

Manufacturing for Export Only: Does it Constitute Trademark Infringement? - Rulings from China and Practices in Vietnam

The production of goods bearing trademarks that are identical or confusingly similar to those of others for export is a controversial issue in the field of intellectual property (IP). In both China and Vietnam, the production of goods bearing foreign trademarks for export under the OEM (Original Equipment Manufacturer) model has become prevalent in recent years. Foreign commissioning parties enter into processing contracts with domestic manufacturers to produce goods bearing their trademarks for export. However, in many cases, the trademarks affixed to the goods for export are identical or confusingly similar to a registered trademark in the domestic market. Whether the use of a trademark that is identical or confusingly similar to that of another person in the production process for export constitutes an IP infringement, especially when these products are not circulated in the domestic market, is a complex question. The judgments from Chinese courts and legal practices in Vietnam have brought multi-faceted, complex, and noteworthy perspectives for stakeholders, especially IP rights holders.

KENFOX IP & Law Office provides a deeper analysis of the relevant legal aspects, while also offering helpful information to assist IP rights holders in better understanding potential risks and measures to protect their rights in the current context of globalization.

IN CHINA

1. Predator Case

Fuzhou Yama Mechanical and Electrical Co., Ltd. (hereinafter referred to as "Yama Company") is the owner of trademark No. 10886272 "Predator", which is registered for goods in Class 7, including generators and emergency power generators. The trademark application was filed in May 2012 and registered on September 14, 2013.

Harbor Freight Tools (USA) is the owner of the U.S. trademark "Predator," which is registered for products in Class 7 (generators). According to information on the USPTO website, the trademark's first use in commerce was on February 1, 2012. The application was filed on October 12, 2012, and was registered on June 18, 2013.

On March 20, 2021, Chongqing Shenchi Import and Export Trading Co., Ltd. (hereinafter referred to as "**Shenchi Company**") declared the export of a set of gasoline generators to the United States at Shanghai Customs. The product was affixed with the trademark "Predator". The overseas consignee was Harbor Freight Tools. On March 22, 2021, the Customs authority issued a "Notice of Intellectual Property Infringement" to Yama Company. On March 25, 2021, Yama Company filed an application for the detention of the suspected infringing products. On June 24, 2021, the Customs authority issued a "Notice of Detention of Suspected [Infringing Goods](#)". The aforementioned generator sets exported by Shenchi Company were detained. On August 4, 2021, the Customs authority issued a notice stating that it could not determine whether the goods infringed the IP rights related to Yama Company. Yama Company subsequently filed a lawsuit with the court.

During the trial, Shenchi Company stated that they had been negotiating with Harbor Freight Tools (USA) regarding the generator product bearing this trademark since the end of 2020. On March 20, 2021, the first sample was sent to Harbor Freight Tools for inspection.

According to the documents related to the trademark license provided by Harbor Freight Tools, Harbor Freight Tools authorized Shenchi Company to use the "Predator" trademark solely for the purpose of manufacturing Harbor Freight Tools' products, and the products can only be distributed to Harbor Freight Tools.

Judgment:

First Instance: Pudong New Area People's Court, Shanghai

The Pudong Court concluded that the alleged infringement involved the handling of the licensing of the trademark from abroad. The act of handling the trademark was determined to be an act of using the trademark. The court held that although Chinese law does not consider the "likelihood of confusion" factor as a constitutive element of trademark infringement, it does not mean that the issue of confusion does not need to be considered. This is because the possibility of confusing consumers about the origin of goods or services is a necessary condition for constituting trademark infringement.

The product involved in the case was a sample product sent to a laboratory in the United States and was not put on the Chinese market. From the nature of the product, the possibility of the sample product returning to the Chinese market is very small and does not affect the registered trademark of Yama Company in the domestic market. Therefore, the suspected act in this case will not cause confusion among consumers about the origin of goods or services, will not significantly affect the identification function of Yama Company's trademark in China, and does not constitute [trademark infringement](#).

