1. IPR and enforcement in China

The intellectual property rights (IPR) available in China are very similar to those available in Europe. The registered rights available are invention patents, utility patents, design patents and trade marks. Copyright can also be recorded. There are unregistered rights derived from the law on trade secrets and unfair competition but these are difficult to rely on (the consensus is that only 30% of trade secret actions are successful) and it is therefore advised that rights owners register their IP with the relevant authorities. For a summary of Chinese IPR please refer to the China IPR SME Helpdesk at: www.chinaiprhelpdesk.eu/en/publications.

Assuming you have registered your IP and found it being infringed then you will want to enforce it. How will you find it being infringed? Your customers might tell you about competing products, you might find infringements for sale on the internet, you might see infringements at a trade fair. You should follow-up this type of tip-off by for example employing a private investigator to gather more information about the company marketing the product: is it a big company; what is its production capacity; how long has it been in the market; to whom does it sell; is it operating at its registered address? Once you have gathered sufficient information and decided to take action then there are a few options, as explained below.

2. Enforcement proceedings

There are four main enforcement options in China: administrative actions, civil litigation, criminal sanctions, and customs seizures.

a. Administrative actions

The key Chinese administrative bodies are the Intellectual Property Offices (IPOs), the Administrations for Industry and Commerce (AICs), the Copyright Office, and the Quality and Technical Supervision Bureaus (QTSBs) (local divisions of the Administration for Quality Supervision Inspection and Quarantine). These are empowered to take certain actions against companies infringing intellectual property rights. These bodies between them have the power to:

- Raid defendants’ premises and to seize and destroy infringing items;
- Impose injunctions to force the infringing party to desist; and
- Levy fines on the infringing party for TM infringement, copyright infringement and counterfeiting patent certificates, (but not patent infringement).

Administrative bodies offer a relatively fast and cost-effective way to deal with trade mark and copyright infringements and to gather evidence for patent infringements. They are generally comfortable when dealing with trade mark cases because it is usually an easy matter for the AIC officials to compare the trade mark with the
counterfeit or allegedly infringing product and decide whether there is infringement, as well as simple copyright cases. However, administrative bodies are less confident when it comes to analysing the scope of protection of a patent and the infringement thereof. The main use of an administrative action in a patent infringement case or complicated copyright case is to obtain evidence.

In the event that a right holder cannot collect sufficient evidence to pursue administrative or civil action against an infringer, it may still be possible to apply to QTSB to impound the infringing goods on the grounds of breaching quality or safety standards. QTSB is not a body typically associated with intellectual property disputes but it can be deployed as a useful tool for impounding infringing products in the absence of any other alternative.

A right holder wishing to file an administrative action will need to instruct a lawyer to file evidence about the existence and ownership of the right (i.e. the IPR certificate and identification of right holder, plus Powers of Attorney to enable the lawyer to act) as well as evidence of the infringement (how strong the evidence must be varies from province to province and city to city; it might simply be an investigator’s report but it might be a sample purchase witnessed by a notary public). Your lawyer will provide further details if you decide to pursue this type of action.

A simple trade mark, copyright or QTSB administrative action lodged with a local administrative body would likely last between three and six months and cost RMB 20,000-50,000.

An application to an IPO to obtain evidence in relation to the infringement of a design patent would cost in the region of RMB 30,000-80,000, with a civil action to follow.

b. Civil litigation

Civil litigation is equivalent to a court case in Europe. The usual remedies sought are injunctions, damages, delivery up and destruction (of tools/products). A civil action will generally take six to 12 months from the issuance of proceedings until handing down of the judgment.

