

# Protection of IP Rights in China

## Best Practices and Recent Developments



IP Advisors  
for Greater China

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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 Biographies



## **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.

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 Europe for Nokia.



## **Joe Simone, Partner**

Joe has been advising MNC and SME clients on China IP matters since 1988. He is also a UDRP arbitrator handling domain name disputes under WIPO.

Joe has been active since 1990 in International Trademark Association committee work focused on legislative reforms and anti-counterfeiting in China. He previously served as the Chair of INTA’s Global Bad Faith Trademark Registration Task Force and was recently appointed as the only American lawyer to serve in INTA’s “China Global Advisory Council”, which will be helping to set INTA’s objectives for policy work in the PRC for the next two years.

# Overview

1. Big picture view of China IP protection
2. Main challenges and best practices
3. Improvements in the pipeline
4. Case studies

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 "Big Picture" is overlaid in the center.

# Big Picture

# Big Picture

- Gradual improvements over the last 20 years
  - WTO accession 2000 brought China 99% into compliance with global norms
  - Local companies demanding same protections as foreigners
  - In many ways, IP protection stronger than in other areas of the law
- But enormous gaps remain + new problems have taken root
  - Commitment to addressing counterfeiting
  - Certain protections exist on paper, but not in reality
  - Online trade and globalization

# Big Picture

- US-China trade dispute
  - Result of long-standing frustrations – also shared by Europe and Japan
  - Drift towards “decoupling” – or better to say “decoupling policy”?
  - Stage 1 deal signed January 15
    - Core elements: China agreed to agro purchases in exchange for freeze on customs duties
    - Dispute resolution mechanism
    - Despite lengthy IP chapter, few concrete undertakings by the Chinese
    - Most improvements being introduced by Chinese of their own volition, with the most exciting:
      - Higher compensation from civil courts
      - Greater obligations to be imposed against online platforms to police for violations
  - Stage 2 deal?

# Big Picture

- In the era COVID-19
  - Infringements could well explode
  - IP owners will spend less resources for IP protection
  - But the Chinese market could be crucial to business
  - And if China's promises of greater compensation are realized
  - The ROI from enforcing IP properly in China may justify action

An aerial night view of a city skyline, featuring prominent skyscrapers and a river. The image is dark with a blue tint, and the title text is overlaid in white. The background shows a dense urban landscape with various building shapes and lights reflecting on the water.

# Main Challenges & Best Practices

# Overview of Main Challenges in IP Protection

- Industrial policy / “balanced IP protection”
- “Protectionism” = Local bias and corruption
- Civil courts
  - Preliminary injunctions rare
  - Access to evidence restricted
- Online enforcement
  - Explosion of all types of IP infringement
  - Platform obligations limited mainly to “notice & take-down”
  - Anonymity reigns
  - To be fair: same issues faced almost everywhere

# Overview of Main Challenges in IP Protection

- Counterfeiting
  - Scale of the problem enormous, fueled by online trade and globalization
  - Lack of police resources + over-reliance on administrative enforcement
- Trademarks hijacking
  - “Bad faith registration” severe
- Patents
  - Deterrence from the current system insufficient
- Copyright
  - Software, film and music industries not openly complaining too much
- Trade secrets
  - No criminal prosecutions without demonstrating stolen secrets have been commercialized

# Best Practices – Trademarks

- Registration
  - File early – or risk piracy, exclusion from the market, trouble with sourcing
  - File broadly, covering wider range of goods/services than you might elsewhere
- Create and file for Chinese-language versions of your marks – ASAP
  - Valuable in marketing as well as policing fakes online
  - Coordinate efforts in PRC with those in HK, Taiwan and Macau

# Best Practices – Trademarks

- Searching / monitoring
  - Pre-filing searches cheap and helpful for minimizing costs
  - Ensure lawyer or other service engaged to monitor constantly for pirate marks
- Consider registering logos/designs as copyright work with CCPC
- Record TM registrations with PRC customs
  - Weapon for monitoring / stopping exports of fakes
  - But increasingly obligatory to support sourcing from Chinese factories

# Best Practices – Copyright

- Consider whether your products can be protected under copyright
  - If so, file for them with the CCPC
- Maintain agreements with creators of artwork
  - Get templates that will work on a global level
- Fonts and photos – avoid infringement claims
  - Avoid using unlicensed works
  - Or otherwise ensure suppliers have indemnified against claims

# Best Practices – Patents

- Carefully evaluate what to patent in China
  - Designs – 10 years (soon to be 15 years)
  - Invention patents – 20 years
  - “Utility model patents” – 10 years
- File for patents in China asap
  - Most wait 1-3 years to file; applications then take up to three years for approval
  - Filing early ensures your ability to enforce in China with minimum delay
  - For inventions, consider double filings of utility model AND invention for faster protection
- Once issued, seek “evaluation” of designs and utility model patents
  - Required by customs and online trade platforms
  - Also helpful for supporting C&Ds and settlement negotiations with infringers
- Consider recording patents with PRC customs
  - Doing so can deter infringers

