

Administrative Enforcement of Intellectual Property in China



CCPIT PATENT AND TRADEMARK LAW OFFICE
中国国际贸易促进委员会专利商标事务所

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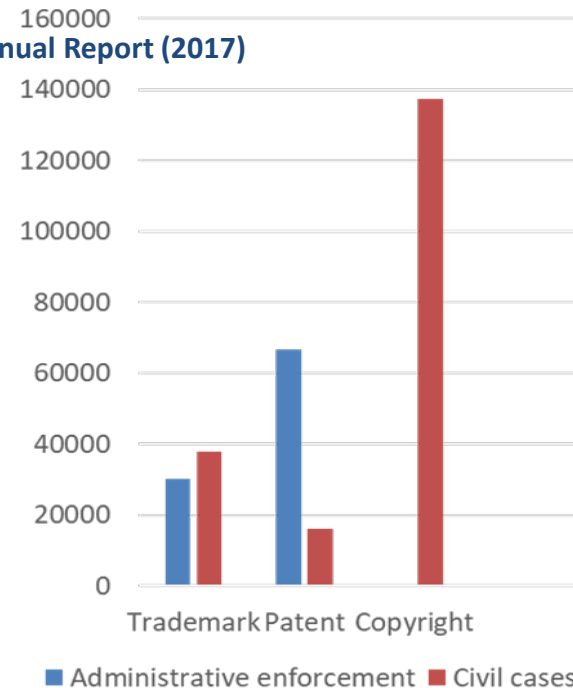
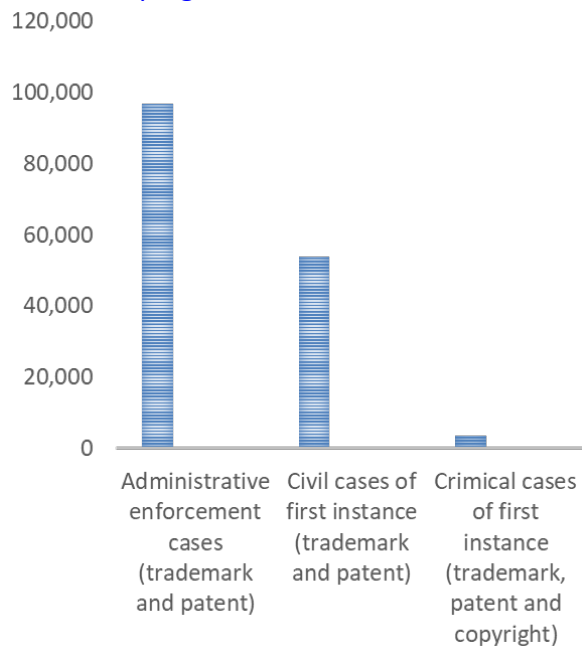
Intellectual Property Enforcement in China

Enforcement Channels

- Administrative Enforcement
- Civil Enforcement
- Criminal Enforcement

• Cases in 2017 (Data from PRC Intellectual Property Protection Annual Report (2017))

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Administrative Enforcement of Intellectual Property

Enforcement Mechanism in China

- **State and Local Administration for Market Regulation: Trademark and Patent Enforcement**
 - Enforcement mechanism
 - Actions upon complaints
 - Ex officio actions
 - Ad hoc actions: “Convoy”, “Thunder”
 - Penalty decision
- **National and Local Copyright Administration: Copyright Enforcement**
 - Challenges, copyright civil cases increasing greatly
 - Copyright Law under amendment
- **The Customs: Border Protection of Trademark, Patent and Copyright**
 - Border seizure actions: Most are ex officio.
 - Enforcement mechanism
 - Customs recordal: valid up to 10 years, covering trademark, patent and copyrightable subject matter

Trademark Administrative Enforcement

Typical Case Review

● “BERMAD” valves infringement case

- The infringing party Shanghai Baermet Company changed the color and components of the valves bearing “BERMAD” trademark owned by Israeli Bermad company to sell them as another kind of BERMAD valves with higher price. The total illegal business amount was 187 million RMB yuan.
- The Shanghai Administration for Market Regulation decided that the acts constituted trademark infringement and ordered the party to immediately stop the infringement, confiscated the infringing valve products, and **imposed a fine of 561 million RMB Yuan.**

