



Dispute Resolution

Foreign-related OEM Held to Constitute Trademark Infringement — Comments on the Supreme People’s Court’s Judgment in the Honda OEM Case

Authors: Vivian HE | Xiaomeng DONG

On September 23, 2019, the Supreme People’s Court (the “**SPC**”) entered a retrial judgment in a trademark infringement dispute case between the retrial applicant Honda Motor Co., Ltd. and the respondents Chongqing Hengsheng Xintai Trading Co., Ltd. (“**Hengsheng Trading**”) and Chongqing Hensim Group Co., Ltd. (“**Hensim Group**”, together with Hengsheng Trading, the “**Respondents**”). The judgment overturned the second instance civil judgment in the case by holding that the Respondents’ foreign-related original equipment manufacturing (“**OEM**”) **activities constituted trademark infringement**¹.

The judgment in Honda held that foreign-related OEM can constitute trademark infringement, **which differs markedly from the SPC’s earlier rulings in the trademark** infringement cases of PRETUL in 2015² and Dongfeng³ in 2018. In Honda, foreign-related OEM was found to constitute trademark infringement, indicating that the SPC’s judicial views are undergoing **a major change**. The SPC in Honda returns to the law and legal principles compared with the previous judgments, which took greater consideration of the needs of national economic policies. The SPC’s interpretation of certain important issues is more in accordance with the original intent of the law, such as in respect of “use of trademarks” and “relevant public”.

Honda OEM case – factual background

Hensim Group accepted a commission from Myanmar Mei Hua Company to process and manufacture 220 sets of motorcycle parts.

¹ [Case of Trademark Infringement Dispute: Honda Motor Co., Ltd. v. Chongqing Hengsheng Xintai Trading Co., Ltd. et al.] (Sup. People’s Ct., Civil Retrial Judgment (2019) No. 138; issued Sept. 23, 2019).

² Retrial Civil Judgement (2014) Min Ti Zi No. 38 made by Supreme People’s Court.

³ Retrial Civil Judgement (2016) Zui Gao Fa Min Zai No. 339 made by Supreme People’s Court.

Myanmarese citizen Thet Monaung holds the trademark right to “HONDAKIT” in Myanmar and serves as the managing director of Myanmar Meihua Company. Thet Monaung authorized Hensim Group to attach the trademark “HONDAKIT” to the corresponding goods, while Hengsheng Trading handled matters related to customs declaration and export, and exported all relevant goods to Myanmar.

Upon hearing the case arguments, the SPC found that the Respondents used the words and graphics of “HONDAKIT” on the motorcycle parts they manufactured and sold in a manner which **caused the “HONDAKIT” trademark to appear similar to the three trademarks claimed by Honda Motor Co., Ltd., by emphasizing the word “HONDA” in large letters while deemphasizing the word “KIT” in smaller letters, and marking with red the letter “H” and similar wing-shaped parts.** The SPC held that the alleged acts of infringement constituted the use of a trademark, which also had the possibility of causing confusion and mistaken recognition among the relevant public and could easily confuse the relevant public. Ultimately, the SPC held that the Respondents’ OEM constituted trademark infringement.

Key Questions in the Honda OEM Case

I. “Use of a trademark” under the Trademark Law

1. The SPC’s holding

In Honda, the SPC affirmed for the first time that the use of a trademark in OEM constitutes the use of a trademark “in the trademark sense”. The SPC held that the use of a trademark usually includes many aspects, such as physical attachment, market circulation, etc., and whether the use of a trademark constitutes the use of a trademark under the Trademark Law should be integrally and consistently interpreted in accordance with the Trademark Law, and a single activity should not be separated and only viewed as a discrete aspect. If a trademark is used on manufactured, produced, or processed goods as a mark or otherwise, such use shall be deemed to constitute the “use of a trademark” under the Trademark Law, so long as it is possible to distinguish the origin of the goods.

