesses relating to the goods at issue. The SPC concluded that goods produced by OEM could still be accessed by the relevant public in the PRC (by such goods returning to China online or through Chinese citizens traveling abroad). In short, the test would be likelihood of confusion, whether or not there is actual confusion or actual access to the goods. For trademark owners who already have registered their marks used in OEM in China, this case should not be of great concern. But for companies whose marks have not been registered in China, but are applied to goods through OEM, the risk now appears higher if there are prior local registrations that could be considered identical to or confusingly similar with such mark(s). It should be noted that the Honda decision came out the way it did despite the fact that the local company's mark at issue, HONDAKIT, could have been considered piratical since it was used with HONDA emphasized. The SPC did not comment on this aspect of the case.

Given this decision, it is all the more important for trademark owners manufacturing for export from China to search and file for the marks they expect to use, or are using, for this purpose. And if a search discloses prior applications or registrations that could be considered obstacles to use or registration in China, steps should be taken to clear the register of such marks, if possible, through invalidation, opposition, and/or acquisition (possibly anonymously). Another practice point is that marks used in connection with OEM should be identical in format and coverage to those for which the manufacturing entity has exclusive rights in the destination jurisdiction(s). As it is not clear how aggressively this case will be applied going forward, it is important that trademark owners secure advice in particular cases.

[1] PRETUL case in 2015 (Retrial Civiljudgement (2014) Min Ti I No. 38; Dongfeng case (2019) Retrial Civil Judgement(2016) Zui Gao Fa Min Zai No. 339..

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