

Highlights of April



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Chang Tsi & Partners Awarded as 2022 China Employer of Choice

On 21 April 2022, Asian Legal Business (ALB) has once again named Chang Tsi & Partners as “2022 China Employer of Choice”. Since 2016, the firm has won the award continuously by creating an inclusive workplace where every employee feel included and valued.

Freda Han Recognised by Beijing Women’s Federation

Freda Han, Partner of Chang Tsi & Partners, has been recognised as Women Pioneer by Beijing Women’s Federation, a mainstream organization focused on representing and safeguarding women's rights and interests and promoting gender equality in China.

Patent Infringement Risk Involved in OEM Processing Products

The OEM processing production model has gained increasing popularity among the manufacturing sectors. In the OEM

processing model where relevant products are identified as constituting patent infringement, what legal liability shall be borne by an OEM party depends on how to define the subject identity of the OEM party. In this article, major opinions in juridical practice have been investigated.

Holiday Notice

Our offices and IP Administrations in below regions will be closed for International Workers' Day on the following dates:

Mainland China: 30 April - 4 May 2022

Taiwan: 30 April - 2 May 2022

Hong Kong: 30 April - 2 May 2022

Macao: 30 April - 1 May 2022

All deadlines falling on the holiday period will be automatically extended. In case of urgent matters, please submit your instructions before the holidays.

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LEGALBAND, as a part of Accurate Media Group headquartered in Hong Kong, has provided their rankings of the leading commercial law firms for different jurisdictions, regions, legal markets and practice areas. To issue the most reliable ranking publication to the market, the research team of LEGALBAND has spent months carrying out interviews with the clients, independent research and studies of submissions.

Established in 2002, Chang Tsi & Partners is a "National Outstanding Law Firm (nominated by Ministry of Justice of China)" with its strong reputation in intellectual property and litigation. In addition to its deep expertise in trademark, patent, copyrights and other traditional areas of intellectual property, Chang Tsi & Partners also has as been focusing on highly specialized business areas, such as IP Commercial and corporate law.

This award once again serves as the evidence for the firm's comprehensive strength in IP area and good reputation in the industry.

Freda Han Recognised by Beijing Women's Federation

We are pleased to announce that Freda Han, Partner of Chang Tsi & Partners, has been recognised as Women Pioneer by Beijing Women's Federation, a significant mainstream organization focused on representing and safeguarding women's rights and interests and promoting gender equality in China.

Freda Han serves as Vice President of Beijing Lawyers Association (BLA). As a female legal practitioner, Freda Han always considers herself responsible for "vulnerable groups" and "public welfare", and encourages the colleagues in the firm to jointly support social welfare undertakings such as legal aid.

Women Pioneer is an initiative by Beijing Women's Federation that recognises and acknowledges women change-makers across dimensions and industries. It aims to inspire female achievers in present and into the future. 64% of lawyers in Chang Tsi & Partners are women, and we have always committed to continue to make diversity, equity, and inclusion part of everything we do.

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Patent Infringement Risk Involved in OEM Processing Products

Nancy Qu | *Partner*

Overview

In the trend of socialised mass production and large-scale cooperation, the OEM processing production model represented by OEM gains increasing popularity among the manufacturing sectors. In the OEM processing model where relevant products are identified as constituting patent infringement, what legal liability shall be borne by an OEM party depends on how to define the subject identity of the OEM party. In this article, major opinions in juridical practice have been investigated.

I. Case Investigation

(I) The OEM party, i.e. product manufacturer, shall not support its defense for legal sources.

Those who hold this opinion commonly quote “The Reply of the Supreme People’s Court of The People’s Republic of China on Whether A Victim in A Product Infringement Case can Bring A Civil Suit Against the Trademark Owner of A Product as the Defendant” (Fa Shi [2022] No.22) as the legal basis. It is pointed out in the Reply that **“anyone who reflects its name, title, trademark or other identifiable identification on a product indicates that it is a manufacturer or individual”** belongs to the “manufacturer” as stipulated in Article

122 of General Principles of The Civil Law of The People’s Republic of China and “producers” in Product Quality Law of The People’s Republic of China.

