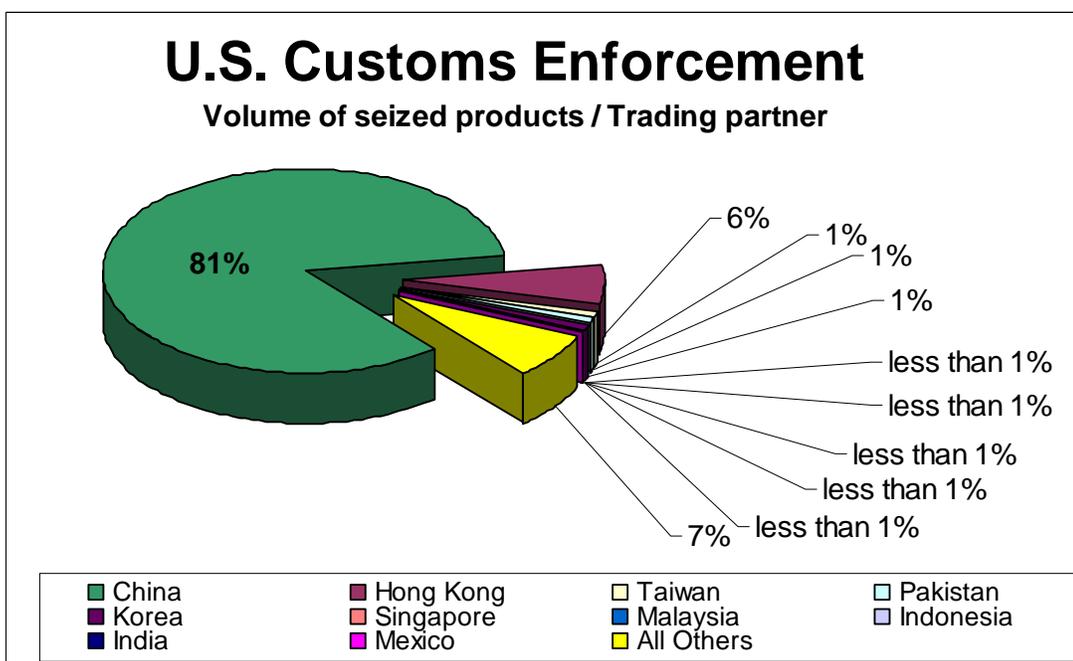


How to Use IPR Customs Protection Effectively in China

Mr. Peng Kai, PRC Patent Attorney

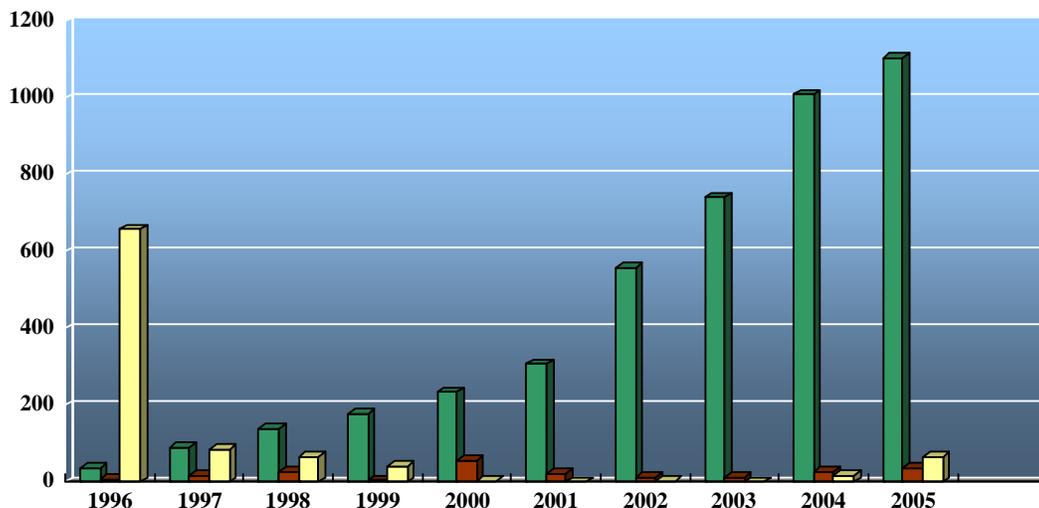
Mr. Zachary Wortham, Client Service Manager