● “GIVENCHY”, “LE MER”, “KIEHL’S” Cosmetics infringement case

- The Xiamen Administration for Market Regulation traced the clues provided by the customs and found the infringing acts of Meidai Trade (Shenzhen) Co., Ltd. As the total volume of the infringing goods is more than 3 million yuan, the case constitutes a crime. The Xiamen authority then transferred the case to the police.
- On September 28, 2017, **the Court sentenced three responsible people to a term of imprisonment ranging from three months to four years.**

Administrative Enforcement of Intellectual Property

Pros and Cons

- **Cost and time effective**

- Ex officio actions and ad hoc actions saving resources and money

- **Efficient**

- Penalty decision of the administrative authority is effective.
- Warning and frightening the infringers: huge fines imposed; Where a crime is suspected, the case shall be transferred to the judicial authorities for criminal investigation.

- **Damage not awarded**

- **Administrative enforcement, civil or both?**

- Key factors: Cost, time, difficulty in collecting evidence, damage, the size of the infringer, etc.

Administrative Enforcement of Intellectual Property

Long-term Strategy

- **Effective Filing Strategy and Portfolio Management**

- Proactive and Adequate Trademark Filings: Broader scope of goods/services, trademarks in Chinese, defensive trademarks; File domain names...
- Design Patent Filings/Copyright Registration
- IPR Customs Recordation
- Active filing oppositions and invalidations against others' bad faith filings
- Well-Known Trademark Recognition for obtaining broader protection

- **Monitoring and Investigation**

- Trademark Watch
- Market Monitoring
- Field Investigations
- Intelligence/Evidence

- **Working with local counsels on situation analysis and formulating effective strategy**

- **Public Education**

- **Government Relations and Lobbying Efforts**

- **Joint Actions and Information Sharing**

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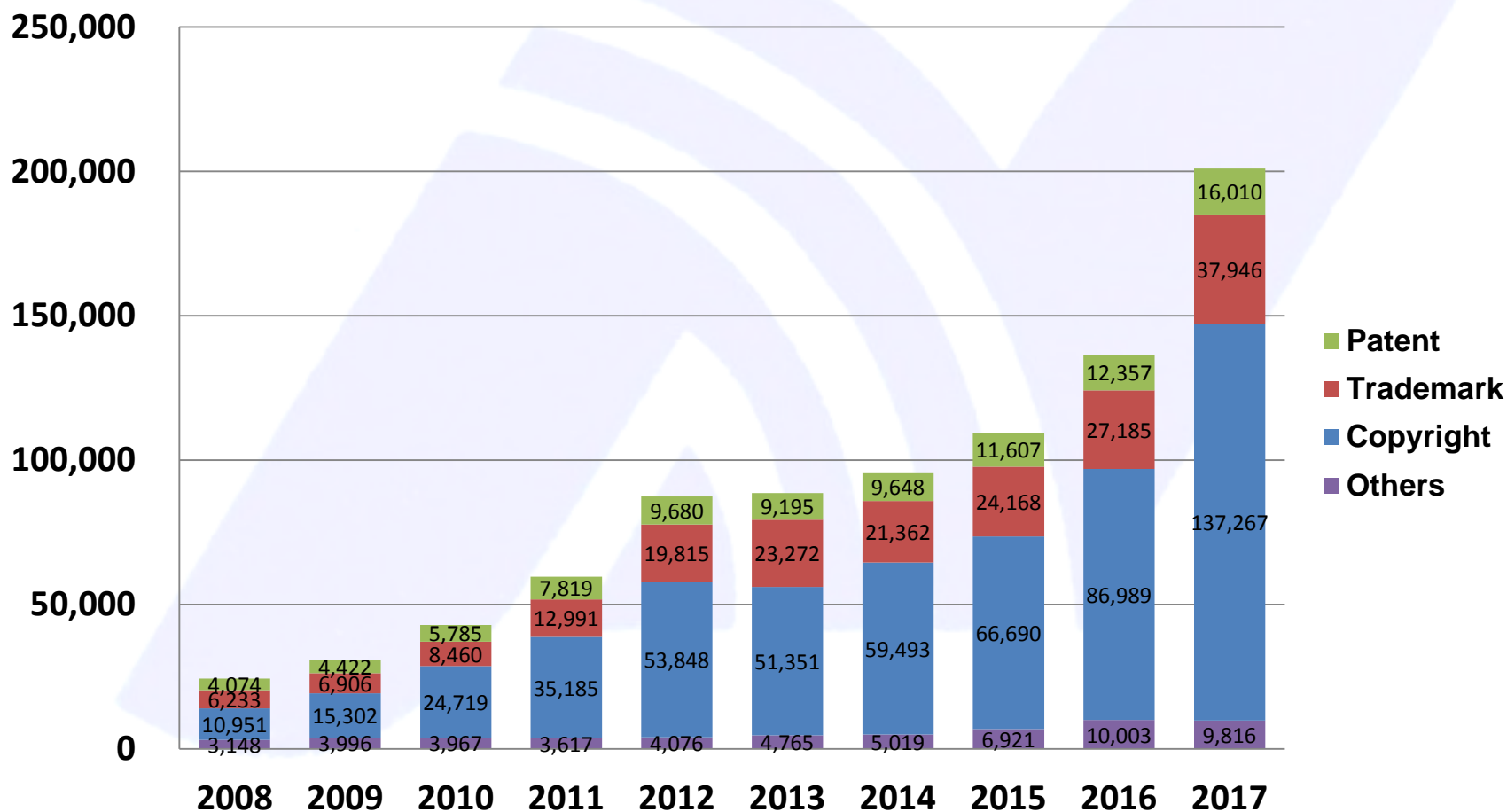
IP Enforcement through Civil Procedures

