

## Administrative sanctions on “mere-export manufacturing” - What should foreign investors and OEMs in Vietnam be aware of?



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### Résumé

Nguyen Vu QUAN is working as a partner with KENFOX IP & Law Office in the Litigation Department. QUAN works with a wide range of clients to develop efficient and affordable strategies to uncover and stop third parties from illegally using or registering IPRs in Vietnam, Laos, Cambodia and Myanmar.

### New regulations on administrative liability for exports that violate IPRs

In July 2021, the Ministry of Science and Technology published for public consultation a draft decree (“**Draft Decree**”) amending certain provisions in Decree No. 99/2013/ND-CP (“**Decree 99**”) on the sanctioning of administrative violations in industrial property, under which it was proposed to sanction the export of industrial property infringement or counterfeit goods.

This is the first time that the act of “*exporting goods that violate industrial rights*” has been codified in a sub-law decree of Vietnam. The new provision on “mere-export manufacturing” may result in the understanding that: (i) exportation falls within the category of acts classified as “**use**” under Article 124.5 of the Vietnamese Intellectual Property Law; and (ii) even if goods are manufactured for pure export, they will be considered an infringement if they are affixed with a mark confusingly similar to another person's registered mark without permission.

The above provision is said to ensure compliance with the Vietnamese Customs Law (2014) and the CPTPP's provisions.

### Implications

- Certainty and transparency.** The provision subjecting “exports of goods that violate industrial rights” to administrative sanctions will be a significant imprint / milestone in the Vietnamese IP statute. Whether this provision is good or bad, positive or negative, is a question that is not easy to answer; it requires time to be tested. The lines between good and bad, positive and negative, are frequently imperceptibly thin. However, it is certain that this statutory law can help clarify a long-standing controversy and the inconsistency in handling one IP issue of the same nature involving the exportation of goods bearing others' IPR in the following ways: Now, the issue of infringing on others' IPR in Vietnam must be addressed. Foreign investors or Original Equipment Manufacturers (OEMs) conducting manufacturing activities in Vietnam must comply with Vietnamese laws; even if the goods they manufacture are intended / destined for export only, they must be handled appropriately if they infringe on others' IPR.

This clarity serves as an exemplary principle for applying the law consistently and fairly, and in the long run, for instilling trust and confidence in a solid, transparent, easy-to-understand, and easy-to-apply legal mechanism for investors and rights holders when choosing Vietnam as the destination for commercial, business activities.

- Strengthening Vietnam's position in IPRs protection:** Consider the following hypothetical scenario: a Vietnamese enterprise uses a foreign entity's registered well-known mark or a Vietnamese enterprise's registered mark to manufacture the goods bearing such a mark and exports them to a third country (*manufacture destined for export*), but Vietnamese law *does not penalize exporting goods that violate industrial property rights*. What will happen? Almost never do such scenarios end in lawsuits or confrontations between businesses over an ambiguous section in Vietnam's IP legislation. What is

potentially detrimental is that this ambiguity will breed negative attitudes toward Vietnam among foreign investors. How would Vietnam's image be perceived by foreign investors? Vietnam is most likely to be seen as a country that defends counterfeit goods, a hub for legitimate counterfeit goods manufacturing, and a micronationalist dictatorship. The provision imposing administrative sanctions on "*exporting goods that violate industrial property rights*" could be interpreted as an affirmation that Vietnam will not tolerate IP infringements, thereby strengthening Vietnam's position in IP protection - which is viewed as a national competitive edge in attracting foreign investment and garnering increasing attention from the international community.

### Another perspective - From the cases involving "pure-export manufacturing"

Political stability, a young, abundant, and skilled labor force with low wages, the low cost of renting land and factories, as well as the country's geographical location in the Asian supply chain, an improved investment climate, and upgraded infrastructure all contribute to the flow of foreign investment into Vietnam. Products labeled "Made in Vietnam" are growing in popularity and trustworthiness. Vietnam has been and continues to be a destination/production location for a number of the world's most renowned brands and manufacturers (such as YKK, Samsung, INTEL, Pegatron, Millet...). Vietnam is exporting an increasing number of products labeled "Made in Vietnam" to the rest of the world.

