

It wasn't me: Liability of Contract Manufacturers for IP Infringement

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[Aron Laszlo \(Oppenheim Legal\)](#)

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In Shaggy's 2000 hit, the main character is caught cheating on his girlfriend and defends himself by simply denying the facts and repeating the phrase: "It wasn't me!". Contract manufacturers caught infringing intellectual property rights do not generally deny having manufactured the given infringing goods. However, they often claim that they are not liable, since they had only fulfilled orders and had no influence whatsoever over the infringing nature of the goods. A recent case before the Budapest Metropolitan Court highlights the difficulties of "pointing the finger" in IP infringement cases.

On the one hand, intellectual property right owners wish to proceed and apply the full spectrum of remedies against all parties involved in the chain of activities leading to the actual sales of infringing goods, including (contract) manufacturers, wholesalers and retailers. On the other hand, it would be extremely burdensome for contract manufacturers to clear all orders for potential IP infringement. Furthermore, it can be difficult and expensive for contract manufacturers to enforce recourse claims against customers who placed orders to manufacture infringing goods.

EU law differentiates between infringer and intermediary. The infringer carries out one of the prohibited activities listed under Article 10(3) of the Trademark Directive. On the other hand, the intermediary's services are used by a third party to infringe an intellectual property right pursuant to Articles 8 to 11 of the Enforcement Directive. Less remedies are available against the intermediary than the infringer, the most important difference being claims for indemnification and

account of profits, which are only available against infringers.

So is a contract manufacturer an infringer or an intermediary? One would think that, where a party commits one of the infringing activities of Article 10(3) of the Trademark Directive, this party will be an infringer.

The CJEU addressed the issue in 2011 in Red Bull v Frisdranken (C-119/10), however, the contract manufacturer in that case did not affix the infringing sign to the goods. Frisdranken only filled drinks into pre-manufactured cans already bearing the infringing sign. The CJEU ruled that *“a service provider who, under an order from and on the instructions of another person, fills packaging which was supplied to it by the other person who, in advance, affixed to it a sign which is identical with, or similar to, a sign protected as a trade mark does not itself make use of the sign that is liable to be prohibited under that provision.”*

The Metropolitan Court of Budapest ruled in 2015 that a tanning tube manufacturer had committed trademark infringement as contract manufacturer, having affixed signs on solarium tubes upon a customer's orders infringing the plaintiff's trademark. The defendant based their defence on their contract manufacturer status, i.e. having acted on third-party orders. Yet, the court ruled that it was irrelevant who qualifies as “manufacturer”, what counted was who affixed the sign on the goods (3.P.23.668/2014/7.). The judgment was confirmed on appeal and damages were awarded.

On the other hand, in another recent Hungarian case, a construction firm built up a self-service car wash as a main contractor's subcontractor. The car wash infringed a registered Community design. The subcontractor was responsible for approx. 90% of the external appearance of the car wash i.e. for producing the product in which the RCD was incorporated. Under Article 19(1) of the Design Regulation a *“registered Community design shall confer on its holder the exclusive right to use it and to prevent any third party not having his consent from using it. The aforementioned use shall cover, in particular, the making [...] of a product in which the design is incorporated or to which it is applied [...]”*. However, even if the *“making [...] of a product in which the design is incorporated”* is an act of infringement, the Metropolitan Court of Budapest ruled that, since the construction firm had no interest in and no influence on the actual shape of the product, the construction firm *de iure* did not make the product. It is the builder/customer who shall be *de iure* considered to have *“made”* the product. Therefore, although the

court issued an injunction against the construction firm as an intermediary, the request for account of profits was refused (3.P.21.493/2018/11.). The judgment was confirmed on appeal last year.

In summary, before the judgment in the design infringement matter, the understanding was that a party carrying out an activity, established as an act of infringement in the Trademark Directive shall be an infringer, whereas a party whose activity is not included in this list, but who offers a service which is used by a third party to infringe intellectual property, shall be an intermediary. The above contradictory judgments suggest that this may not be the right understanding and that guidance from the CJEU would be needed on this point.