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Prepared for China IP Road Show

Civil IP Cases Statistics (1st instance)



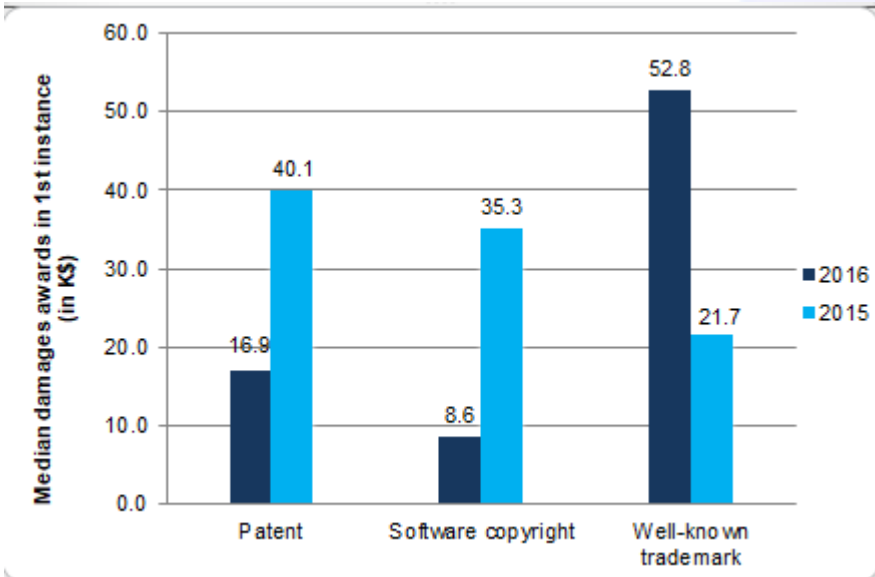
Court Jurisdictions



Powers of Court in Evidence Collecting

- Investigation Order
- Evidence Preservation Measures
 - Preliminary evidence
 - Used often in patent infringement of method claims
- Property Preservation Measures
 - Helping Calculation of Damages
- Order to Inquiry on documents from other government agencies
 - The data including the import/export information
 - One of the grounds to overturn the decision
- Ordering defendant to produce certain evidence
 - No production will result in court's support of plaintiff's allegation