Supporters of this opinion further believe that **in the OEM processing production model, an entrusting party does not get involved in the production of products directly, but still demonstrates a declaration of intention of production subjectively.** The direct production act is implemented by the processing party after acceptance of the entrusting party’s instruction. The product design schemes or technical requirements are sourced from the processing party or other third parties and are only of legal significance when the OEM customising party and the contractor share responsibilities. The entrusting party cannot claim that it is not the manufacturer as it does not manufacture the patented products directly.

The opinion is adopted in the following cases:

1. OU Chanjuan, Shenzhen Hongteng Tong Electronics Co., LTD and Dongguan Hui Te Plastic electronic Technology Co., LTD, Design Patent Infringement Dispute

Regarding whether Hui Te manufactures sued infringing products: The external packing of the notarized purchased sued infringing products indicates Hui Te’s trademark and the name and address of the enterprise. Hui Te’s notarized website exhibits products including the sued infringing products. The website also publicizes and demonstrates Hui Te’s operation and

production, and capability. The evidence above preliminarily proves that Hui Te provides the sued infringing products as a manufacturer. Hui Te appeals to claim that **it purchases the sued infringing products in an OEM manner, and it neither designs nor produces the sued infringing products.**

Accordingly, it shall not be identified that Hui Te conducts an act of manufacturing. In this regard, the Court holds that even though the sued infringing products are purchased by Hui Te from an outsider, Hui Te' act of requesting the outsider to indicate Hui Te's information and registered trademarks on products is different from direct processing and manufacturing of sued infringing products, that is, not an act of directly implementing a patent. However, Hui Te shall still bear the responsibility as a manufacturer together with the direct manufacturer. Identification and division of Hui Te's and the direct manufacturer's faults and responsibilities do not affect their statuses and responsibility sharing.

2. Taizhou Huangyan Shun Feng Plastic Factory and Foshan Nanhai District Nanguo Commodity City, Salon Department of General Merchandise Utility Model Patent Infringement Dispute

The Supreme People's Court of The People's Republic of China holds that upon the original trial, it is found out that the bottoms of the purchased sued infringing products notarized by CHAUMET are labeled with production information, indicating the Chinese characters “顺丰 (Shun Feng)” as well as information including the full name, address, contact information and so forth of

Shun Feng Plastic Factory, and the business scope of Shun Feng Plastic Factory includes manufacturing and processing of plastic products. As for general consumers, the sued infringing products are manufactured by Shun Feng Plastic Factory. No matter whether the sued infringing products are attached with identifications from Shun Feng Plastic Factory after manufactured by others, Shun Feng Plastic Factory shall assume the responsibility as a manufacturer externally.

(II) A manufacturer may be locked

Preliminarily with OEM information, but proof shall be further combined to determine the subject identity.

The supporters of the opinion hold that the **patent right actually protects the implementation of technical solutions of a patent, and the manufacturing act shall belong to one of the acts of implementing the technical solutions of a patent.** In another word, the manufacturing act regulated by the Chinese Patent Law actually prohibits the effecting technical solutions of a patent where there is no patentee's permission. The OEM act only has the effect of disclosing the source of a commodity, not constituting the effecting of technical solutions of the claims, and shall not be identified as the manufacturing activity in the sense of the Chinese Patent Law. Hence, the OEM party shall not be deemed as a manufacturer only according to the OEM act. Whether the OEM party participates in effecting the technical solutions of the claims shall be examined by combining the parties' proof.

Chang Tsi Newsletter

The opinion is adopted by the Courts in the cases below:

1. Shenzhen Pablo Trading Co., LTD, Zhongshan Winstar Electric Appliances Co., Ltd., and Foshan Shunde District Delan Electric Appliance Manufacture Co., Ltd., Utility Model Patent Infringement Dispute

The Court holds that Pablo and Winstar claim that the relationship therebetween is only outsourced OEM processing other than joint manufacturing, but fail to submit pertinent evidence such as contracts, delivery notes and invoices for proof. Therefore, it shall be identified that Pablo and Winstar conduct the act of manufacturing sued infringing products together. In this case, **the Court takes comprehensive consideration of pertinent parties' proof other than identifying the pertinent parties as manufacturers only according to information regarding OEM.** Where no corresponding evidence is provided, the Court does not support its defenses.