Infringing acts under Chinese Patent law include sale, offer for sale, manufacture and export. It is usually easiest to obtain evidence of sale or offer for sale, but even this is not entirely straightforward because Chinese courts require this type of evidence of infringement to be given by a notary public. In practice, this means that the purchase of, or offer for sale of, the allegedly infringing item must be witnessed by a notary public who then certifies that the particular unit was purchased from, or offered for sale by, the particular entity. This type of sample purchase, or witness of an offer for sale, only proves that one sample was sold, or offered, and so may not be sufficient to persuade a court to grant a worthwhile damages award. An Evidence Preservation Order (EPO) may be used to obtain evidence of manufacture.

An EPO is an action in which the court will seal and/or take photographs of infringing articles at the defendant’s premises. The court is also empowered to take copies of all accounts, invoices and other commercial documents found at the defendant’s premises. Of course, many potential defendants are alert to this possibility and do not keep accounts at their factories. The EPO is therefore most useful for gathering the photographic and/or sealed evidence of mass manufacture. A bond of between RMB 20,000–1million to the court might be payable, depending upon the size of the claim and the requirements of that particular court.

Once evidence of infringement has been obtained, either by way of a sample purchase or an EPO, then the main proceedings can be commenced. The conventional rules apply on jurisdiction and the defendant must therefore be sued either in the place where the tort (a civil wrong i.e. an infringement) was committed, or in its home city or province. If the home province of the defendant is known to have an inexperienced court system then it is best to try to ensure that the sample purchase is completed in another jurisdiction with more experienced IP judges (such as Beijing, Shanghai, Shenzhen or Guangzhou).

Once the right owner has gathered sufficient evidence, it might also consider applying for an Asset Preservation Order (APO). This is an action in which the court will freeze bank accounts and/or other assets of the defendant. This tactic is most likely to be employed when the claimant has sustained or
will sustain significant losses due to the infringement and there is a risk of difficulty enforcing a favourable judgment. Again, the court may require the payment of a bond commensurate with the level of damages claimed. Then bond will remain in the court account until the legal action (including any appeal) is complete.

Once the right holder has gathered sufficient evidence, seized/frozen assets of the defendant and built a strong case for infringement, then the matter will proceed to a brief trial. The trial is usually preceded and followed by settlement negotiations mediated by the judge. If no settlement can be agreed then the judge will retire to consider his decision and will hand down a judgment in due course.

c. Criminal sanctions

Criminal sanctions are only used in relation to patents where the counterfeiting of the patent certificates themselves has taken place. Such actions are rare; criminal proceedings are more common in relation to trade mark and copyright infringements. There are three methods of bringing criminal sanctions:

- IP owner reports to the Public Security Bureau (PSB);
- an administrative agency transfers its case to a criminal agency when it comes to suspect the damage inflicted by the defendant exceeds certain thresholds; or
- a trade mark owner can choose to file a criminal lawsuit with the court known as a private prosecution.

The first two approaches are common whilst the final approach is less so because claimants have no compulsory powers to obtain evidence, unlike the authorities.

The PSB has sole discretion on whether to accept a criminal case both when it has been reported by an IP owner or transferred from an administrative agency. If the PSB accepts the case then it will begin proceedings by collecting evidence. Once it has sufficient evidence then the PSB will pass the case to the prosecution agency which assesses whether the case may proceed to trial or not.

The prosecution agency presents the case at trial. The Court will decide liability and the appropriate sentence. Punishment may include imprisonment of up to seven years and/or penalties. It is important to bear in mind that the IP owner cannot recover damages through this process, but of course a favourable ruling would be a valuable deterrent to potential future infringers.

d. Using customs to halt exports and gather evidence

While practice, as ever, varies across China, many Chinese customs authorities will proactively enforce trade marks registered with them. However, generally they will not do the same for patents nor copyright and therefore patent/copyright owners wishing to have infringing goods seized by customs must inform the customs officers of the precise details of each shipment to be seized (including the container number). In practice, obtaining this information entails extensive use of private investigators.

The China IPR SME Helpdesk has a customs enforcement guide: www.china-iprhelpdesk.eu/docs/publications/Customs.pdf.