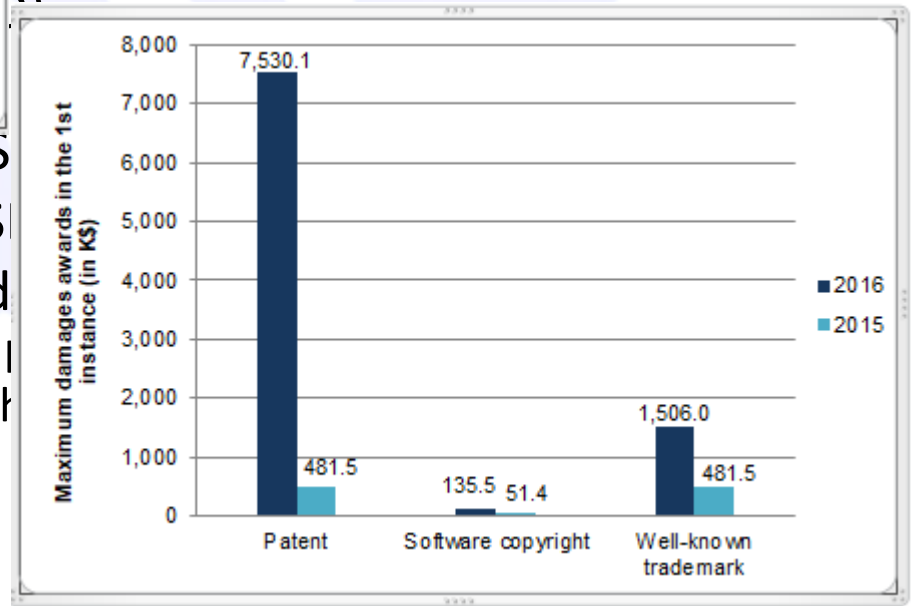
Damages Calculation



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aintiff

D)
S)

- Trade Secret: 3M (450K US)
- Trade Dress: 3M (450K US)
- Elements to be considered
 - Type of the rights, Willful, I
 - Trademark, Popularity of th
- Other methods



Zhou vs. New Balance



新百伦

- The Trial Court:
 - 98M RMB (14.6M USD)
 - Auditing Result: 195.8M RMB,
 - Willfulness resulted from Negative Cancellation Result
 - More than 800 Authorized Stores
 - Advertisement Popularity
- Appellate Court:
 - 5M (740K USD)
 - “New Balance” and “N” are well-known and the contribution of “新百伦” is low

Longcheng vs. Tongba



- Patent In Dispute :
 - No. ZL01242571.0
 - Front wheel positioning device
- Damages awarded and affirmed by Hubei Ct.: RMB 140K(about 22K USD)
- Supreme Court: RMB 1M (about 150K USD)

Thanks for your Attention

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Criminal IP Enforcement in China

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Outline

- Introduction
- Trademark
- Patent
- Copyright
- Trade secret

Introduction

IP Enforcement in China

- Civil
- Administrative
- Criminal

IP-related Crimes

- A specific chapter of *the Criminal Law of China* related to IP crimes
 - Three types of crime related to trademark: Articles 213-215 of the Criminal Law
 - One type of crime related to patent: Article 216 of the Criminal Law
 - Two types of crime related to copyright: Articles 217 and 218 of the Criminal Law
 - One type of crime related to trade secret: Article 219 of the Criminal Law
- Both individual and non-individual (e.g., company) can be held criminally liable
 - Article 220 provides criminal liabilities for non-individual

Number of Criminal Prosecutions Filed

Crime Type	2014	2015	2016
Trademark	4,447	4,358	3,565
Copyright	735	504	195
Patent & Trade Secret	60	51	39
Total	5,242	4,913	3,799

Source : data released by Supreme Court of China

Number of Suspects Criminalized

Crime Type	2014	2015	2016
Trademark	6,030	5,811	4,847
Copyright	870	556	276
Patent	0	0	1
Trade Secret	59	35	43
Total	6,959	6,402	5,167

Source : data released by Supreme Court of China

Trademark

General

- Most of China IP criminal enforcement are trademark-related
- Three types of crime
 - all are related to registered trademark

Statistics

Crime Name	2014	2015	2016
Counterfeiting registered trademarks	3,003	3,089	2,604
Selling goods bearing counterfeited registered trademarks	2,410	2,222	1,823
Illegally manufacturing or selling illegally manufactured identifications of registered trademarks	617	500	420
Total	6,030	5,811	4,847

Source : data released by Supreme Court of China

Article 213: Crime of counterfeiting registered trademarks

- Whoever, without permission from the owner of a registered trademark, uses a trademark which is identical with the registered trademark on the same kind of commodities shall, if the circumstances are serious, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined; if the circumstances are especially serious, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined.

Article 214: Crime of selling goods bearing counterfeited registered trademarks

- Whoever knowingly sells commodities bearing counterfeit registered trademarks shall, if the amount of sales is relatively large, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined; if the amount of sales is huge, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined.

Article 215: Crime of illegally manufacturing or selling illegally manufactured identifications of registered trademarks

- Whoever forges or without authorization of another makes representations of the person's registered trademarks or sells such representations shall, if the circumstances are serious, be sentenced to fixed-term imprisonment of not more than three years, criminal detention or public surveillance and shall also, or shall only, be fined; if the circumstances are especially serious, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined.