In a common sense, exportation is the removal of commodities from a country's territory or into a special area within the territory that is designated as a separate customs zone, such as customs preference zones, industrial zones, processing and exporting zones, and non-tariff zones within the territory. Exported goods can be produced by domestic organizations or individuals, or by firms in industrial zones or processing and exporting zones that agree to process goods for foreign traders and then export them abroad via processing contracts or in the form of manufacturing solely for export.

**OEM** (Original Equipment Manufacturer) is a preferred method of commercial processing by a large number of foreign investors. Clothing, footwear, electronics, functional foods, pharmaceuticals, and toys are all examples of products manufactured under the OEM model, which is highly common in Vietnam's foreign investment activity. Accordingly, domestic firms utilize the production materials (machines, equipment, and raw materials) provided by foreign investors / customers to manufacture goods in accordance with the latter's requirements/designs. Such goods are manufactured, assembled, affixed with the foreign investors' / customers' trademarks and then packaged and exported out of Vietnam.

In the sphere of intellectual property, foreign investors frequently place a premium on trademark registration prior to conducting business in Vietnam. However, many house marks that have been registered in the host country or in export markets are rejected when they are filed in Vietnam due to their identicalness / confusing similarity to previously filed or registered trademarks of other entities in Vietnam, despite the fact that they have been conducting OEM activities in Vietnam. Export-oriented manufacturing is a closed process in which the manufactured goods are not consumed in Vietnam but are entirely exported. The question used to arise was **whether an OEM's affixing of marks identical/similar to another party's registered mark in Vietnam on the goods they manufacture destined for export constituted trademark infringement?**

This question has triggered endless debates in Vietnam and many countries around the world, particularly those with a high concentration of factories/production facilities aimed toward export, such as Vietnam, Indonesia, Malaysia, China, and a few other Asian countries.

Exporting goods outside the territory of Vietnam means that: Such goods are not circulated in the domestic market. Consumers and the general public cannot approach the trademarked goods which are only produced in factories, then packaged, sealed and shipped out of Vietnam. Therefore, consumer confusion is eliminated. In other words, consumers cannot be misled because export-only products do not exist on the market. Confusion is a critical element to establish when filing a complaint in Vietnam regarding trademark infringement. Without likelihood of confusion, there would be no harm/damage to consumers, society and rights holders. In addition, Article 124.5 of the IP Law defines "using" as three distinct types of acts, one of which is "importing," but not "exporting." Furthermore, Article 211.1 (a) of the IP Law provides that an act of "*infringement of IP rights*" is only administratively sanctioned if it "*causes damage to the author, owner*".

This is the position taken by a Vietnamese enforcement agency in a trademark dispute involving a French trademark owner who had already registered a trademark in Vietnam for clothing items classified as Class 25 and was alleging trademark infringement by certain OEMs located throughout the country.

**Case #1:** The trademark dispute arose in 2015 when a French company brought a series of administrative enforcement actions against four OEMs located in four industrial zones in the provinces of Phu Tho, Ha Nam, Hung Yen and Hai Duong, Vietnam. Local law enforcement agency conducted raids and detected a large number of apparel items bearing **an identical mark** to the French holder's registered trademark. In defense, four OEMs submitted processing contracts with a Korean business. The contract stipulates that all products created in Vietnam will be sold to Korea to demonstrate that the manufactured goods were solely for export. The local law enforcement agency sought consultation from a superior authority. Following a meeting between representatives of the rights holders, representatives of four OEMs in Vietnam, and local enforcement agencies, the case was closed with a reference to Article 211.1(a) to determine that **exporting is not administratively sanctioned**.