Second Instance: Shanghai Intellectual Property Court

[i] The Shanghai IP Court held that whether the act of using a trademark by a party entrusted to manufacture goods constitutes "use of a trademark" under Chinese law is a controversial issue. However, the Court concluded that determining whether the alleged act constitutes "use of a trademark" is only one of the factors in considering trademark infringement. If other elements of trademark infringement are not met, then determining whether the act constitutes "use of a trademark" is unnecessary. Accordingly, if there is sufficient evidence to prove that the defendant's act does not satisfy other constitutive elements of trademark infringement, it can be concluded that the act does not constitute trademark infringement, regardless of whether it constitutes "use of a trademark".

[ii] Damage to the exclusive right to use a registered trademark is a constitutive element of trademark infringement. Although Article 57.1 of the Trademark Law does not explicitly state the requirement of causing confusion, this does not mean that acts of using a trademark identical to a registered trademark on the same type of goods without causing confusion will not constitute infringement.

Accordingly, even if no confusion is caused, the act of using an identical trademark still damages the rights granted by law to the owner of the registered trademark, including the right to prohibit others from using that trademark. Therefore, this act can still be considered an infringement of [intellectual property rights](#) as prescribed by law.

[iii] Based on the territorial principle of trademark law, whether the act of using a license related to a foreign country harms the exclusive right to use a trademark registered in China should be evaluated based on the territorial principle. The territorial principle of trademark law is still respected: The exclusive right to use a trademark is only effective within the territory where the trademark is registered. In this case, that is China.

However, the application of this principle needs to be more flexible: In the context of globalized trade, being too rigid in applying the territorial principle may limit the rights of trademark owners and no longer be in line with international commercial practices.

- **Evaluation criteria:** The most important factor is whether the use of the trademark affects the identification/distinction function of the trademark. If the use of the trademark abroad does not diminish the ability of the trademark to be identified/distinguished by domestic consumers, then such use is considered legitimate.
- **Purpose:** The main purpose of a trademark is to allow consumers to identify the source of goods. If consumers in China can still distinguish the company's goods from other goods, then the rights of the trademark owner are still protected.
- **Need to expand the territorial principle:** The Court found that in some cases, applying the territorial principle too rigidly could be detrimental to trademark owners. For example:
- **Reputable trademarks abroad:** If a trademark has already gained a reputation abroad, manufacturing and selling products bearing that trademark abroad can help enhance the brand's image in the international market, thereby benefiting the trademark owner's business in China.

In conclusion, with the above observations and spirit of interpretation, the court is seeking a balance between protecting the rights of trademark owners and facilitating international trade. The court's view suggests that the application of trademark law needs to be flexible and in line with economic realities.

[iv] The Court observed that in the era of globalization, theoretically all [exported goods](#) have the potential to return to the country of origin. The question is whether the re-importation of these goods constitutes an infringement of intellectual property rights. The Court held that it is necessary to weigh two competing interests. If the application of trademark law is too strict, businesses will be hesitant to invest in processing and manufacturing, affecting the development of this industry. However, if it is too lenient, the rights of trademark owners will be infringed.

In this case, the goods in question were a sample product, and there is no evidence that Shenchi Company sold any goods in China. The likelihood of the sample itself returning is very small, and it would not cause any damage to the exclusive right to use the registered trademark of the trademark owner in China. Therefore, this

act does not constitute trademark infringement. On the contrary, if the accused act were to be determined as trademark infringement, it would lead to an imbalance of interests between the parties and hinder the normal development of the processing industry.

If the court rules that the use of a trademark on a sample product constitutes infringement, it could lead to negative consequences such as:

- **Hindering processing activities:** Many businesses operate in the field of processing and manufacturing goods for foreign companies. If these businesses are restricted in their use of their partners' trademarks, their business operations will be affected.
- **Reducing the competitiveness of the economy:** Excessive protection of intellectual property rights can reduce the competitiveness of the economy.