If product is seized and the claimant wishes to pursue legal action then it must pay a bond equal to the value of the goods seized. The defendant may then pay a counter-bond of an equal amount in order to have the goods released.

Goods seized by customs are strong evidence of extensive infringement. This means that even though customs release the infringing goods on payment of a counter-bond, claimants can use the evidence to claim a high damages award. Further, the damages award will be paid out of any counter-bond posted by the defendant, thereby mitigating the risk of non-payment.

3. Enforcing a judgment

If the defendant does not comply with the terms of the court judgment or a court endorsed settlement then the claimant should apply to court to enforce the judgment. In these circumstances it will benefit the claimant greatly if it had obtained an APO earlier in proceedings because the damages award will be paid out of the preserved assets.

If the claimant did not obtain an APO then the claimant should, following its own investigations, inform the court of the approximate value of the defendant’s assets. If there are sufficient funds in the defendant’s bank account then the court can seize that to satisfy the terms of the judgment or settlement. If there are insufficient funds in the bank account then the court can order the assets of the defendant to be sold by auction.

As in any jurisdiction, there is no guarantee that a defendant will have assets of sufficient value to cover the entire damages award. A prudent tactic is for the claimant to negotiate a realistic settlement with the defendant based on its knowledge of the value of the defendant's assets.
Case Study 1: A typical infringement action

Once an infringer has been identified, commonly via a website advertisement or at a trade fair, an investigative agent is instructed to conduct an initial investigation into the infringer. A typical investigative report takes one to three weeks to complete and will provide information about the infringing acts and products, and further information relating to the corporate and individual identities of the suspected infringers. It is essential that the correct company is identified prior to commencing legal proceedings, although this can be challenging when dealing with complex group company structures and/or shadow companies. The manufacturing entity should be the focus of the litigation.

Once the investigative report has been completed, the decision as to which type of action should be taken against the infringer (civil or administrative or, very rarely, criminal) must be made. This will depend on the following factors:
1. the nature of the infringing act and what type of intellectual property right it relates to;
2. the strength of the evidence of infringement obtainable;
3. whether the infringer has engaged in any other activities related to the infringing act (for example, registration of a ‘copycat’ patent).

When preparing for a civil action, it should be borne in mind that documentary evidence (for example, a copy of a website showing infringing goods for sale) must be notarised, and documents from overseas (for example the claimant’s power of attorney to its Chinese counsel) must be notarised and legalised. Any evidence which is not notarised might not be taken into account by a Chinese judge, and therefore evidence such as witness statements, attorneys’ statements and investigative agents’ reports often don’t carry much weight in Chinese courts.

The ideal list of primary evidence of infringing activity is as follows:
1. a sample purchase with an official receipt. This should have been conducted at the infringer’s registered place of business by the investigative agent and witnessed by a notary public, although an online purchase witnessed by a notary can also be used; and
2. if the infringing goods are being advertised on the internet, then notarised copies of those websites showing the offers of sale should be provided.

It is also advisable to make a (non-notarised) sample purchase of an infringing article in the fortnight before trial. Defendants often claim at trial that their infringing activity was not profitable and/or that it has ceased but a recent sample purchase can show to the judge that this is not true. As noted above, many judges will give little weight to non-notarised evidence and so this tactic is not always successful, but is nonetheless recommended as an added precaution.

Claimants can apply for the usual remedies including, in particular, an injunction, delivery and or destruction of products, and damages. Damages can be calculated based on the defendant’s profits, the IP owner’s loss, a reasonable royalty rate or statutory damages. If claiming an account of the defendant’s profits the claimant must provide evidence of the defendant’s profit from the infringing activity. However, private Chinese companies are generally not required to keep accounting records and there is no legal requirement for the parties to disclose their records during legal proceedings. Obtaining financial evidence therefore poses a significant challenge. If claiming compensation for its own loss then the claimant must disclose its own profits – something most claimants are reluctant to do. If the claimant can provide a licence contract for their IP rights or other proof of their contribution to a licence fee, then the court can use this to determine a reasonable royalty. In the absence
of any of the above the judge will award statutory damages of up to RMB 500,000 (the average award is significantly lower).

