

# Protection of IP Rights in China

## IP in Commercial Relationships



IP Advisors  
for Greater China

December 2020

BEIJING • HONG KONG • SHANGHAI



# About SIPS

- Established in 2012 to provide IP protection services in Greater China
- Offices in Beijing, Shanghai, Hong Kong
- Currently ~ 70 professionals and staff
- Main focus: registration, enforcement and licensing of IP rights
- Research/investigation team
- Clients mainly household names in wide range of sectors
- Recognized by industry surveys as Tier 1 or 2

# Speaker Biography



## **Dan Plane, Partner**

Dan has practiced as a China IP specialist for almost 20 years and focuses on both enforcement of rights – both in Asia and globally – and trademark prosecution. He also serves on the International Trademark Association’s (INTA) Anti-Counterfeiting Committee.

[danplane@sips.asia](mailto:danplane@sips.asia)

Before joining SIPS, Dan worked in Shanghai and Hong Kong with Baker McKenzie and Gide, and previously in-house, managing anti-counterfeiting throughout Asia for LVMH and in EMEA for Nokia.

Dan acts on behalf of a wide range of clients, including garment manufacturers, electronics and computer companies, pharmaceuticals companies, and luxury goods manufacturers. Of particular note is his wealth of experience in designing and managing regional intellectual property programs and IP security programs in supply chain and distribution contexts.

# Presentation Outline

- Illustrative case studies
- Chinese IP law basics
- Counterfeiting and piracy
- Know your client
- Pre-engagement checks
- Due diligence in selecting Chinese supply and distribution partners
- The OEM Exception
- “Must Haves” in supply/distribution agreements
- Monitoring supplier/distributor relationships
- Practical suggestions and best practices

An aerial night view of the Shanghai skyline, featuring the Oriental Pearl Tower and the Bund. The city lights are visible against the dark sky, and the Huangpu River is in the foreground. The text "CASE STUDIES" is overlaid in the center.

# CASE STUDIES

# Case Study: Top Selling Lotion Brand

## Background:

- Client approached SIPS BEFORE engaging its now ex- general distributor for the PRC.
- SIPS advised client to conduct extensive due diligence prior to engagement, also providing suggestions on potential early-warning mechanisms, monitoring of the relationship, etc.
- **Instead**, client:
  - Skipped due diligence;
  - Proceeded with deficient PRC IP portfolio
  - No formal agreements in place
  - Did little to no monitoring during relationship

# Case Study: Lotion Brand (cont.)

## Consequences:

- Complex network of PRC shell companies used by “partner”
  - Manufactured counterfeits of client’s products
  - “Authorized” any old shop to sell those fakes
  - Exported fakes to Australia, then re-import the goods to China to “clean” the product, support higher price
  - Applied for CFDA approval – then permitted use of approval label on fakes
  - Applied for client’s TMs in China
  - Recorded client’s TMs with China customs to control importation/exportation

# Case Study: Lotion Brand (cont.)

## Actions taken:

- Ongoing lawsuits in Australia and China to break network of distributors in both countries;
- Recovery of PRC Customs recordal in client's name;
- Defensive TM and © filings in China;
- Registry actions against pirate marks to remove:
  - possible citation conflicts for client's defensive filings;
  - Marks that may cause confusions to consumers, be misused by pirates;
- Actions against unauthorized company names – administrative complaints, police complaints and/or civil lawsuits;
- Take-down requests with hosts or platforms to shut down unauthorized websites, online stores and social media accounts;
- Revocation of all LOAs to ex-general distributor, and public notice re same.
- Actions continue...

# Case Study: Fashion Brand

- Client is famous for its apparel and swimwear. It has trademark registrations for its house mark in China and worldwide in class 25.
- Client would like to expand its business to cosmetic products in Class 3.
- A Hong Kong pirate (wholly-controlled by a Chinese company in Guangzhou) filed identical marks (both English and Chinese marks) related to cosmetic products and tools in class 3, 8, 21.
- An on-site investigation was conducted against the pirate accompanied by a Notary Public.
- The legal representative of the pirate admitted pre-filing awareness of client's brand. The purpose of his filing is for selling the mark, demanding at least RMB 1 million, but in the meantime, offering "franchises" to third parties under client's mark for Class 3 goods.
- There is limited use of the pirate marks by the pirate on lipsticks and beauty masks.
- A proprietorship search revealed that the pirate only filed 18 applications in China (not a sufficient number to make them a serial pirate, or warehouse, and has some intention to use the marks).

# Case Study: Fashion Brand (cont.)

- Client filed an invalidation against the pirate marks but unsuccessful at TRAD (first level for invalidations). TRAD ruled that there is insufficient evidence to prove the bad faith of the pirate.
- Administrative court appeals are pending.
- Primary hurdle is lack of client's fame in China, especially in cosmetics field.
- The pirate only copied the client's marks, not others.
- Additional work being done to shore up fame issue (PRC National Library searches, etc.)
- Investigations are being conducted into related parties of the pirate to dig up more evidence of bad faith.

An aerial night view of a city skyline, likely Shanghai, featuring the Oriental Pearl Tower and other skyscrapers. The image is dark with blue and white highlights from city lights.