2. Several older cases concerning manufacturing for export purposes

[i] Nike v. Cidesport case (2001). In 2001, Nike won a lawsuit against the Spanish company Cidesport and Cidesport's Chinese OEM manufacturer for infringing Nike's registered NIKE trademark in China. The court held that trademark rights are territorial intellectual property rights. According to [the Court](#), the Plaintiff has the exclusive right to use the NIKE trademark, and the Defendant, without the Plaintiff's permission, may not infringe the Plaintiff's registered trademark exclusive right in any way.

[2] Jolida case. Does the use of another person's trademark on exported goods in processing activities constitute an infringement of intellectual property rights?

In 2008, Shanghai Customs seized a shipment of JOLIDA-branded products for export on the grounds of infringing the registered JOLIDA trademark of Shanghai Shenda in China. The detained goods were manufactured by an OEM manufacturer under contract with Jolida Inc, an electronic audio equipment manufacturer based in the United States. Jolida Inc is the owner of the JOLIDA trademark in the United States and all goods bearing the JOLIDA trademark are exported to the United States.

According to the judgment No. 317/2008 of the Shanghai First Intermediate People's Court, Jolida's use of the JOLIDA trademark did not constitute a violation of the law. The court reached this conclusion on the grounds that all products bearing the JOLIDA trademark were manufactured within the framework of processing **for export** and **were not sold in China**, but were **exclusively for the US market**. Therefore, **domestic consumers were not likely to be confused** about the origin of the goods, thus eliminating the element of intellectual property rights infringement.

According to judgment No. 65/2009, the Shanghai Higher People's Court held that the basic function of a trademark is to distinguish the origin of goods or services. The essence of trademark infringement is the destruction of the brand identification function. This causes consumers to be confused and misperceive the origin of the goods.

In this case, Julida Company was entrusted by Julida Company of the United States to manufacture the products in question. All of these products are exported to the United States and are not sold in China; Chinese consumers cannot access these products in this country. It will not cause confusion or misperception to the relevant public in China. In addition, although the act of affixing the trademark on the product was carried out by the entity in China, the actual user of the trademark is still the entrusting party abroad. The trademark affixed to the products involved in this case only has the meaning of identifying the origin of goods outside of China and does not play a role in identifying [the origin of goods](#) in the domestic market.

[iii] Pretul Case. The Supreme People's Court of China ruled that Zhejiang Yahuan Lock Co., Ltd.'s (hereinafter referred to as Ya Huan) use of the "PRETUL" logo on locks manufactured based on a commercial processing contract with Chu bo Company, Mexico (hereinafter referred to as Chu bo) did not constitute a violation of trademark law. Therefore, the court decided that Ya Huan did not infringe the exclusive trademark right of Focker Security International Co., Ltd. based in Hong Kong (hereinafter referred to as Focker), revoked the judgments of the first instance and appeal courts, and rejected Focker's claims.

The court held that a trademark is a sign used to distinguish the goods and services of different organizations and individuals, and its core function is to identify the origin of goods and services. In this case, Ya Huan's use of the "Pretul" trademark on OEM products manufactured according to Chu bo's order was only for the purpose of meeting the requirements of the order, not for the purpose of identifying the origin of goods in the Chinese market.

This act is merely the physical attachment of the trademark to the product; it does not create an association between the "Pretul" trademark and the origin of the goods in the Chinese market. The Court found that Ya Huan's use of the "Pretul" trademark in this case does not meet the elements constituting the use of a trademark as prescribed by intellectual property law. Specifically: [i] Lack of the element of identifying the origin of goods: The use of the trademark does not create an association between the trademark and the origin of the goods in the Chinese market, and [ii] Lack of the element of causing confusion: The use of the trademark is not likely to cause confusion among consumers about the origin of the goods.

Therefore, the Court concluded that Ya Huan's act did not constitute an infringement of the intellectual property rights of the owner of the "Pretul" trademark.