Claimants may apply for APOs and/or EPOs in the early stages of civil proceedings. APOs are used to seize assets in order to ensure that any damages awarded are paid. APOs can also be used to seize infringing goods in order to prevent an infringer from being able to carry out its business whilst waiting for the legal proceedings to be completed. EPOs are used to obtain evidence of infringement over and above the initial sample purchase.

In some circumstances a claimant may wish to apply for an interim injunction. Interim injunctions are available in theory if a right holder can provide evidence of actual or imminent infringement which will cause irreparable harm if left unchecked. However, the courts are reluctant to grant injunctions because of the loss that can potentially be caused to a defendant’s business. Such loss is difficult to quantify and it is therefore deemed difficult to calculate and secure an appropriate bond from the applicant.

When evidence has been gathered and exchanged the matter will go to trial. The judge will try to broker a settlement before the trial, and usually after the trial as well. If no settlement can be reached then judgment can usually be expected within a couple of months of the hearing. Once judgment has been given, domestic parties have 15 days (international parties have 30 days) from the date on which they received the judgment to appeal the decision, should they so wish. A party wanting to appeal must submit a petition outlining the basis of their appeal. Chinese courts rarely accept new evidence at the appeal stage unless special circumstances apply and the parties were unable to procure the evidence at the original trial. It will usually take three to six months from the date of the petition for an appeal decision to be handed down.

At first instance, a judgment takes effect after 15 days if no application for appeal has been made (or 30 days where international parties are concerned). An appeal decision is effective upon receipt. However, in either case, a further application may be made to enforce a judgment if the defendant does not voluntarily comply. Timeframes for the enforcement of Chinese judgments vary between courts. In the event that an infringer does not heed the restrictions placed on them by a judgment, the claimant must complain once again to the court.

The time to trial might be extended if the defendant files an invalidation action against the patent alleged to be infringed. All patent invalidation applications are heard by the State Intellectual Property Office (SIPO) rather than the courts and usually concurrent infringement proceedings will be stayed until an invalidation action has been completed. Whether or not proceedings will be stayed generally depends on the intellectual property right in question. For example, an invention patent is considered to be a more stable right than a utility model patent and therefore if the former is challenged then there is less chance of the proceedings being stayed.

Case study 2: shadow companies

A typical issue faced by right holders in China is the existence of what is known as a shadow company. A shadow company can provide a cover name for a Chinese manufacturing company. If company X makes shoes that look a little like, say, Adidas shoes then X might incorporate a shadow company called ‘Adidas Hong Kong’. The shadow company then issues a ‘licence’ and/or a ‘letter of authorisation’ to X’s mainland China-based manufacturer, which then claims to be licensed by or authorised by Adidas Hong Kong. That licence or authorisation will protect the manufacturer from raids by the AIC because the AIC, as discussed above, is not sufficiently sophisticated to deal with anything but the simplest of cases. This means that the right holder must go to court to enforce its rights, which takes more time and costs more money than an AIC action. So the shadow companies benefit the manufacturer by a) permitting it to give
the impression that it is licensed by a famous brand name (and thereby increase sales), and b) buying it time to continue infringing while waiting for legal proceedings. A third benefit is that the Chinese court has no jurisdiction to dissolve the foreign shadow company, so the rights holder has to spend further resources bringing an action abroad to dissolve the shadow company. If the right holder faces financial restrictions when seeking to protect its rights, it should concentrate its litigation on the manufacturing entity only and not worry about trying to close the shadow company as well.

