

Anti-Counterfeiting Enforcement Actions in China

- **Big Picture: China IP environment change & IP infringement trend**
 - Unique administrative & judicial enforcement system
 - Criminal threshold
 - Case transfer
- **Progress and ongoing challenges**
- **Case study**
- **Useful websites**

Jack Chang

Adjunct Vice Chairman-China Association of Enterprises with Foreign investment
Honorary Chairman-Quality Brands Protection Committee (“QBPC”)

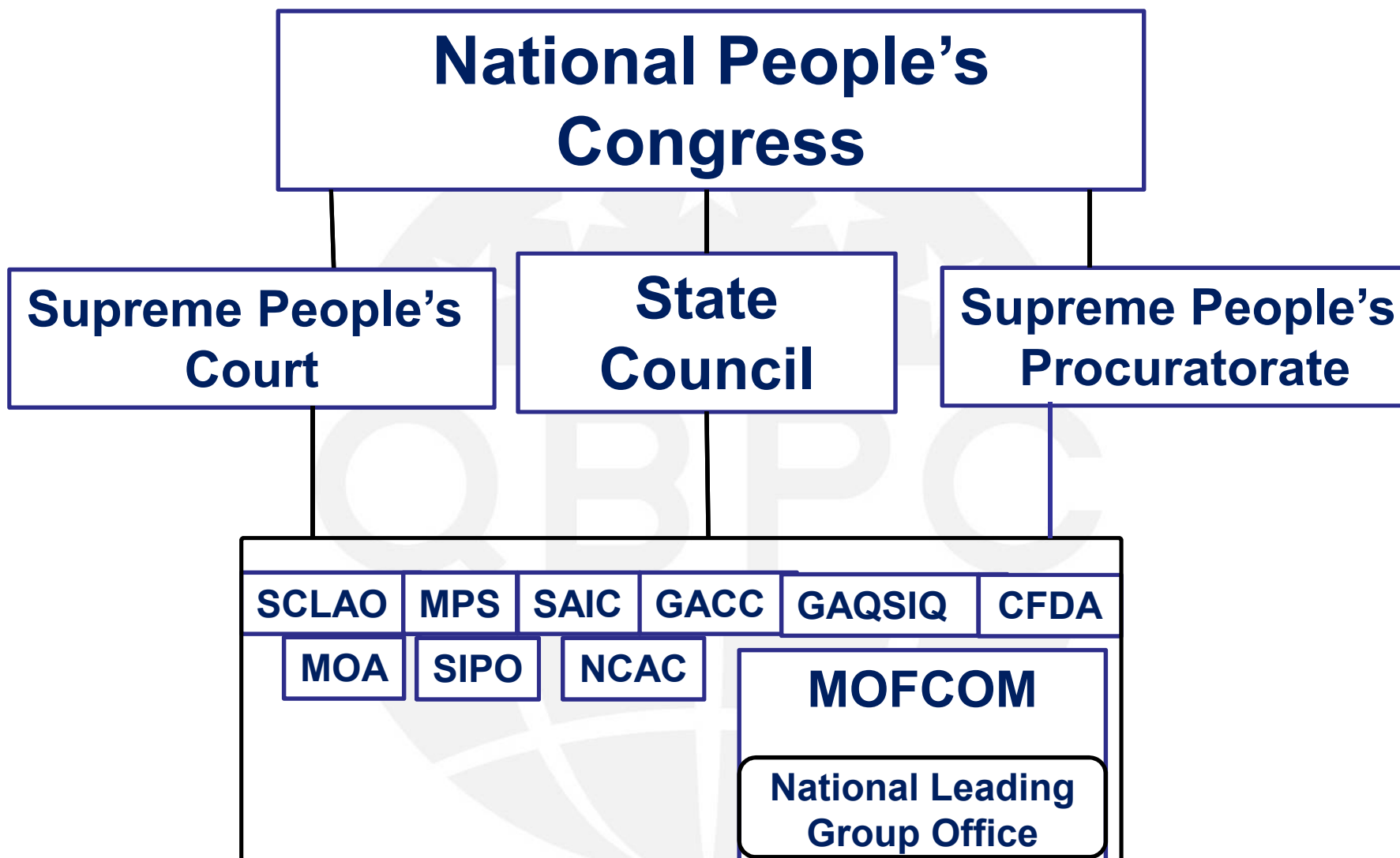
Sept. 11, 2014-Copenhagen

Big Picture: China IP environment change & IP infringement trend

- **Chairman Deng:** switching from planned to market economy
 - Stated-owned enterprises
 - Concept of IP not recognized
 - **Administrative governance (Administrative enforcement system)**
- **President Jiang:** economic growth & job creation
 - The world's factory: trademark counterfeiting facilitated by OEM manufacture of branded goods
 - # of DVD player: pirated movies
 - # of internet user: on-line copyright infringement
 - Key IP issues: **Anti-counterfeiting trademark & copyright piracy**
 - **Administrative & criminal enforcement (Criminal Thresholds)**

