

IP Owners Cheer Changes to China Customs' Enforcement

Recent changes in China Customs' enforcement of intellectual property rights promise to benefit the holders of IP rights – including copyrights, China-registered trademarks and substantively examined and China-registered patents – through a broader scope of protection

By Neal Stender, Xiang Wang, Carol W Yan and Joel Stark

Recent changes – and more pending changes – in China Customs' enforcement of intellectual property rights promise to benefit the holders of China IP rights through a broader scope of protection, and through more restrictions on Customs' disposal of confiscated goods after removal of infringing trademarks. But, in order to enjoy these benefits, rights-holders will need to meet additional requirements.

These are the effects of revised procedural measures for, and pending draft amendments in, the *PRC Regulations on Customs Protection of Intellectual Property Rights* that have been in place since 2004 (the Regulations). The revised implementing measures were issued on March 3, 2009, (and formally took effect from July 1, 2009). The draft amendments were issued by the State Council on December 12, 2009, for public comment and likely adoption in 2010.

Implementing Measures

In some local Chinese courts and administrative proceedings, the use of such patents to bring infringement claims against innocent defendants continues to be a risk.

The most substantive change to the revised implementing measures was to require, as a prerequisite to recordation of a utility model or design patent (as opposed to an invention patent), that the rights-holder first obtain a patent evaluation report from the State Intellectual Property Office. This requirement was a welcome protection against Customs detention orders being applied for by holders of unexamined utility model or design patents. By comparison, in some local Chinese courts and administrative proceedings, the use of such patents to bring infringement claims against innocent defendants continues to be a risk, despite recent national-level efforts to encourage local courts to require such evaluation reports.

Draft Amendments

The draft amendments' key effects (assuming they are adopted in their current form) will be to do the following:

- Impose a broader requirement to update each recordation, in order to prevent it from being cancelled.
- Extend the regulations' coverage (along with fines and potential criminal penalties, rather than merely confiscation) to include items imported by mail, or by hand-carried baggage, that exceed a reasonable quantity for personal use in the aggregate.

- Enable quicker release of detained goods, and of bonds posted by alleged infringers, when the rights-holder's infringement claim does not proceed actively through the courts.

- Specify that mere removal of an infringing characteristic shall normally not be sufficient to permit release of infringing goods into channels of commerce. (One effect of this amendment is to address complaints that such release violates the TRIPS agreement.)

Below is an updated survey of key aspects of this protection, reflecting the above changes.

China Customs' Enforcement – Overview

The IP rights that are eligible for Customs' protection include only copyrights, China-registered trademarks and substantively examined and China-registered patents. Trade secrets and foreign IP rights are not eligible. Protection of a utility model or design patent (as opposed to an invention patent) can only be obtained after the rights-holder submits a patent evaluation report from the State Intellectual Property Office.

Customs' enforcement has often been more attractive than other remedies, particularly where large quantities of counterfeit goods may be shipped out of

China. The draft amendments make Customs' enforcement more useful against smaller scale exports (and imports) by extending the regulations' scope of coverage to include items imported by



IP owners are benefiting from improved customs enforcement.

mail or by hand-carried baggage that exceed a reasonable quantity for personal use in the aggregate, even if they are divided into multiple mailings or hand-carried entries. In the past, such importation would only risk confiscation. Under the draft amendments, violators may also be subject to fines (of up to 30% of the goods' value) and even criminal prosecution.

There are two basic methods to obtain Customs' assistance: (i) a passive approach, in which the rights-holder records its IP rights with Customs, and requests detention of goods after being informed by Customs of the suspected infringement of its IP rights; and (ii) an active approach, in which the rights-holder

When Customs detains a shipment, it will notify the rights-holder in writing. The rights-holder is entitled to request the continued detention of the goods.

requests Customs to detain infringing goods without first being informed of the infringement by Customs (this second approach is available even if the IP rights have not been recorded with Customs).

Recordation

Recording IP rights in advance of alleging a particular case of infringement is not a prerequisite for Customs' protection, but there are advantages to doing so. Recordation enables Customs officials to monitor imports and exports for infringing goods. Moreover, the documentation necessary to request detention of infringing goods is simpler for IP rights that have been recorded in advance.