However, in a similar case, customs authorities took a contrary position. Customs authorities seized an export shipment that had a trademark that was identical to another brand protected in Vietnam and issued orders sanctioning administrative offenses. The entire shipment was then destroyed.

**Case #2:** In 2016, the Anti-smuggling, Counterfeit Product Control and Intellectual Property Protection Team (Team 4) under the Anti-smuggling and Investigation Department inspected a shipment under export declaration No. 300678893930/B11 made on January 13, 2016 in the name of Pham Nguyen Confectionery Company Limited. Team 4 determined that confectionery products bearing "Choco Pie" sign infringed on ORION CORPORATION's trademark rights, seizing and destroying 1,200 boxes of Choco Pie weighing roughly 4 tons and valued at nearly 200 million VND.

To customs authorities, export manufacturing remains an infringement of IPRs since it violates the exclusive rights that only rights holders enjoy when their IPRs are protected in Viet Nam. It is worth noting that **"exporting" is not a solitary act**. Before exporting goods bearing the mark, the manufacturer must perform a series of steps, including *design, manufacturing, processing, assembly, packaging, and affixing the mark to the goods, etc.* Simply "affixing" the mark to the goods constitutes "use" thereof. Thus, the act of manufacturing for export satisfied the requirements in Article 124.5 of the IP Law for the act of "using." Under Article 129, the act of "using" a sign that is confusingly similar or identical to a registered trademark for similar products or services constitutes trademark infringement. Pure-export manufacturing satisfies all four of the elements defining "infringement of rights" provided in Article 5 of Decree 105/2006/ND-CP.

The two cases mentioned above are of the same nature in that goods are manufactured in Vietnam solely for export purposes, but each enforcement agency adopted a different interpretation and application of the law, resulting in the contrary handling. The inconsistent and conflicting handling of IP cases involving exporting by Vietnamese enforcement agencies has alarmed trademark owners, investors, and IP community in Vietnam, while Vietnamese law enforcement authorities became perplexed and reluctant to intervene in IP cases involving "pure-export manufacturing".

### Questions from the new provision on "pure-export manufacturing"

#### 1 **Is it necessary to establish "likelihood of confusion" and "damage" to handle the act of "exporting goods that violate industrial rights"?**

This is a question that many stakeholders, particularly OEMs, are interested in. Without additional guidance and explanation in the by-laws, it can be understood that: Even if goods are manufactured solely for export, they **will be considered an infringement of another's trademark rights and will be administratively sanctioned** if they bear a confusingly similar trademark without permission. This regulation appears to contradict the language of Article 211 of the IP Law, which explicitly defines the circumstances under which administrative violations for acts deemed "*an infringement of industrial property rights*" will be sanctioned. As can be seen, Article 211 of the Vietnamese IP Law is comprehensive and, when properly interpreted and applied, can be used to effectively handle the act of manufacture-for-export-only.

**Article 211.1(a)** of the IP Law stipulates that only acts of “*infringing upon intellectual property rights causing damage to authors, owners, consumers or society*” will be “*sanctioned for administrative violations*”. This means that in order to have an act of “infringement of industrial property rights” dealt with, the requester must establish that the act “caused damage.” However, rights holders are not required to establish “*damage*” if a third party engages in “*producing ... transporting, trading in counterfeit goods of IP or assigning others to perform this act*” under **Article 211.1(b)** or “*producing, importing, transporting, trading, stocking stamps, labels or other articles bearing the counterfeit mark... or handing it over to another person to perform this act*” under Article 211.1(c) of Vietnamese IP Law.