2. Brief comment

In Dongfeng and PRETUL, the SPC did not find the use of trademarks in foreign-related OEM to constitute the use of trademarks “in the trademark sense” because the goods were wholly exported outside China. In fact, to some extent, those judgments considered certain national economic policy factors. Dongfeng and PRETUL stood to indicate that brands used in foreign-related OEM could not constitute trademark infringement, thus rendering it impossible for domestic trademark owners to prevent the use of their trademarks on such goods in China—an absolute rule that has been unfair to domestic trademark owners. The SPC held in Honda that the use of trademarks on OEM goods sold only outside China may constitute the “use of a trademark”—so long as the trademarks were used on the goods within China and had the function of identifying the origin of the goods. In Honda, the SPC has returned to a more rational interpretation of “use of a trademark”.

II. Relevant public

1. The SPC’s holding

In **Honda**, the SPC's interpretation of "relevant public" corrected the one-sidedness of "relevant public" in **Dongfeng** and **PRETUL**. The SPC held that, in the present case, the relevant public includes not only the consumers of the allegedly infringing goods, but also the **operators** closely related to the marketing of those goods. **This interpretation is more in line with the definition of the relevant public in the Trademark Law.** Moreover, with the development of e-commerce and the Internet, **even if the infringing goods at issue were exported abroad, it would be possible for those goods to return to the domestic market.** **At the same time**, with the continuous development of China's economy, **there are a large number of Chinese consumers traveling and spending abroad** and such consumers may also come into contact with and be confused by branded goods.

2. Brief comment

In the previous cases, the administrative and judicial authorities have had a relatively narrow understanding of the relevant public for goods wholly exported abroad and ignored operators who may be exposed to trademarks in production, transportation, and sales. The authorities also rarely considered factors such as "goods may return to China" and "Chinese consumers may come into contact with trademarks when abroad for tourism or consumption". The SPC's latest holding on issues related to the relevant public in **Honda** deserves attention. While, the SPC includes "operators" in "relevant public" according to judicial interpretation, the SPC also considers other factors when determining the issue of "relevant public", such as actual circumstances, economic development and the convenience of logistics having a great influence of the regionality of intellectual property rights and the potential influence of regional factors (such as "Chinese consumers coming into contact with trademarks when abroad for tourism or consumption", "goods may return to China").

Subjective malice of the Respondents in the Honda OEM case

It is worth noting that in the SPC's judgment, it was emphasized that the trademark involved in **Honda** was used in a way that **"the word 'HONDA' was enlarged and the word 'KIT' was reduced in size"**. Although the SPC did not directly comment on the Respondents' subjective malice, **the manner in which the Respondents used the trademark clearly reflected their subjective malice to ride the coattails of the well-known brand "HONDA"**. The circumstances of the Respondents' subjective malice should have had a certain influence on the judges' evaluation of evidence, the criteria for the judges to admit evidence, and the final judgment in the case.

Advice for foreign-related OEM contractors

After the SPC's judgment in **Honda**, domestic judicial authorities may show a tightening trend toward whether foreign-related OEM can be found to constitute infringement. This is clearly positive news for those who have already registered trademarks in China, but for foreign trademark owners who only enjoy trademark rights abroad or whose domestic trademarks have been squatted, the changes in judicial attitudes may increase the legal risk of involvement in infringement actions with trademark squatters. The following are some suggestions for foreign trademark owners whose marks are being squatted in China:

1. Review Chinese trademarks before contracting for foreign-related OEM in China. If the same or

similar trademarks are already registered in China, we suggest taking measures against those trademarks as soon as possible, such as through invalidation or opposition. Foreign trademark owners should also apply to register their trademarks in China.

2. From an efficiency standpoint, foreign trademark owners can consider anonymously acquiring the same or similar domestic marks in order to reduce the negative impact on exporting goods outside China. This will effectively reduce or eliminate the risk of infringement litigation in a short period of time.
3. Trademarks used in OEM should be entirely the same as the corresponding foreign-registered trademarks, and goods manufactured in China should only be exported to destinations where the trademark owner has rights to their marks.

Important Announcement

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If you have any questions regarding this publication, please contact:

Vivian HE

TEL: +86-755-3680 6589

Email: vivian.he@hankunlaw.com