Big Picture: China IP environment change & IP infringement trend

- **President Hu:** Harmonious social, economic & environmental development
 - Evolving from “Made-in-China” to “Created-in-China”
 - New IP issues: *Innovation policy impact, trade secret theft, patent disputes, technical standards & technology transfer*
 - Direction & implementation of policy and Civil IP litigation
- **President Xi:** A great Chinese dream
 - Anti-corruption
 - Commercial Rule of Law
 - Fair & Open innovation environment
 - National treatment for foreign invested enterprises
 - To set up IP courts



9 Draft Amendments in 7 years

- 1st CTMO Draft-Apr. 18, 2006 (159 articles, Art. 127: OEM clause)
- 2nd CTMO Draft-Aug. 30, 2007 (150 articles, Art. 80: OEM clause)
- 3rd CTMO Draft-Apr. 28, 2009 (78 articles, Art. 63: OEM clause)
- SAIC Draft-Jun. 2009 (79 Articles)
- SAIC Submission Draft-Nov. 18, 2009



9 Draft Amendments in 7 years

- SCLAO Draft-Sept. 2011
- NPC 1st Review Approved Draft-Dec. 28, 2012
- NPC 2nd Review Approved Draft-May 8, 2013
- NPC 3rd Draft-Jul. 30, 2013 (Aug. 2 meeting)
- Revised Trademark Law promulgated on Aug. 30, 2013, effective May 1, 2014

Progress: Fixing the gap between renewal of trademark registration & Customs recordal

- Trademark renewal application could only be filed within 6 months before expiration under the old TML while it took more than 6 months for the CTMO to approve and to issue renewal certificate.
- By the time the trademark is renewed, the Customs recordal expired, which leads to border protection risks and increases workload & cost for refileing for the Customs recordal.
- Now trademark renewal application can be filed within **12 months** before expiration (Para. 1, Art. 40). NO MORE GAP!

Progress: Fixing TRIPS compliance gap

- Confiscation、destruction of tools used **predominantly** (主要) for manufacturing infringing goods and counterfeiting labels of registered trademarks (Para. 2, Art. 60: predominantly vs. exclusively “专门”)

Art. 46 of TRIPS: “In order to create an effective deterrent to infringement, the judicial authorities shall have the authority to order that goods that they have found to be infringing be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the right holder, or, unless this would be contrary to existing constitutional requirements, destroyed. The judicial authorities shall also have the authority to order that materials and implements the predominant use of which has been in the creation of the infringing goods be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to minimize the risks of further infringements.

Progress: Fixing TRIPS compliance gap

A registered trademark may only be cancelled for non-use consecutively for 3 years **without justifiable reasons**

(没有正当理由) (Para. 2, Art. 49)

Art. 19 of TRIPS: “If use is required to maintain a registration, the registration may be cancelled only after an uninterrupted period of at least three years of non-use, **unless valid reasons based on the existence of obstacles to such use are shown by the trademark owner.**”

Progress: Deadline to file administrative litigation against TRAB decision extended

The deadline for filing administrative litigation against TRAB decision is not extended from 15 days to **30 days**. (Art. 34; Para. 3, Art. 35; Para. 2 & 3, Art. 44; Para. 2, Art. 45 & Art. 54)

Progress: Delete problematic wordings from Para. 1, Art. 59 of the Draft Amendment passing the NPC 1st Review

Deleted the wordings of “*immune the seller with other punishments* (免除其他处罚)” from Para. 1, Art. 59 of the NPC 1st review approved draft, which was released on Dec. 28, 2012 (Para. 2, Art. 60 of revised Trademark Law)

New Challenges: Does AIC have the authority to confiscate and/or destroy infringing goods owned by a “good faith” seller? (Para. 2, Art. 60)

- Bad faith seller: AIC to **confiscate** destroy the infringing goods
- **Good faith** seller: AIC may instruct the seller to **stop selling** the infringing goods
 - **Without knowing** the goods are infringing goods
 - Prove that the goods were **acquired legitimately**
 - **Disclose the source(s)** of the infringing goods