Thus, it can be seen that under Vietnamese intellectual property law, there is a distinction between two sorts of acts, as defined in Article 211.1(a) and (b), and thus two unique means of dealing with them. Under this logic, it is required to assess the extent to which the conduct of “*manufacturing solely for export*” qualifies for proper legal handling. It can be understood that:

- If the goods only bears a sign **similar** to another's trademark, the act of “manufacturing merely for export” can be administratively sanctioned **if and only if** the rights holders can establish the “**likelihood of confusion**” and “**damage**”. Thus, in order to impose administrative sanctions against OEMs for using a sign that is confusingly similar to another's trademark, the trademark owner must establish the likelihood of confusion and damage. Otherwise, OEMs will be immune from administrative penalties.
- However, if the goods bear a sign **identical** with another's trademark, it is not mandatory to establish the “**likelihood of confusion**” and “**damage**” so as to impose administrative sanctions against the alleged infringer. Article 16 of TRIPs provides that “*In case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed”.* This provision is understood to mean that when an identical mark is used on identical goods, the likelihood of confusion is presumed and does not need to be established. Vietnamese law provides regulations/explanations that correspond to Article 16 of TRIPs, specifically, Article 13.2(a) of Circular 11/2015/TT-BKHCN dated June 26, 2015 providing for “*Acts infringing upon rights to marks*” [2. *Identification of elements infringing upon rights to marks: a) In case of use of a sign identical to a mark for a goods or service identical ...it is unnecessary to examine the possibility of consumer confusion about the goods or service bearing the mark”]. Thus, international law and Vietnamese law both agree that: in the case of using identical signs for identical products, there is no need to establish consumer confusion.*

## 2 Whether it sparks rampant IPR squatting and abuse?

**Heavy obligations and risks for foreign investors:** In another view, the downside of regulations on subjecting “exports of goods that violate industrial rights” to administrative sanctions lay in the question that many people ask: Whether the aforementioned laws dampen the flood of foreign investment into Vietnam, erode export-oriented manufacturing capacity, and make the investment climate in Vietnam less attractive. This is somewhat justified because there are companies and corporations that manufacture goods in Vietnam solely for export, investing in machinery, production tools, and factories to create jobs for local residents and contribute to the country's economic development. Why are they required to register their intellectual property in Vietnam in order to have a secure legal tool for exporting, while the manufactured goods are not sold to Vietnamese people or not sold/distributed in the Vietnamese market, not to mention the successful registration of trademarks in Vietnam is increasingly difficult due to the trademark defensive registration or registration in bad-faith.

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Basically, IP protection serves two purposes: first, to safeguard the lawful rights and interests of IPR holders; and second, to safeguard consumers. How are the rights and interests of IPR holders damaged when the trademarked goods manufactured in Vietnam are destined for export. Given that the goods are not sold or distributed within the country, how can this be confusing for consumers? Whether the institution of exporting administratively sanctioned IPR violating goods is seen to go too far and beyond the primary aim of IP law, hence providing excessive protection to IPR holders.

**Rampant IPR squatting and abuse:** The regulation imposing administrative sanctions on "exports of goods that violate industrial rights" may lead to the understanding that affixing a sign identical or similar to another's trademark for goods of the same kind with those bearing the registered marks intended solely for exportation shall **automatically** constitute an infringement of trademark rights, without the need to establish a likelihood of confusion. This regulation is hazardous in that it has the potential to **encourage rampant trademark squatting** — the practice of registering trademarks in bad faith in order to attack foreign investors/OEMs in Vietnam to earn illicit profits.

According to our observations, in Vietnam, an individual named "Azais Stephane, Alexandre" residing in Ho Chi Minh City filed nearly 200 trademark applications, of which, most of them are well-known trademarks and long-standing reputation of foreign brand owners in many countries around the world.

Consider the following hypothetical scenario: An EU or Japanese manufacturer employs their factory in Vietnam to produce goods in Vietnam, then exports all those goods to their home country; the trademark was already registered in EU or Japan, but cannot be registered in Vietnam due to the trademark having been pre-registered in bad faith in Vietnam by an organization/individual. While in production, their factory was shut down, and the goods were seized for allegedly *infringing on* the registered trademark of a Vietnamese organization/individual. The right to own such a mark has devolved into something akin to a lethal weapon that has been abused for malignant purposes.