# Best Practices – Trade Secrets

- Be ready for the worst
  - Put all commercial partners under NDA agreements
  - Mark all important documents as “CONFIDENTIAL”
  - Limit access to confidential information
  - Provide periodic training to employees and suppliers
  - Monitor employees with access to trade secrets that leave company
  - Be ready to demonstrate all of the above to enforcement authorities
- Constantly monitor for infringements
- Investigate suspected violations promptly
- Be sensitive to the risk your own management is involved or aware

# Best Practices – Enforcement

- Investigations
  - Start with thorough online research
  - Carefully select investigators for market surveys and field visits
- Consider all the avenues before deciding on action plan
  - Online take-downs
  - C&Ds and negotiating
  - Administrative enforcement
  - Criminal enforcement
  - Civil complaints
- Match up strategy with budget and objectives
- Consider broader programs with tiers of action to maximise enforcement dollars

# Best Practices – Enforcement

- Online enforcement
  - “Notice & take-down” and whack-a-mole
    - Necessary evils
  - Conduct initial audit to understand scale / nature of infringement problems
    - Purchase samples if difficult to distinguish real and fake
    - Concurrently research issues with grey/parallel goods
  - If violations happening worldwide, consider engaging global service provider
    - Leaders in the field: Incopro, OpSec, Yellow, Pointer
    - They may be willing to provide free or low-cost survey
  - Use survey data as tool for identifying main infringers
  - Merging of online and offline enforcement programs
  - Be ready for disappointment, but perseverance will pay off
  - Budget appropriately

An aerial night view of a city skyline, likely Shanghai, featuring the Oriental Pearl Tower and other skyscrapers. The image is dark with a blue tint, and the title 'Improvements in the Pipeline' is overlaid in white text. A blue vertical bar is on the left side.

# Improvements in the Pipeline

# Improvements – TM Hijacking

- Scale of problem enormous
  - Illustration: CFDA report [https://cfda.imgix.net/2018/10/CFDA.com\\_CFDA-Report-Bad-Faith-TM-China.pdf](https://cfda.imgix.net/2018/10/CFDA.com_CFDA-Report-Bad-Faith-TM-China.pdf)
- TM Law revised (effective 11/1/19) + CNIPA regulations (10/1/19)
  - Followed extensive foreign lobbying as well as pressure from local interests
  - Legal basis for action against pirates clearer
  - Fines possible against filers as well as their agents
  - Social credit penalties threatened

# Improvements – TM Hijacking

- Results so far:
  - Informal black list established
  - TMO has rejected hundreds of thousands of applications by warehousers
  - TMO inviting victim brands to file informal interferences
    - Best practice: Have all victims file together and with support of industry association
  - Victim brand owners now have much higher chance of winning legal actions
  - Fines imposed – but so far only in cases involving COVID-related filings
  - Compensation from pirates for legal/investigation costs?
    - Not yet possible – unless pirate actively interferes with victim's business
    - By using mark or filing enforcement actions that divert sales
- Government now plans to amend TM Law further in ~3 years

# Improvements – Stronger Enforcement

- TM Law revision (effective 11/1/19)
  - Maximum fines and compensation increased dramatically
  - Similar changes proposed in draft patent and copyright laws
  - Maximum statutory damages up 300% to US\$715,000
  - Punitive damages increased from 3x to 5x base level
  - Time to reconsider self-funding programs?
  - In practice:
    - Waiting to see if courts will be willing to implement
    - Courts already over-burdened in hotspot regions, and fearful of incentivizing plaintiffs
    - New pre-action mediation procedures mandatory, but not yet working

# Improvements – Stronger Enforcement

- Draft CNIPA regulations set conditions under which higher fines mandated:
  - Victim’s mark is “well-known”
  - Infringement has continued for >18 months
  - Health and safety risks
  - Infringer revenues exceed thresholds, e.g.:
    - RMB500,000 (US\$71,000) for cases involving two or more victim brands;
    - Sales take place in more than three provinces or six cities; or
    - Revenues exceed RMB1 million (US\$142,000).

# Improvements – Stronger Enforcement

- US-China Trade Agreement
  - China agreed to commence enforcement campaigns
  - Publish results on periodic basis
  - Impose fines and compensation at higher end of the scale
    - Some indications of compliance already

# Improvements – Online Enforcement

- E-Commerce Law (effective 1/1/19)
  - Vendor anonymity technically outlawed – but not yet implemented in practice
- Zhejiang Higher People’s Court Opinion (12/19)
  - Imposes higher legal duty on platforms
- US-China Trade Agreement / CNIPA Action Plan (4/20)
  - Higher legal duty to be placed on platforms in Ecommerce Law and regulations
  - Similar efforts underway in US – targeting Amazon?