To record IP rights with Customs, the rights-holder must make a recordation application with, and pay a fee to, the General Administration of Customs. Separate applications (and fees) must be filed for each IP right. Trademark owners relying on multiple-class filings through the Madrid Protocol should keep in mind that China Customs recordation only becomes possible after the CPMO (China Trademark Office) confirms that the international registration is extended to China, and entails submission of a separate recordation application for each trademark and each registered class of goods.

The recordation is valid for a term of 10 years, and may be extended for additional 10-year terms. But the term cannot extend beyond the term of validity (if any) of the underlying IP right. (Trademarks in China cease to be valid upon registration expiry without renewal, while registration is not necessary in order for a copyright to remain valid and recordable). Applications for renewal of recordation must be filed 6 months before expiration. No fee is payable for renewal, or for changes.

Changes to the recordation must be registered within 30 working days. Under the draft amendments, Customs must cancel the recordation if the filing is not made within the deadline. The draft amendments further specify that an update filing is required after changes to *any* information contained in the recordation – including information unrelated to the IP rights (such as a change in address of the rights-holder). This filing was previously required only when information directly concerning the IP right was changed (e.g. licenses, classification of goods, etc.).

Enforcement Initiated by Customs

Customs actively monitors imports and exports for infringement of recorded IP rights. If Customs suspects that goods in-

fringe recorded IP rights, it can prevent release of the goods and can initiate an investigation. Customs officials are permitted to question consignees and/or consignors in the course of their investigation.

When Customs detains a shipment, it will notify the rights-holder in writing. The rights-holder is entitled to request the continued detention of the goods by submitting a formal detention request and providing a security deposit – if a general deposit was not previously provided (further details on deposits are provided in the section below headed Security Deposits). The deadline for this request is three days after receipt of the notice from Customs. If

the detention request and deposit are in order, Customs will continue its detention of the goods and send the “consignee/consignor” a detention notice.

The rights-holder must continue to actively assert its rights in court after the goods are detained. Customs is required to release detained goods if one of the following occurs: (i) a court does not is-

sue a notice supporting the continued detention of the goods within 50 days following the issuance of the detention notice; (ii) the consignee/consignor posts a counter bond equal to the value of the goods (the counter bond is only effective for goods infringing patent rights); or (iii) Customs determines infringement did not occur.

The draft amendments enhance, to some extent, the protection of consignees/consignors of detained goods. For instance, Customs is explicitly required to release the goods if the rights-holder withdraws the detention request within 30 working days from the date Customs detained the goods. (Previously there were no clear provisions handling abandoned requests for Customs' enforcement.) Additionally, Customs must return the counter bond to the consignee/consignor if a court does not support the preservation of the counter bond within 20 working days from the date of the goods were released. (Previously Customs could defer return of the counter bond until the close of concurrent infringement litigation, which often resulted in excessive delays in remittance of funds.)

Initiated Enforcement Initiated by Rights-holder

A rights-holder is permitted, at any time, to make an ad hoc request for Customs' enforcement, regardless of whether the IP rights are recorded (although the documentation is simpler for recorded IP rights). To do so, the rights-holder needs to submit a detention request and pay a security deposit equal to the value of the goods to be detained (further details on deposits are provided in the section below headed Security Deposits).

Unlike the Customs-initiated process, Customs will detain the goods only if it is satisfied that the rights-holder has provided evidence “sufficient to show that infringement clearly exists.” Evidence will be deemed to be “sufficient” if it shows that (i) the goods infringe IP rights, and (ii) the import or export of the suspect goods is imminent.

Customs must release the goods under the same basic circumstances as under the Customs-initiated process, with one key difference: The deadline to obtain the court's notice supporting continued detention of the goods is 20 days, rather than 50 days for the Customs-initiated process.

Security Deposits

There are two basic types of security deposit: (i) specific purpose, and (ii) general purpose. For rights-holder-initiated enforcement, only the specific purpose deposit is available, which must

be equal to the value of the goods to be detained.

Customs-initiated enforcement enables rights-holders to submit specific purpose deposits in amounts potentially less than the value of the goods detained. The required minimum deposit depends on the value of the goods, as indicated in the chart below.

VALUE OF GOODS	MINIMUM DEPOSIT
Less than Rmb20,000	Value of goods
Rmb20,000 to 200,000	50% of the goods' value (but not less than Rmb20,000)
Greater than Rmb200,000	Rmb100,000

General purpose deposits – which are payable in advance for use in future enforcement proceedings – are available for trademark holders (but not other rights-holders), with Customs' approval. The amount of the deposit must be either (i) Rmb200,000, or (ii) the amount of expenses incurred in detaining infringing goods during the prior year (if any). The deposit can be made into an escrow account of an approved financial institution that issues a guaranty letter.