2. Chengdu Zune Lotoo Intelligent Technology Co., Ltd. and Ningbo Xing Jin Tai Trading Co., LTD., Design Patent Infringement Dispute

Zhejiang Provincial High People's Court holds that in the case, first, the sued infringing products have clear legal sources. Although Xing Jin Tai uses the registered trademarks on the material objects of the sued infringing products and instructions for use, and the enterprise name is indicated on the instructions for use and certificates, the power of attorney for sales, product source descriptions, delivery notes, bank transfer

vouchers, YU Chunda's patent certificate and patent evaluation report and YU Chunda's testimony submitted by Xing Jin Tai in the first-instance trial can effectively verify that the sued infringing products are manufactured by Ming Tong Electric Appliance Factory ran by YUN Chunda as entrusted by Xing Jin Tai, and the product design is also sourced from YU Chunda's "工兵铲 (Tri-Fold Shovel) (2nd generation)" design patent with the No. of ZL20163026×××.7. Xing Jin Tai obtains the sued infringing products by paying a fair consideration and in other manners that comply with commercial transaction customs.

Second, Xing Jin Tai has exercised a reasonable duty of care. The sued infringing products are manufactured according to YU Chunda's design patent with the No. of ZL20163026×××.7. Xing Jin Tai makes an examination on YU Chunda's patent and corresponding patent evaluation report during sales and offering for sales of the sued infringing products. Zune Lotoo's patent involved in the case is quoted in the evaluation report. The conclusion reached by the China National Intellectual Property Administration is as follows: **any defect that does not comply with conditions for grant of patent right is not found in all designs.** The sued infringing design is completely identical to YU Chunda's patent and differs from the patent involved in the case to some extent. Under such circumstances, no matter before or after receipt of the Complaint of the case, it can be identified that Xing Jin Tai exercises a reasonable duty of care as the processing party provides the reliable materials that prove the patent right exists

stably. **No exercise excessive duty of case shall not be imposed on Xing Jin Tai, as a customizing party and seller with no professional legal knowledge, and it cannot be inferred that Xing Jin Tai is aware or shall be aware that the sued act constitutes patent infringement when receiving the indictment according to the People's Court's judgment results.** In

summary, the defense for legal sources as claimed by Xing Jin Tai is tenable, and shall not bear any compensation liability in accordance with the laws.

3. Guangzhou Johnson & Johnson Xinda Trading Co., Ltd. and Shanghai Chuya Industry Co., Ltd., Design Patent Infringement Dispute Appeal

Shanghai High People's Court holds: according to the Reply made by the Supreme People's Court of The People's Republic of China, **when the subject of litigation in the relevant case is established, any enterprise or individual that reflects its name, title, trademark or other identifiable identification on a product to indicate that it is the product manufacturer shall be listed as the corresponding party in the case.** The identifications such as name, title and trademark are indicated on the products, and from this, it can be preliminarily believed that the corresponding enterprise or individual is the manufacturer of the pertinent products, and the corresponding enterprise or individual can be listed as a party when a lawsuit is filed.

When a substantive judgment is made in the case, the product manufacturer shall be

identified according to the evidence provided by the parties in the entire case not only according to identifications such as name, title, and trademark indicated on the products for confirmation. In the case, a preliminary conclusion, namely, the sued infringing products manufactured by Shanghai Chuya, can be drawn only according to the trademark "MICO" on the sued infringing products. However, the preliminary conclusion is overturned by evidence such as the purchase contract with Xiamen Bochuan, value-added tax invoice, application for bank settlement service as provided by Shanghai Chuya, and patent certificate and patent licensing implementation contract of Xiamen Bochuan. It shall be identified that Shanghai Chuya is a seller other than the manufacturer of the sued infringing products according to the evidence provided by Shanghai Chuya.