Customs authorities have an important role to play in combating intellectual property rights (IPR) infringement. They serve as the first line of defense by investigating cargo and seizing counterfeit goods as they cross the border. The United States Customs and Border Protection, for example, in 2006 made 14,675 seizures and infringing goods totaled USD 155,369,236, of which no less than 81% were imported from P.R. China. (see table)



China's system for customs protection was established with the promulgation of the *Regulations on Customs' Protection of Intellectual Property Rights* (1995), and was further strengthened by a 2004 amendment and implementation rules in 2005. The use of customs to enforce IPR is still less prevalent than more traditional enforcement measures such as administrative actions or civil lawsuits (including raids organized by the Administration for Industry and Commerce or the Quality Supervision Bureau, or by the State Intellectual Property Office (SIPO) for patent infringements), however, statistics now show that IPR owners in China are increasingly making customs protection an equal component of their IPR protection and enforcement strategies. (see table)

Customs Recordings of Trademarks, Patents and Copyrights in China



Legend:

| Year | Trademark | Patent | Copyright |
|--------------|--------------|------------|------------|
| 1996 | 38 | 8 | 659 |
| 1997 | 92 | 16 | 85 |
| 1998 | 139 | 27 | 67 |
| 1999 | 178 | 5 | 42 |
| 2000 | 235 | 57 | 3 |
| 2001 | 308 | 21 | 1 |
| 2002 | 557 | 14 | 2 |
| 2003 | 741 | 14 | 1 |
| 2004 | 1009 | 26 | 16 |
| 2005 | 1106 | 37 | 67 |
| Total | 4,403 | 225 | 943 |

The effectiveness of China's General Administration of Customs (GAC) and local counterparts in finding infringing products is the primary reason why infringement continues in such high numbers. To combat this trend, customs authorities are becoming more active as IPR protection is being prioritized, and all customs houses have established separate departments and in some cases separate organizations to focus on IPR protection. At the same time, IPR owners can take steps to make customs protection more efficient and effective.

At the present time, IPR subject to customs protection includes the following:

- Registered trademarks as verified and approved by the China Trademark Office (except service trademarks);

- Trademarks registered internationally with the World Intellectual Property Organization (WIPO) and extended to China (except service trademarks);
- Patents for invention, patents for utility model and patents for design as granted by the SIPO;
- Copyright and related rights as held by citizens or organizations of the member states under the Berne Convention for the Protection of Literary and Artistic Works.

Until now, the great majority of cases dealt with by Chinese customs involved trademarks, with only a few cases related to copyrights or patents. One key reason is the relative ease of discovering and distinguishing infringing trademarks. Likewise, as the customs authorities get more adept in spotting infringements, customs protection will become more effective at recognizing and dealing with the pirating of copyrights and the infringement of patents.

Effective Preparation – Recording IPR

The first consideration that IPR owners should make is whether or not to record their IPR with the GAC. The recording of trademarks, patents and copyrights serves as a notification to the GAC of the conditions of the IPR, with details about who to contact in case of suspected infringement, and also including a picture or sample of the product and its packaging. While recording is not a precondition for customs protection, it provides owners with some distinct advantages.

1. Without prior recording, IPR owners may still apply to customs to investigate cargo, but customs does not have the authority to investigate and take action against possible infringements. On the other hand, if the IPR are recorded and the authorities suspect infringement, they may initiate the seizure of goods independently while subsequently notifying the IPR owner (see below on other key differences), and making a decision concerning any infringement.
2. If an owner of IPR asks for the detainment of suspected goods it is required to provide a security. The amount of the security will be determined by customs, and the amount of which is based on the estimated value of the goods. If the IPR has been recorded, then the maximum amount is RMB 100,000 (if the value of the goods is estimated at RMB 200,000 or more). If the IPR has not been recorded, the security amount will be equal to the estimated value of the goods.
3. Recordings are published in a centralized IPR recording system, which is an open database and can be accessed by the public. This database is frequently used by import/export companies to ensure that the products they are trading do not infringe on the IPR of others.