Ongoing Challenges: Does AIC have the authority to confiscate and/or destroy infringing trademark labels & materials used predominantly for manufacturing the infringing goods and trademark labels? (Para. 2, Art. 60)

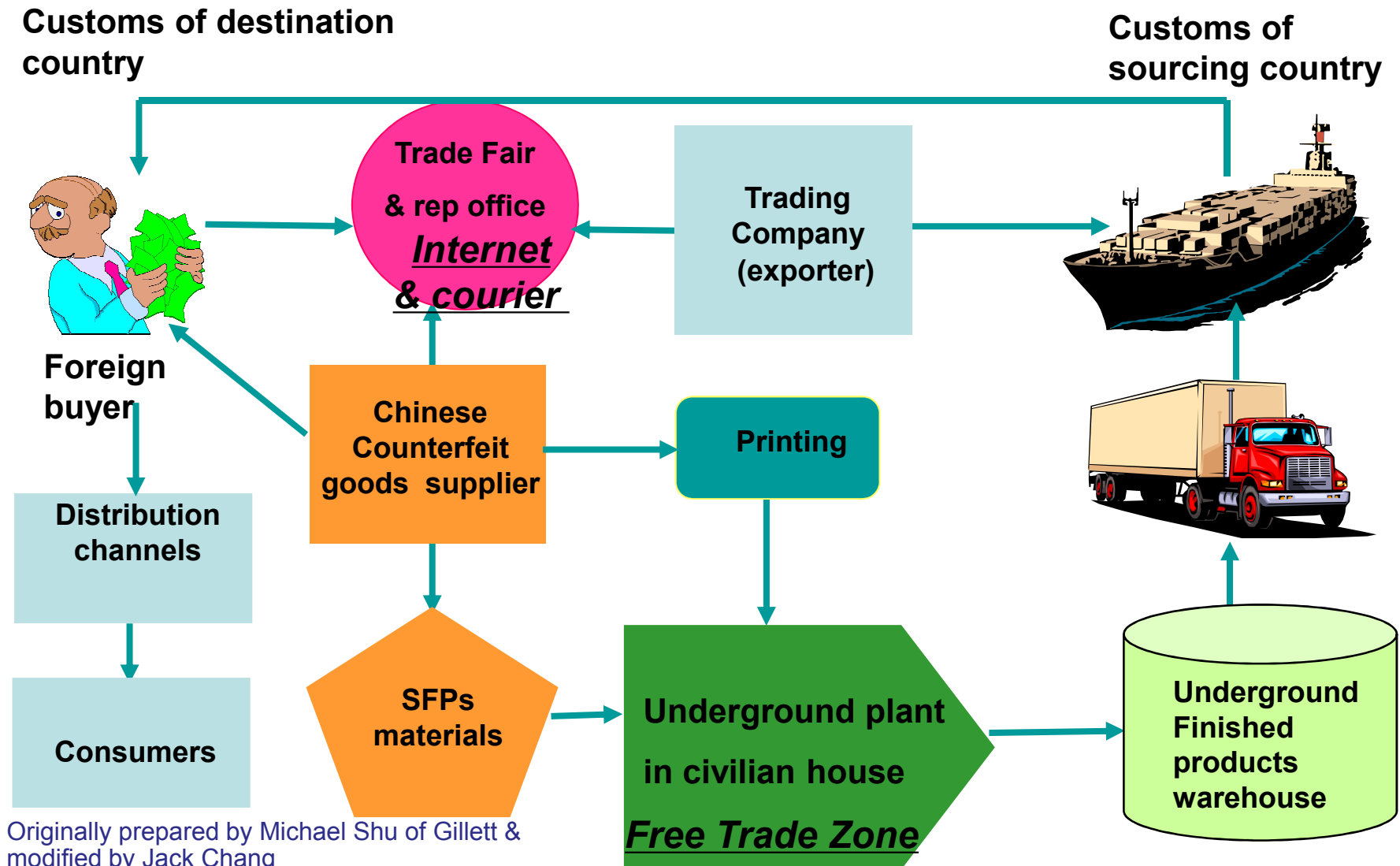
The Administration for Industry & Commerce to instruct stopping infringing activities, confiscate、destroy **infringing goods** and **implements** used predominantly for manufacturing infringing goods and registered trademark labels without authorization, when determining the infringing conduct is constituted (Para. 2, Art. 60 of revised Trademark Law)

New Challenges: Intelligence sharing and case transfer between AIC and the Economic Crime Investigation Dept. (ECID) of Public Security Bureau (PSB)

For counterfeiting trademark case with illegal operation amount of RMB50,000 or above: up to 5 times of administrative fine **or immediately transfer the case to the police for criminal investigation?** (Para. 2 Art. 60 vs. Art. 61)

- When AIC shall notify the ECID and share intel?
- When the case shall be transferred to the ECID?