[iv] Hondakit Case: The Supreme People's Court of China affirmed that the use of a trademark is a complex act, consisting of many interconnected factors, not merely the physical act of affixing a label. Whether an act constitutes trademark use must be considered comprehensively, based on the provisions of the Trademark Law and judicial practice. Accordingly, the use of a trademark on a product, whether by labeling or other means, is considered trademark use if it is likely to cause confusion among the public about the origin of the goods.

- **Regarding the scope of affected subjects:** The relevant public in trademark disputes is not limited to direct consumers of the infringing product but also includes other related parties such as distributors, retailers, and those who may come into contact with the product.
- **Regarding the principle of legal liability:** The court has determined that the principle of liability in trademark infringement cases is one of strict liability, meaning that the infringer is held legally responsible even in the absence of subjective fault. Causing actual damage is not a prerequisite for determining an infringement.
- **Regarding exceptions:** The court rejected the view that processing products under a foreign license is an exception to trademark infringement. Intellectual property rights, including trademark rights, are territorial. The fact that a trademark is registered abroad does not automatically grant the owner the exclusive right to use that trademark in China. Trademark licensing agreements between parties are not legally valid if they violate the provisions of Chinese law.
- **Regarding the purpose of trademark protection:** The ultimate goal of trademark protection is to safeguard consumer interests, prevent [unfair competition](#), and protect brand value.

[v] Stahlwerk case: The German company Stahlwerk is the legitimate owner of the STAHLWERK trademark and has registered this trademark in Germany. Stahlwerk authorized Laoshidun to manufacture goods bearing the "STAHLWERK" trademark under the OEM model for export to Germany. Weike, an intermediary who had previously transacted with Stahlwerk, registered the "STAHLWERK" trademark in China. Subsequently, Weike sued Laoshidun, claiming that Laoshidun had infringed its trademark rights.

After reviewing the case, the Court found:

- **Weike's trademark registration:** Weike's registration of the STAHLWERK trademark in China, while being aware of the existence of Stahlwerk's trademark of the same name in Germany and having had a cooperative relationship with this company, is an act of bad faith and violates the principle of good faith in business activities.
- **The nature of OEM processing activities:** Laoshidun's OEM processing activities are carried out under the authorization of Stahlwerk, the legitimate owner of the STAHLWERK trademark in Germany. The use of the STAHLWERK trademark in this case is for the purpose of distinguishing the origin of goods exported to Germany, not for the purpose of causing confusion to consumers in the Chinese market.
- **No infringement of rights:** Laoshidun's actions do not infringe the exclusive right of the STAHLWERK trademark that Weike has registered in China, as the two trademarks do not coexist in the same market and do not cause confusion for consumers.

IN VIETNAM

Whether the use of another person's trademark to manufacture goods solely for export constitutes infringement remains controversial. This can hinder foreign investment in Vietnam.

- **Case 1:** A trademark dispute arose in 2015 when a French company initiated a series of administrative enforcement actions against OEM manufacturers located in industrial zones in the provinces of Phu Tho, Ha Nam, Hung Yen, and Hai Duong. Local enforcement agencies conducted inspections and

discovered a large quantity of clothing products bearing a trademark identical to the registered trademark of the French company. The OEM manufacturers presented processing contracts with a South Korean company. According to the contracts, all products manufactured in Vietnam were to be exported to South Korea and not sold in Vietnam. The local enforcement agencies sought [the opinion of higher authorities](#). After a meeting held between representatives of the rights holder, representatives of the OEM manufacturers in Vietnam, and local enforcement agencies, the case was not further processed, citing Article 211.1(a) to conclude that the act of exporting was not subject to administrative sanctions for infringement.

- **Case 2:** In 2016, the Anti-Smuggling and Intellectual Property Rights Protection Control Team (Team 4) under the Anti-Smuggling Investigation Department conducted a physical inspection of a shipment under export declaration No. 300678893930/B11 opened on January 13, 2016, by Pham Nguyen Confectionery and Food Processing Co., Ltd. The agency determined that the confectionery products bearing the "Choco Pie" mark infringed the rights to the "Choco Pie" trademark of ORION CORPORATION. Consequently, they seized and destroyed 1,200 cartons of Choco Pie, weighing nearly 4 tons and valued at nearly 200 million VND.