# Improvements – Online Enforcement

- Draft rules issued January 2020 for public comment
  - Require platforms to publish all take-down data
  - Including names of parties, IP enforced, reasons for take-down or rejection
  - Apparent goals:
    - Shame infringers
    - Perhaps shame platforms
    - Increase deterrence and level of consistency and care by platforms
    - May also help government in applying social credit penalties & investigations

# Improvements – Online Enforcement

- Meanwhile, the day-to-day dance with platforms continues
  - Platforms start with assumption vendors are acting legally
  - Three-strike rule offers only limited deterrence
  - Platforms refuse to act where case seems in any way “difficult”
    - SIPS proposal to address this: **accelerated arbitration**
  - Platforms offer special help to big brands
  - Getting strategic support almost always difficult
  - IP owners unwilling to sue platforms or lobby hard through associations
- Police and MSB involvement in online cases still a work in progress

# Online Enforcement in US – Draft “Shopsafe” Legislation



## **Platforms may be held liable if they fail to adopt best practices, such as:**

- Verifying seller’s identity, address, contact details, and display the same online
- Requiring seller to verify and attest to the authenticity of goods
- Requiring seller to accurately depict the goods
- Adopting AI solutions to identify and block ads for likely fakes
- Terminating vendors after three strikes
- Monitoring vendors that sell through a different front
- Providing information on sellers to trademark owners on request

# Improvements – Trade Secrets

- Amendment of Criminal Code and judicial interpretations promised
- Facilitating criminal prosecution against trade secret infringers via
  - Shifting of burden of proof to infringers
  - Reducing threshold for criminalization or broader definition of victim's "losses"

An aerial night view of a city skyline, likely Shanghai, featuring the Oriental Pearl Tower and a river. The scene is dark with city lights and a blue overlay on the left side.

# Case Studies

# Case Study – TM Hijacking: Fashion Brand

- Dongguan pirate filed for 40 marks belonging to hot LA fashion brand **ABC**
- Registrations recorded by pirate with Chinese Customs
- Two shipments seized – delivery impossible for several months and orders lost
- Pirate demanded US\$1 million
- Client shifted production to Cambodia or refrains from applying marks within China
- Customs ordered release of product after three months – and high legal costs
- TM invalidation successful, with pirate branded bad faith filer
- But pirate appealed customs decision to courts, thus delaying release of goods 2 months more
- Pirate also appealed invalidation appeals and file 20+ additional applications
- All recent applications rejected by TMO based on bad faith, but earlier applications still exist
- Opened “ABC” Tmall store offering fakes of victim’s brand
- Pirate found counterfeit LV and other European brands
- Alibaba refused to take down Tmall store of pirate, claiming final decision needed
- Hoping pirate will settle for minimal compensation...eventually
- ABC asking Alibaba and JD to allow sales of genuine product

# Case Study: Top Selling Skincare Brand

## Background:

- Client approached SIPS before engaging its now ex- general distributor for the PRC.
- SIPS advised client to conduct due diligence prior to engagement and provided other suggestions on protections to put in place early-warning mechanisms, monitor relationship, etc.
- **Instead, client:**
  - skipped advance due diligence;
  - did not ensure its IP portfolio (including Chinese-language marks; defensive filings in related classes; copyright registrations of logos; actions against pirate marks) was up to date;
  - did not enter into proper distribution agreements;
  - conducted little to no ongoing checks or monitoring of the “partner” after engagement;
  - provided overly broad power to general distributor to promote client’s products in China.

# Case Study: Skincare Brand (cont.)

## Consequences:

- Unauthorized use of client's main mark;
- Unauthorized registration and use of Chinese translation for client's main mark;
- Unauthorized registration and use of client's IP rights (including main marks and logos as trademarks and/or copyrights); and worst of all...
- Establishment of "parallel supply chain" in China manufacturing fakes of client's product
- Unauthorized recordal of client's TMs with PRC Customs to facilitate its import/export of fakes;
- Export of those fakes to client's home territory for re-export into China as "genuine" parallel imports;
- Operation of unauthorized websites, online stores and social media accounts passing themselves off as client's official or authorized partners;
- Refusal to provide original CFDA registration certificates to client, and mis-use/abuse of CFDA registrations, including on counterfeits of products; and
- Unauthorized issuance of sub-Letters of Authorization (LOAs) to other parties.

# Case Study: Skincare Brand (cont.)

## Actions taken:

- Selection of new business partner after detailed pre-engagement checks and post-engagement monitoring;
- Ongoing enforcement actions against fakes (raids, lawsuits, customs seizure);
- Recovery of customs recordal in client's name;
- Transfer or cancellation of CFDA registrations;
- Defensive filings (trademarks and copyrights) in China;
- Actions against pirate marks to:
  - remove possible citation conflicts for client's defensive filings;
  - remove them to avoid causing confusions to consumers;
- Actions against unauthorized company names – administrative complaints 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.

# Case Study – Patents: Baby Strollers

- Zhongshan pirate infringed Israeli invention patent
- Also used TUV trademark without authorization
- Online platforms enforced inconsistently
- Actions taken:
  - Criminal complaint in the name of TUV for counterfeiting their TM
    - Several months in jail pending trial + one year suspended sentence + criminal fine
  - Administrative complaint for patent infringement: yielded evidence of prior sales
  - Civil complaint generated over RMB400,000 in compensation – covering costs
- Unfinished business:
  - Production moulds

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