Disposal of Infringing Goods

If the detained goods are ultimately found to infringe IP rights (by Customs or an appropriate court), Customs is required to impose a fine of up to 30% of the goods' value on the infringer. Customs must also dispose of the goods in one of the following ways: (i) donate them to an approved social welfare organization; (ii) sell them to the rights-holder; (iii) auction them to the public (after removing the infringing characteristics); or (iv) destroy them (if the infringing characteristics cannot be removed).

The disposal of infringing goods has caused much concern among foreign rights-holders. Protections have improved in recent years, and the draft amendments continue this trend. For instance, Customs must consult with the rights-holder before initiating a public auction of the goods (although Customs' decision on disposal of the goods prevails). The draft amendments state that, when detained goods are auctioned to the public, the mere removal of an infringing characteristic will not be sufficient, "other than in exceptional cases," to permit release of the goods into the channels of commerce. This is based on China's obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Concurrent Litigation

Filing a suit in the Chinese courts concurrently with the detention process is necessary when enforcement proceedings are initiated by the rights-holder. It is also recommended when enforcement proceedings are initiated by Customs (in order to demonstrate to Customs that the rights-holder is being as vigorous as Customs itself in respect of the alleged infringement). In order to prevent the goods or the counter bond from being released, the suit should request the court to issue (i) a notice supporting continued detention of the goods (and/or Customs retention of the counter bond); and (ii) an order to preserve evidence.

Costs & Claims

The rights-holder is responsible for paying the costs associated with the detention, storage and disposal of the infringing



Neal Stender, an Orrick, Herrington & Sutcliffe partner who divides his time between Hong Kong and Beijing, is a California attorney and Hong Kong solicitor who began advising foreign companies on China matters in 1980 as a Beijing-based representative and consultant. His corporate practice includes particular emphasis on intellectual property research, development and outsourcing, protection and licensing, along with related issues such as tax planning, customs, and supply-chain and corporate structuring. He can be reached at nstender@orrick.com.



Xiang Wang, an Orrick partner who divides his time between Beijing and Shanghai, obtained JD, MA and PhD degrees in the US, where he is admitted to practice law in New York, Indiana and before the US Patent and Trademark Office. Originally from China, where he obtained his first science degree and is a qualified lawyer, Wang is the head of Orrick's China intellectual property practice. He can be reached at xiangwang@orrick.com.



Carol W Yan, a senior consultant in Orrick's Beijing office and a member of the firm's intellectual property practice, focuses her practice on patent filing and prosecution, patent-related legal advice and patent litigation across a range of industries, including chemicals, materials science, pharmaceuticals, biotechnology, medical devices, semiconductors and automotive mechanics.



Joel Stark, an associate in Orrick's Beijing office, is a member of the firm's corporate group. Admitted in California, Minnesota and Hong Kong, Stark's practice focuses on cross-border transactions into mainland China and general corporate, commercial and intellectual property matters.

goods. These costs are capped at three months of warehousing expenses, provided that such delay is not due to administrative delays caused by the consignee/consignor. Where the rights-holder fails to pay the storage costs, Customs can deduct the relevant amount from the security deposit.

The consignee/consignor is entitled to seek compensation from the rights-holder if its goods were detained by Customs and one of the following is true: (i) Customs is unable to make a final determination on whether the goods infringe the rights-holders IP rights; or (ii) a People's Court finds that no infringement of the rights-holder's IP rights occurred.

Global Trends

The massive growth of China's cross-border trade has required China Customs to expand not only its size, sophistication and scope of responsibilities, but also its role in balancing domestic and foreign pressures. While China Customs has been criticized in areas such as its implementation of China's complex turnover taxes, it has not faced similar levels of criticism for its implementation of IP protection, despite the highly-sensitive problem of counterfeit goods being exported from China to world markets. This is an indication of China Custom's successful progress in providing relatively useful remedies to foreign and foreign-invested companies. The above changes should support further progress, which will be increasingly important to IP rights-holders throughout the world as they continue to deepen their globalization of their strategies for IP creation and protection.