However, if Vietnam adopts a regulation requiring only proof that the goods are "*manufactured for export only*", the manufacturer can use another's and is exempt from legal liability, the prospect of a manufacturer using another's registered trademark to affix on goods destined for export to a third country will quickly become rampant and uncontrollable.

### The bottom line

In practice, foreign investors or OEMs can play two roles: as trademark owners and as accused users of trademarks that infringe on the trademark rights of others. Therefore, it is challenging to foresee all possible circumstances for the formation of institutions capable of appropriately addressing the issue of manufacturing goods for export in any country.

Using an unregistered trademark in the context of Vietnam's changing IP legislation regarding the *manufacture of goods destined for export* will expose foreign investors/OEMs to unforeseen risks. This new regulation can stimulate rampant IPR squatting and abuse. Therefore, the fight against pervasive IP squatting aiming to defend OEM manufacturing activities in Vietnam, while simultaneously combating the illegitimate use of trademarks owned by other organizations/individuals for the export purpose is two essential duties for Vietnamese legislators. To avoid the possibility of IPR legislation being abused, IP experts believe that Vietnamese law should adopt comprehensive, comprehensive, and rigorous regulations that address the five main major difficulties.

- (i) Right to register intellectual property;
- (ii) Genuine use of IP objects;
- (iii) Mechanism for opposition/cancellation of IPRs;
- (iv) Bad-faith of the rights holders;
- (v) Criteria to be satisfied when dealing with the act of "manufacturing for export only" (*including detailed guidance on cases where the act of manufacturing goods destined for export will be subject to administrative sanctions and cases where the likelihood of confusion must be established as a prerequisite to impose administrative sanctions to deal with such act*).

In some countries, enforcement agencies will determine whether "manufacturing exclusively for export" constitutes an infringement of trademark rights based on four criteria.

- (i) Whether the OEM was authorized to manufacture the products in the exporting country based on a valid prior trademark right?
- (ii) Whether the OEM acted reasonably in verifying the foreign purchaser's IPRs?
- (iii) Whether the manufactured goods are destined exclusively for export and do not circulate in the local market? and
- (iv) Whether a well-known trademark is involved, and there are obvious signs of bad-faith?

Vietnam follows the first-to-file principle, which means that conflicts with pre-existing trademarks, most notably those registered by trademark squatters, are very likely. With the new regulations contained in the draft decree amending Decree 99/2013/ND-CP, it is clear that foreign investors/OEMs in Vietnam require a comprehensive IP strategy for sustainable development that incorporates at least the following five actions in order to best adapt to and respond to changes in Vietnamese IP law, prevent IPR conflicts, and mitigate risks:

- ✓ **Actively conduct availability searches for the IP objects intended to be used in Vietnam before entering into processing agreements with OEMs in Vietnam.**
- ✓ **Immediately register IP if the search results show that the intended IP object is highly registrable.**
- ✓ **Immediately register copyright if the trademark or industrial design satisfies the conditions for protection in the form of copyright under Vietnamese law.**
- ✓ **Monitor the status of IP registration on the Industrial Property Official Gazette to initiate opposition/cancellation procedures if grounds exist.**
- ✓ **Submit a request to the Vietnam Intellectual Property Research Institute (VIPRI) for an assessment of the likelihood of IPR infringement before using an intended IP object in Vietnam.**

The aforementioned fundamental and core approach will assist foreign investors/OEMs in minimizing the risk of becoming embroiled in complex and expensive IP disputes, particularly at a time when IP squatting and abuse have been increasing and changing subtly in recent years. [KENFOX's attorneys](#), with in-depth practical experience, knowledge of IP law, are always ready to accompany and advise on solutions/strategies, whether short or long-term, detailed or comprehensive, to assist you in effectively, legally, and cost-effectively exploiting your intellectual property.

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