# PROTECTION OF IP IN PRC COMMERCIAL RELATIONSHIPS

# China IP Law – the Basics

- Trademarks
  - Word marks
  - Chinese-language marks
  - Logos
  - Sub-class system
- Copyrights
  - Works of Applied Art?
- Design Patents
  - Evaluation Reports
- Patents: Utility Models / Inventions
  - Dual Filings
- Customs recordals
- Domain names

# China IP Law – Counterfeiting and Piracy

- Pirate IP registrations
  - Trademarks
  - Designs and utility models
- Manufacture and sale of fakes
  - Online
  - Markets
  - Factories
- Enforcement
  - Administrative
  - Civil
  - Criminal

# Know your Client

- Level of sophistication – and level of “experience” in China?
- Budget?
- Appetite for risk?
- Siloed decision making?
- Overconfidence in awareness?
- Conflicting goals and concerns?

# Pre-engagement Checks

- Trademark registry
  - Oppositions
  - Cancellations
  - Invalidations
- Any important piracy cases?
  - Investigations, particularly for persuasive evidence of bad faith, ongoing infringement
- Copyright-protected artistic works infringed?
  - Proof of copyright ownership
- PRC customs records: Yours AND the pirates'...
- Market surveys – online (ever more key) and physical

# Due Diligence

- Identifying a Chinese supply partner
  - Referrals
  - B2B / B2C sites
  - Trade fairs
  - Factory visits
  - ....but maintain objectivity and do your homework:
    - Pretext investigative approaches (i.e., ethical workforce checks, etc.)

# Due Diligence

- Identifying a distribution partner
  - Record of respect for third-party IP
  - Scope, scale and experience of network, ability to build a brand
  - Search for records of prior disputes
  - Interviews with other trade partners
  - Willingness to sign IP agreement

# OEM Exception

- Background
  - Judicial construct – not codified in statute
  - Situation? Pirate registered the TM in China, recorded it with PRC Customs
  - Victim: Chinese factory supplier & brand owner
- Customs relief?
- Judicial relief?
  - Civil action: a declaration of non-infringement
    - OEM exception – not TM “use” under TM Law
    - Article 59(3) of TM Law: Continuing use in China within previous scope of use
- Other options
  - Invalidation / cancellation
  - Suspend or cancel a bad-faith Customs recordal

# Supply Agreements

- POs v. formal supply agreement
- Arbitration vs litigation
- Liquidated damages
- Bilingual
- The OEM exception: Strict prohibition on sales in China
- “Emergency” clauses
- Ownership of moulds/tooling

# Distribution Agreements

## IP/dispute resolution provisions, TM license recordals

- Supervision of quality, control over brand image
- Division of labour – who monitors, ensures, and **pays for** protection of IP?
- Audits, inspections, on-site visits
- Dispute resolution – primary issues
  - Choice of laws
  - Grounds for immediate termination
  - Injunctions for infringements
  - Liquidated damages
- TM licenses and recordals with the TMO, Authorization Letters

# Monitoring Supplier/Distributor Relationship

- Trust... but verify
- Proactive, not reactive
- Sources of information
  - Online surveys
  - Physical market surveys
  - Informants
  - Offshore markets and customs
  - TM Gazette
  - Pre-text approaches
- Utilization of enforcement provisions, liquidated damages clauses
- Monitoring **BEFORE**, **DURING** and **AFTER** relationship

# Practical Suggestions

- Assume violations WILL happen, and are not just “possible”
- Budget robust for all aspects of IP protection work throughout the supply chain
- Benchmark against practices of other companies
- Find an appropriate in-house manager to deal with appropriate experience to anticipate and respond to problems
- Line up outside resources with requisite experience
- Don’t expect miracles
- Pragmatism required as supply chain hard to rebuild!
  - Assume continuing cooperation may be required for some time
  - Liquidated damages are a valuable tool to re-balance the relationship

# Other Best Practices

- Survey the online grey market in China regularly
  - Companies that have no authorized distribution in China may still have a big market there, and there could be a host of hidden TM problems identified through searches on the TM Register.
- Develop and register Chinese-language brands before pirates do!
- Avoid license recordal with the TMO (legally required, though not enforced) if you can
  - Process recently simplified
  - But if licensee terminated early, the recordal can be difficult to deregister
  - Terminated licensees regularly use recordals to support continuing use of marks
- Merge or coordinate your online and offline enforcement program
  - Don't leave online enforcement to outside firms to manage independently

An aerial night view of the Shanghai skyline, featuring the Oriental Pearl Tower and the Bund. The image is dark with blue and white highlights from city lights. The text "Q&A" is centered in white.

Q&A

## BEIJING

LG TWIN TOWERS, EF08, EAST TOWER  
B-12 JIANGUOMENWAI AVENUE  
CHAOYANG, BEIJING 100022, PRC

T: +86 10 8523 3225  
F: +86 10 5120 8358

## HONG KONG

25/F, 3 LOCKHART ROAD  
WANCHAI  
HONG KONG SAR, PRC

T: +852 3468 7500  
F: +852 2866 6408

## SHANGHAI

GUANGQI CULTURAL PLAZA, ROOM 208  
BUILDING B. NO. 2899 XIETU ROAD  
XUHUI DISTRICT, SHANGHAI 200030, PRC

T: +86 21 3477 0522  
F: +86 21 3477 0526



IP Advisors  
for Greater China

[mail@sips.asia](mailto:mail@sips.asia)  
[www.sips.asia](http://www.sips.asia)