New Challenges: The manufacture of trademark goods for exportation by OEM



Various types of OEM (contract) manufacture of trademark goods for exportation:

- 1, The commissioning party devises, first uses and registers the trademark in the destination market(s) and China
- 2, The commissioning party devises, first uses and registers the trademark in the destination market(s) but not in China (2008-2009 Shanghai Jolida case)
 - OEM manufacture constitutes “use of the trademark in China”
 - No likelihood of confusion due to exclusively for exportation

Various types of OEM (contract) manufacture of trademark goods for exportation:

- 3, The commissioning party did **not** devise, first use **but registers** the trademark in the **destination market(s)**
- 4, The commissioning party did **not** devise, first use **but registers** the trademark in **China**, **not** in the **destination market(s)**
- 5, The commissioning party did **not** devise, first use **the trademark, nor registers** the trademark in **China or the destination market(s)**

The trademark owner's nightmare but the trademark firms' opportunity

Does OEM's manufacture of trademark goods for exportation constitute trademark infringement in the territory of China?

Beijing Muji Case (2012)

- The basic function of trademark is to distinguish the source of goods. Therefore, trademark serves this function only in the distribution stage of the commodity
- The commissioned manufacture of goods in China for exportation only **cannot** prove that the trademark is in actual use in China

The trademark owner's nightmare but the trademark firms' opportunity

Art. 48 of revised Trademark Law:

The use of trademark as specified in this law means the conduct of using the trademark on the goods, the packaging or container and transaction documents of the goods, or to use the trademark in the advertisement or commercial, exhibition and other commercial activities, to **distinguish the source of the goods**.

What should be the end result regarding OEM manufacture of trademark goods for exportation?

- Chinese Supreme People's Court is open and no final decision has been made yet (but soon)
- The QBPC wish list:
 - In principle: It should constitute a trademark infringement.
 - Exception may be allowed on the following conditions:
 - 1) The commissioning party **devises**, **first uses** & **owns** the **registered trademark** in the **destination market**;
 - 2) The goods (and its packaging) bears the commissioning party's **own name & address**
 - 3) The design of the packaging does **not** constitute a **knockoff design**

The progress on criminal enforcement:

- Awareness-Apr. 02 Qingdao (SD)
- Priority-Dec. 02 Sanya (HN)
- Capacity-Aug. 03 Shantou (GD)
- Action-Dec. 04 Nanning (GX)
- TIMELY investigation
(Shanghai Initiative)-Apr. 06, Shanghai
- Reaching out (International cooperation)
-Jul. 07 Shenzhen (GD)
- Strengthening Partnership-Apr. 08 Shanghai
- Preparing for 2013 Operation-Dec. 2013 Dongtou (ZJ)



Partnership & mutual trust extended to local level

- Signed cooperation MOU with Shanghai Economic Crime Police on July 18, 2005 & the “upgraded” version on March 20, 2013



- Signed cooperation MOU with Sichuan & Zhejiang Provincial Economic Crime Police on Nov. 5, 2008 & May 14, 2013



QBPC Best Criminal Cases in 2010-2011、2011-2012 and 2012-2013

	2010-2011	2011-2012	2012-2013
Number of Cases	5	6	10
Number of Convicted	17	20	60
Total Jail Term	59 Year/ 7 Month	45 Year/ 4 Month	262 Year/ 8 Month
Total Fine (RMB)	1,470,000	5,249,000	30,010,000
Average Jail Term	3.50 Year	2.27 Year	4.38 Year
Average Fine (RMB)	86,500	262,500	500,200

The Progress – Criminal Investigations on IP Cases

Year	2013	2012	2011	2010
Successful investigations	55,180	43,773	43,550	2,049
Suspects	5,922	60,306	54,658	4,157
Case value (Billion)	172.9 RMB (28.25 USD)	11.31 RMB (1.85 USD)	24.15 RMB (3.95 USD)	2.307 RMB (0.38 USD)

Source: China Annual White Paper on IP Protection
 & State Council Leading Group Office against IP
 Infringement

The Challenges: Criminal Convictions on IP Cases

Year	2013	2012	2011	2010
Cases – trial completed		12,794	5,670	3,942
Convicted defendants		15,518	7,892	6,000

Source: China Annual White Paper on IP Protection
& State Council Leading Group Office against IP
Infringement

GACC won the GACG top honor in 2011

Premier Wen Jiabao's
commending words to
the GACC:

Keep up the good work!