Patent

General

- Criminal prosecution and criminalization are very rarely seen
 - only one person was convicted during 2014-2016

Article 216: Crime of counterfeiting patent

- Whoever counterfeits the patent of another shall, if the circumstances are serious, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined.

Copyright

General

- Criminal prosecution and criminalization are more commonly seen than patent and trade secret cases, but less than trademark cases

Article 217: Crime of infringing on copyright

- Whoever, for the purpose of making profits, commits any of the following acts of infringement on copyright shall, if the amount of illegal gains is relatively large, or if there are other serious circumstances, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined; if the amount of illegal gains is huge or if there are other especially serious circumstances, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined: (1) reproducing or distributing a written work, musical work, motion picture, television programme or other visual works, computer software or other works without permission of the copyright owner; (2) publishing a book of which the exclusive right of publication is enjoyed by another person; (3) reproducing or distributing an audio or video recording produced by another person without permission of the producer; or (4) producing or selling a work of fine art with forged signature of another painter.

Article 218: Crime of selling infringing duplicate works

- Whoever, for the purpose of making profits, knowingly sells works reproduced by infringing on the copyright of the owners as mentioned in Article 217 of this Law shall, if the amount of illegal gains is huge,, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined.

Trade Secret and Protection Tips

General

- Important tool to guard against theft of important confidential information
 - technical information
 - business information
- Commonly seen during employee mobility
 - former employee joins a competitor
 - former employee establishes a competing business
- Criminal proceeding is generally more powerful than administrative proceeding and civil action
 - the investigative authority has broader power to investigate and collect infringing evidence
 - tougher deterrence and punishment: criminal cases can lead to sentences of up to 7 years' imprisonment and fines

Article 219: Crime of infringing on trade secrets

- Whoever commits any of the following acts of infringing on business secrets and thus causes heavy losses to the obligee shall be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined; if the consequences are especially serious, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined: (1) obtaining an obligee's business secrets by stealing, luring, coercion or any other illegitimate means; (2) disclosing, using or allowing another to use the business secrets obtained from the obligee by the means mentioned in the preceding paragraph; or (3) in violation of the agreement on or against the obligee's demand for keeping business secrets, disclosing, using or allowing another person to use the business secrets he has.
- Whoever obtains, uses or discloses another's business secrets, which he clearly knows or ought to know falls under the categories of the acts listed in the preceding paragraph, shall be deemed an offender who infringes on business secrets.

Elements of A Trade Secret

- "Business secrets" as mentioned in this Article refers to technology information or business information which is *unknown to the public*, can bring about *economic benefits* to the obligee, is of *practical use* and with regard to which the obligee *has adopted secret-keeping measures*.
- Minor difference with Anti-Unfair Competition Law (2017): deleting the element of “practical use” in 2017 amendment, and “Trade secret” defined
 - “Technical information” or “business information;”
 - which is unknown to the public;
 - have commercial value; and
 - for which the rights holder has adopted secret-protection measures.

Parties

- Suspects
- Victims
- Local public security bureaus (“PSB”)
 - Criminal trade secret investigation
- The public prosecutor system
 - Criminal trade secret misappropriation investigation and prosecution
- Court

When PSB Will Build a Case

- To persuade PSB to build a case, victim should provide preliminary evidence of a trade secret theft case, notably include:
 - to provide prima facie evidence proving losses incurred are higher than RMB 500,000 (US\$73,500)
 - to provide prima facie evidence the information taken is a “trade secret”
 - retaining a third-party to conduct the appraisal might be necessary
- Normally not easy to have a criminal case built in China

Interplay between Different Enforcement Proceedings

- Some victims prefer resorting to criminal procedure first, and then file civil action based on the evidence collected from the criminal proceeding
 - no U.S.-style discovery in China and it is normally difficult to obtain the evidence from the opposing party

Case Study: SI v. Sino Legend

- On November 26, 2008, SI Group contacted the Shanghai PSB to initiate a **criminal investigation** against the former employee. The PSB eventually terminated its investigation for “lack of evidence.”
- As a result of PSB’s decision to terminate the criminal investigation, SI Group filed **two civil actions** against Sino Legend and the former employee before the Shanghai Court in early February 2010. SI Group re-filed these cases on March 24, 2011.
- In January 2012, Sino Legend counter sued SI Group for trade secret misappropriation in Shanghai.
- On May 21, 2012, SI Group, Inc. of Schenectady, New York filed a complaint at the **ITC and sought permanent exclusion orders and cease and desist order** pursuant to Section 337. The complaint alleges that the Sino Legend entities in China unlawfully import into the U.S. certain rubber resins made using misappropriated SI Group trade secrets obtained from a former employee of SI Group.