4. LI Xiangfu and Xiamen Er Sheng Shan Trading Co., Ltd., Design Patent Infringement Dispute

The Fujian Provincial High People's Court holds during the second-instance trial that regarding the issue of what action is conducted by Xiamen Er Sheng Shan, upon examination, the sued infringing products are produced by an outsider Xiamen Weideng Industry and Trade Co., Ltd. entrusted by Xiamen Er Sheng Shan. The sued infringing products are printed with registered trademarks as possessed by Xiamen Er Sheng Shan, and product hang tags are also only carried with information relating to Xiamen Er Sheng Shan. It is agreed in the contract between Xiamen Er Sheng Shan and

a processor that the product appearances are provided the processor. However, it is found upon trial hearing that the appearances of the sued products are selected by Xiamen Er Sheng Shan according to the patterns provided by processors. The Court holds accordingly that although Xiamen Er Sheng Shan is not qualified as a production subject, Xiamen Er Sheng Shan provides outsourced OEM processing externally and selects product appearances, subjectively expressing the declaration of intention of production, and objectively completing the production act by the entrusted processor. The internal agreement between Xiamen Er Sheng Shan and Xiamen Weideng Industry and Trade Co., Ltd. does not affect identification of the essential attributes of acts according to the external expression patterns. Hence, it can be identified that Xiamen Er Sheng Shan implements the acts of producing and selling the sued infringing products in the case. What is identified in the first trial, namely, Xiamen Er Sheng Shan is a seller other than manufacturer of the sued products, is inappropriate, and is rectified by the Court.

5. Shenzhen Maidong Times Technology Co., LTD. and Shenzhen Zhaochen Electronic Technology Co., LTD., Utility Model Patent Infringement Dispute

The Supreme People's Court of The People's Republic of China holds that the right holder of the trademark used on the external packing of the sued products is capable of manufacturing. Moreover, **when no evidence proves that the actual manufacturer of the infringing products is**

not a trademark right holder, it can be reasonably hypothesized that the trademark right holder is a manufacturer of the infringing products.

6. Beijing Aiqi JIAYE Technology Co., Ltd. and Shenzhen Silver Star Intelligent Technology Co., Ltd., Utility Model Patent Infringement Dispute

Shenzhen Silver Star Intelligent Technology Co., Ltd. (hereinafter referred to as Silver Star) is the utility model patentee with the patent application No. 20XXXX238.4. Silver Star claims that the acts of manufacturing, offering for selling, and selling the aforesaid sued infringing products of Beijing Aiqi JIAYE Technology Co., Ltd. (hereinafter referred to as Aiqi) and that of Shenzhen Huaxin Smart Electrical Appliance Co., Ltd. (hereinafter referred to as Huaxin) without permission infringe the patent right. During the trial hearing, Aiqi argues that it uses the OEM selling model, and only pastes its identification on the external packing and other accessories of the sued infringing products. It cannot be identified that Aiqi manufactures the sued infringing products only according to the identification on the external packing and other accessories of the sued infringing products. Moreover, it is not aware that the products sold are infringing products, and the selling act has legal sources, and Aiqi shall not bear compensation liability.

The Court identifies that Aiqi has an in-depth technical partnership with Huaxin, not simply in respect of OEM selling according to evidence such as cooperation agreement

provided by Aiqi during the production of sued infringing products. Both parties jointly manufacture the sued infringing products, and shall bear joint and several liability for joint infringement for the manufacturing act of the sued infringing products.