SOME FINDINGS

1. The complexity of determining the act of "trademark use" in entrusted processing activities in China and Vietnam

Judicial practice in China and Vietnam shows that determining whether the act of affixing a trademark by the entrusted party in an entrusted processing relationship constitutes "trademark use" remains a controversial issue. The rulings in both China and Vietnam demonstrate a shift over time, a change in approach, from not considering the affixing of a trademark by the entrusted party as "trademark use" to a more objective and comprehensive consideration of this act, including the purpose, likelihood of confusion, and market impact.

Determining the act of "trademark use" is not simply a matter of affixing a trademark to a product, but also depends on many other factors such as the purpose of use, the likelihood of confusion, and the impact on the market.

To mitigate the risks associated with intellectual property rights in export processing activities, the entrusting party should: **(i) Carefully review the processing entrustment agreements:** Ensure that these agreements clearly stipulate the use of the trademark, the scope of use, and the responsibilities of the relevant parties; **(ii) Proactively search for, [file applications](#) for, and challenge the validity of potentially conflicting trademarks;** and **(iii) Stay updated on legal changes:** Keep abreast of information to best protect your interests.

2. Must there be damage to constitute trademark infringement?

Whether damage is a necessary element of trademark infringement remains an open question, causing controversy in judicial practice in both China and Vietnam, leading to inconsistency and unfairness in the application of the law. It is not possible to definitively state that trademark infringement does not require actual damage, nor can it be asserted that damage is a mandatory element to constitute trademark infringement. However, it can be seen that the determination of whether damage is a constitutive element of trademark infringement needs to be considered on a case-by-case basis, especially the type of infringing act and the extent of the damage caused.

Obviously, to increase the likelihood of success in enforcement actions, intellectual property rights holders should gather evidence demonstrating the [damages](#) they have suffered due to trademark infringement.

3. Whether the utilization of a trademark for the manufacturing of goods destined for export infringes upon the exclusive right to use a domestically registered trademark?

In principle, the use of a licensed trademark to manufacture goods for export does not harm the exclusive right to use the trademark domestically. The following arguments are used to support this view:

- **Territorial principle of trademark law:** The exclusive right to use a trademark is only effective within the territory where that trademark is registered. Therefore, the use of a trademark abroad, in principle, does not affect the exclusive right to use the trademark domestically.
- **Damage to the distinctive function of the trademark:** The use of a trademark on exported goods does not cause confusion among domestic consumers about the origin of the goods, and therefore does not harm the distinctive function of the trademark.

- **Damage to the right to prohibit:** The use of a trademark on exported goods does not prevent the registered trademark from effectively performing its distinctive function in future use, and therefore does not cause damage to the right to prohibit.

However, there are exceptions to this principle:

For well-known trademarks: In the context of globalized trade, the territorial principle needs to be flexibly adjusted. If the trademark of the domestic owner has already gained a reputation abroad, the use of that trademark abroad may affect the reputation of the registered trademark domestically. If the use of the trademark abroad could lead to domestic consumers being confused about the origin of the goods, it can be considered to have caused damage to the exclusive right to use the trademark domestically. In such cases, legal policy adjustments are necessary to protect the rights of trademark owners.

Closing thoughts

While OEM export processing activities bring many economic benefits, they also contain potential legal "pitfalls" regarding intellectual property rights infringement, especially when the trademark on exported products is identical or similar to a domestically registered trademark. This issue is not merely about "labeling" products but also involves many complex factors such as the purpose of use, the likelihood of confusion, and the impact on the market.

Therefore, trademark owners need to be extremely cautious and proactive. A firm grasp of intellectual property law, close monitoring of legal developments, implementing preventive measures such as registering trademark protection in export markets, thoroughly reviewing OEM contracts, and seeking specialized legal advice are the "shields" that protect the interests of businesses in the context of increasingly deeper global economic integration.

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