Multi-jurisdiction and Multi-forum Trade Secret Suits

- In this increasingly globalized world, problems and solutions no longer stopped at national borders, nor limited to a single jurisdiction.
- Multi-jurisdiction and multi-forum trade secret suits more frequently seen than ever.
- It is also critical to understand the interplay between Chinese proceedings and related proceedings in other countries. For larger competitor vs. competitor suits, trade secret legal actions are often initiated as coordinated, global attacks requiring a coordinated response.

Multi-jurisdiction and Multi-forum Trade Secret Suits

- **Challenges of parallel proceedings across the globe**
 - Different legal standards or despite similar legal standards, different applications
 - Applicable law for the conducts at issue - the act of “misappropriation” usually takes place in a jurisdiction other than the place of suit
 - Jurisdictional challenge
 - Difficulties of evidence collection and admission into evidence
 - Local protectionism
 - Conflicting goals and procedures of parallel proceedings

TRADE SECRET MATRIX

Define	Mitigate Trade Secret Risk		Prepare for Incidents	*	Incident Response
trade secrets and other confidential information	Limit Access	Verify Compliance	identify team & resources <ul style="list-style-type: none"> • management • legal, IT, HR, PR, security, etc. functions • forensics • gov't contacts • investor relations • PR 	B R E A C H O R S U S P E C T E D B R E A C H	implement plan
	secure networks, devices, data, documents, locations, and other property	security audits and other monitoring			secure critical information to mitigate loss/preserve evidence
protections afforded by law or contract	policies & procedures <ul style="list-style-type: none"> • IT • security • privacy • HR • risk managers • Procurement 	hire/exit procedures <ul style="list-style-type: none"> • interviews • end access • retrieve devices • agreements 	check & secure insurance coverage		critical decisions <ul style="list-style-type: none"> • investigate • hold back comp and benefits • file civil litigation • engage law enforcement <ul style="list-style-type: none"> — investigation — prosecution — intelligence sharing • engage diplomatic and trade officials • notify insurers • disclose <ul style="list-style-type: none"> — shareholders — customers — other companies
					Training
	agreements <ul style="list-style-type: none"> • vendors/contractors • employment • executive • benefit plans • Acquisitions 	consider best practices-related communications; brokered by government			

Protecting Trade Secrets in China

Establish a system for managing confidential information in and provided to Chinese subsidiaries and joint ventures.

- Exercise care when sharing trade secrets with employees, subsidiaries, joint ventures, vendors, suppliers, or other third parties
- A signed confidentiality agreement in advance
- An acknowledgement of receipt of confidential information that identifies in detail the disclosed confidential information
- A summary description is not likely to provide sufficient protection

Protecting Trade Secrets in China

Include trade secret-related rules and protections in all contracts.

- Companies doing business in China or with Chinese entities or employees should negotiate and set forth trade secret-related rules and protections in their contracting practices and procedures.
- Decide and specify in advance on issues such as who owns trade secrets at the time of contracting, and who will own trade secrets in the event either party undertakes additional research and development following the date the contract is executed.
- Confidentiality agreements of unlimited duration OK.

Protecting Trade Secrets in China

Establish trade secret-related rules and protections in the company's employment management.

- Employment agreements may incorporate non-compete provisions of limited duration binding the employee during and after the employment term.
- The scope of the non-compete must be reasonable, for example, in terms of the applicable business scope, the geographic region and duration (usually up to two years).
- Reasonable monthly compensation agreed upon in advance and paid.
- Companies should also take protective measures to ensure that their employees maintain confidentiality.
- Companies should conduct exit interviews with all departing employees to flag potential issues as early as possible.

Protecting Trade Secrets in China

- Conduct exit review
 - Know where the employee goes
 - Remind the obligations of non-compete and confidentiality
 - Remind return of IP
 - Any compensation for the IP developed?
 - Remuneration for the service invention per the Patent Law?
- Collect and store the devices and the documents
 - record for chain of custody

Q&A



Thanks you

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