MPS/ECID won the GACG top honor in 2012

Thanks to the GACG & Swedish Anti-Counterfeiting Group!



Other positive developments on transparency of enforcement:

- **Administrative:** The decision of administrative enforcement against IP infringement and manufacture and sale of fake & shoddy quality goods shall in principle **be publicized proactively** within 20 working days after the decision is rendered by the enforcement agency via government websites, billboards, press conferences, newspapers, radio and TV broadcasting etc.

State Council Administration Office Notice-2014 No. 6 dated Feb. 4, 2014

Other positive developments on transparency of enforcement:

- **Criminal:** IP owners are recognized as the “victims” of IP criminal cases, which allow the IP owners to exercise the rights available to victims under the Criminal Procedure Law
 - Investigation agency shall inform the victims of its evidence examination opinions. Victim may apply for re-examination (Art. 146)
 - Procuratorate shall listen to the victim’s opinions and attach the victim’s written opinions to the files (Art. 169)
 - Procuratorate shall send the victim its decision not to prosecute. The victim may appeal against the decision (Art. 176)

Other positive developments on transparency of enforcement:

- **Criminal**: IP owners' (Victims') rights under the Criminal Procedure Law
 - Court shall notify the victim's counsel of the date of hearing 3 days before the hearing (Art. 182).
 - Victim may make a statement on the criminal conducts charged in the indictment and may question the defendant(s) (Art. 186)
 - Victim's counsel may review, summarize and copy the court files

Case study 1

- Lighting products
- Cross-border trade
- Chinese trader develops supply chain in China & African markets

- Customs seizures (Tianjin & Shanghai)
- Leveraging QBPC platform to engage Chinese govt.
- Support from MOFCOM, GACC, MPS, Shanghai Customs, Shanghai, Jiangsu and Changzhou city police



Key entry points for illicit trade



1. Lomé*
2. Benin*
3. Conakry*
4. Zanzibar
5. Djibouti
6. Benghazi*
7. Tripoli
8. Banjul
9. Algeria's ports

Prepared by Nick Hart of Unilever
south Africa for QBPC meeting

Counterfeit entry points and coverage in Africa



Lomé & Benin: into Ghana, Nigeria & rest of West Africa

Conakry: into Mali, Burkina Faso & surrounds

Zanzibar: into Ruanda, Burundi, Uganda & East DRC

Djibouti: into Ethiopia, Somalia, Eritrea & Sudan

Benghazi: into Chad, Libya & cross-border with Tunisia

Tripoli: into mainly Tunisia

Banjul: into Mali, Mauritania & rest of West Africa

Prepared by Nick Hart of Unilever south Africa for QBPC meeting

The compliant way of incentivizing the Chinese law enforcement



Lessons learnt from Case 1

- **Building case on common interests!**
- **Intelligence sharing between Customs & police before case transfer is a MUST!**
- **Brand owner's involvement is critical!**

Case study 2 & lessons learnt

- Counterfeit GE house mark and pirated GE industrial software
- Total seizure of pirated software worth 10 times more of GE's annual sales in China
- Critical support from the Taobao Group & the Chinese police
- Missed the golden timing for case follow-up

Useful IP websites

www.qbpc.org.cn

www.court.gov.cn (Supreme People's Court)

www.hshfy.sh.cn (shanghai High Court)

www.chinaiprlaw.cn (Dr. Jiang Zhipei)

<http://sbj.saic.gov.cn/sbcx/> (Trademark search)

www.customs.gov.cn (General Administration
for Customs)



- **You have made contribution to China. Keep up the efforts!**

*Then Vice Premier Madam Wuyi
on Aug. 12, 2004*



- Foster friendly political climate to allow us to provide honest & constructive recommendations to the Chinese government leaders to achieve our objectives and the win-win results

“ For the future development of China, we MUST shift from building the hard investment environment to soft investment environment i.e. Rule of Law and Fair Competition in order to attract foreign wisdom i.e. talents, modern business administration skills and technologies “
by then Vice Premier Wang Qishan on Nov. 28, 2011





- IP legislative reform in China is getting more & more transparent
- The NPC has demonstrated impressively open-minded attitude and professionalism
- Criminal & border enforcement actions have made noticeably encouraging progress but new challenges arise
- Confident in China's determination to continuously improve investment & IP environment
- Never a dull moment for IP professionals!

Thank you

www.qbpc.org.cn

Jackchang@qbpc.org.cn

jackwachang@gmail.com