7. AO Qianping, Philips (China) Investment Co., Ltd. and Shenzhen Hehong Industrial Co., LTD. etc., Invention Patent Infringement Dispute

The Supreme People's Court of The People's Republic of China holds in the retrial ruling that in accordance with Article 11 of the Chinese Patent Law, making, using, offering to sell, selling or importing a patented product for production or business purposes without the authorization of the patentee is a patent infringing act. "Making a patented product" here means making or forming a product covering all technical features disclosed in the patented claims as for an invention or a utility model. The meaning of the word "making" and the legislative purpose of Article 11 of the Chinese Patent Law are taken into comprehensive consideration in the aforesaid understanding. When entrusting the processing of a patented product, if the entrusting party requests the processing party to manufacture the patented product according to the technical solution provided, or the formation of the patented product reflects the technical requirements proposed by the entrusting party, it can be identified that both parties implement the act of manufacturing a patented product. In this case, the sued infringing products are submitted by Hehong to Huizhou Hehong for production by means

of mould changing and inscription on the basis of the original moulds. The technical solutions of the sued infringing products are completely sourced from Hehong. Philips fails to provide any technical solution or propose any technical requirement as of production of the sued infringing products to Huizhou Hehong. Philips is not a manufacturer in the sense of the Chinese Patent Law, and its act does not constitute an infringement of patent right in the case.

II. Analysis of an OEM party's infringement risk and responsibility sharing

With regard to the aforesaid disputes in judicial practice, the writers tend to agree with the second opinion. When whether the OEM party is a manufacturer of infringing products involved in the case is identified, whether participation of the OEM party in the process of affecting the technical solutions in the claims as well as whether the OEM party exercises a duty of reasonable care shall be examined. If the relevant evidence can prove that process does not reflect the OEM party's intention and the OEM party exercises a duty of reasonable care, the OEM party shall be identified as a manufacturer. It can be presumed that the OEM party is a manufacturer as long as the process explicitly reflects the OEM party's intention, the OEM party does not exercise a duty of reasonable care or there is no contrary evidence to prove that the actual manufacturer is not an OEM party.

In the OEM processing model, the OEM processing products disclose that the more the source of commodity and the

manufacturer's information (brand, manufacturer, three guarantees after-sales and so forth) are concentrated on the OEM party, the higher the possibility of identifying the OEM party as a product manufacturer will be. **Where the products are identified as constituting patent infringement, the OEM party shall bear the manufacturer's and retailer's responsibilities, and the defense for legal sources cannot be quoted.** If the evidence provided by the OEM party proves that its will cannot be reflected in the process of producing the products, and the OEM party has exercised a duty of reasonable care, the possibility of identifying the OEM party as a manufacturer will be reduced, and even the OEM party will not be identified as a manufacturer. In this case, the OEM party shall only bear the retailer's responsibility, and the defense for legal sources may be quoted.

III. How an OEM party avoids the risk of patent infringement

For avoiding legal risks regarding patent infringement as far as possible, the writers advise that the OEM parties shall strengthen compliance audit in the following aspects:

1. The warranty liability for defects of rights shall be agreed in the relevant contracts with suppliers, and bases for responsibility sharing shall be determined between the OEM parties and suppliers.
2. If it is not necessary, the OEM party shall avoid indicating information regarding the OEM party on the products and instructions for use, and in particular, shall avoid indicating the OEM party as a manufacturer

in particular. Moreover, it is suggested that a clear agreement shall be made as of the information disclosure forms of the products and instructions for use in the cooperation contracts.

3. When it is necessary to indicate information regarding the OEM party on the products and instructions for use and indicate the OEM party as a manufacturer due to business needs, the OEM party shall note:

(1) The products/service contents provided by a supplier and the OEM party, respectively, the warranty liability for defects of rights, the supplier's liability for product infringement and so forth shall be clearly agreed in the contract terms.

(2) The supplier's qualification for intellectual property rights including whether the supplier enjoys the patent right, assessments on the stability of the supplier's patent right in advance, and assessments on infringement possibility shall be noticed for examination.

(3) The contracts, transaction records, payment records, and relevant documents shall be kept well.

4. The suppliers are recommended to provide the FTO reports issued by lawyers in China and the conclusions from the search analyses for the products, which prevents identifying the same as intention in the potential infringement acts, and thus the suppliers cannot claim defense for legal sources, or take the risk of assuming punitive liability for compensation.