A second use of the shadow company is to break the chain of notarised evidence. In this case, the shadow company acts as the front office for the Chinese manufacturer. Orders are placed with the shadow company in, for example, Hong Kong but the orders are actually fulfilled by the manufacturer on the mainland. There is no traceable link between the mainland company and the Hong Kong front, nor is there any documentary evidence passing between the Hong Kong company and the China mainland company. This makes it very difficult to prove that the infringing products bought from the Hong Kong shadow company are in fact manufactured by the mainland China manufacturers. One way around this is to hire an investigator who will go to the mainland factory itself to make a sample purchase. The investigator will then obtain an invoice from the manufacturer, rather than buying product through the shadow company.

Case study 3: combining administrative and civil actions for trade mark infringement

It is possible to combine administrative actions with civil litigation. As always, the first step is to register the IP rights that your company wishes to protect. Then put in place procedures to monitor trade fairs, online sellers, and any other areas where infringing products might be sold or marketed.

If you then come across infringing products you will need to gather some evidence in the form of a sample purchase with an official receipt. You should then instruct your lawyers to file an administrative action with the competent local AIC, at the same time as filing a civil action for trade mark infringement.

Administrative actions are often quicker and cheaper than civil litigation. A successful AIC action can result in an injunction, destruction of any infringing products found by the AIC and fines of 1) up to three times the illegal turnover, or 2) up to RMB 100,000 if the illegal turnover cannot be calculated (the fine will be calculated based on the turnover the infringing party made from using the trade mark). This ruling can then be used as evidence in a civil trade mark case. However, if you intend to use the AIC case as evidence in a trade mark infringement civil action it is important to make the evidence gathered from the AIC claim as detailed as possible, noting product numbers, price, quantities and retaining any exhibits used. It should be noted that a successful AIC ruling may not be enough to prevent further infringement, and the right holder will not receive any damages from such an action. In order to prevent future infringement and recover its losses, the right holder should follow up the AIC action with civil litigation.

Once the administrative action has succeeded, the trade mark lawsuit should be fairly straightforward. The courts will give weight to the AIC ruling, and the claimant can choose to add further evidence to the civil claim (e.g. more recent notarised purchases). Typical damages awards in trade mark cases vary, up to a statutory damages limit of RMB 500,000 (at the time of writing, but this is due to be raised to 1 million RMB).
Take-Away Messages:

The important points to remember are:

1. Register your intellectual property rights. Unless you have registered your rights you have almost no recourse in China.

2. Be vigilant. Patrol trade fairs and surf the various b2b and b2c websites (such as Alibaba and Taobao) on the lookout for infringing articles.

3. When you identify infringement, enforce your rights. If you build a reputation for being litigious then companies will be less likely to infringe your rights in future. The resources required to achieve such a reputation very much depend on the extent of the infringement.

4. Build your case carefully. Ensure that you are taking action against the right company in the right form.

Related Links

- Copyright Office - [http://www.ncac.gov.cn](http://www.ncac.gov.cn)
- Technical Supervision Bureaus (QTSBs) - [http://english.aqsiq.gov.cn/](http://english.aqsiq.gov.cn/)
- General Administration of Customs of the P.R.C - [http://english.customs.gov.cn/](http://english.customs.gov.cn/)
The China IPR SME Helpdesk provides free, confidential, business-focused advice relating to China IPR to European Small and Medium Enterprises (SMEs).

Helpdesk Enquiry Service: Submit further questions to the Helpdesk via phone, email (question@china-iprhelpdesk.eu) or in person and receive free and confidential first-line advice within seven working days from a China IP expert.

Training: The Helpdesk arranges training on China IPR protection and enforcement across Europe and China, tailored to the needs of SMEs.

Materials: Helpdesk business-focused guides and training materials on China IPR issues are all downloadable from the online portal.

Online Services: Our multi-lingual online portal (www.china-iprhelpdesk.eu) provides easy access to Helpdesk guides, case studies, E-learning modules, event information and webinars.

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