The recording of trademark rights, copyrights and patent rights for design is should be a serious consideration for all IPR owners doing business in China. Recording is inexpensive, will last for an extendable ten years, and will ensure that an owner is prepared to take full advantage of customs protection if and when the occasion arises. For invention and utility model patent rights, recording is less relevant, owing to the fact that customs is unlikely to detect infringements during their daily

supervision of imported and exported goods. However for active protection, such recording may still be useful.

Passive and Active Customs Protection: the Main Steps

Customs protection falls into two distinct categories: passive protection, which relates to customs taking measures in response to an IPR owner's request, and active protection, in which customs investigates and disposes of infringing goods on their own initiative. Most cases until now still fall into the first category, but customs has become more active in investigating infringements over the past two years, probably due in part to increased international pressure.

Passive protection

If an IPR owner knows or suspects that a shipment of infringing goods will be exported from or imported into China, it may apply to customs at the border of crossing to detain the infringing goods. customs will detain suspected shipments when provided with sufficient evidence to prove the ownership of the IPR as well as existence of infringement.

After the application has been accepted and a security is provided, customs will detain the goods. If the IPR has been recorded with customs, then customs officials have the authority to further investigate and make a decision as to whether the goods are infringing the recorded IPR or not. Their handling will fall under "active protection", as described below.

If the IPR is not recorded with customs, then they do not have the authority to decide whether there is an act of infringement or not. Therefore, within 20 working days of the notice of detention of the suspected goods, customs should receive a court's notice for assistance in an interim injunction or property preservation. Instigating a civil action and then applying for an interim injunction (to stop immediate infringement) or property preservation (to preserve the suspected infringing products as evidence) becomes the only means to ensure a follow up on the detainment by placing the goods in the courts control.

If customs does not receive such a notice, the goods will be released. Before that time, the consignors and/or consignees may also request for release of such goods, against a security equivalent to the goods value. Customs may grant or reject such release at their own discretion.

Active protection

Customs has the authority to directly investigate any cargo; and if they suspect infringement of recorded IPR, they will notify the IPR owners in writing, who then have three days to apply for detention and provide a security. Customs will then detain the suspected goods and notify the IPR owners as well as the consignors/consignees.

The latter may apply to customs to release the goods, with a written explanation and relevant materials evidencing non-infringement, as well as the payment of a security equivalent to the estimated value of

the goods.

Within 30 days of the detention of the suspect goods, customs should make a decision and notify the parties on how it will handle the case:

1. If it has ascertained that the goods infringe the IPR of others, they may confiscate the infringing goods;
2. If it has ascertained that the goods do not infringe the IPR of others, they may release the goods;
3. If it cannot be ascertained whether the goods infringe or not, the goods can be held for another 20 days during which the IPR owner may instigate an action before the court. The court may then ask customs to suspend any release as part of an interim injunction or property preservation.

Key Strategies

To use customs protection effectively, the following key points should be remembered:

- The recording of IPR will give you more protection, especially in regards to trademarks. It is neither complicated nor expensive, and will greatly facilitate customs protection efforts.
- Customs officials are your partners in protecting IPR. Ensure that you have built a good channel of communication to facilitate any and all interaction. This should be done either directly or through an agent or attorney.
- Be ready to act quickly if suspected infringements are found. Having the relevant Power of Attorney prepared as well as any other necessary documents in place will ensure that you do not miss deadlines.
- If you know of a shipment, collect all the relevant details and then report this to customs. If your IPR are not already recorded, then be ready to instigate a civil lawsuit, including applications for interim injunction and/or property preservation to ensure that the goods will not be released. Make sure that you closely coordinate your efforts with customs, and remember that the owner of the infringing goods may also be pressuring them to release the goods quickly!
- If you have your IPR recorded, be ready to provide customs with all pertinent information they might request. Evidence seized may be of use in a civil action, and so destruction of the counterfeits may not be in your interest. Furthermore, customs may provide you with more information on where the counterfeits are coming from. Thus close coordination with customs, again, can be worthwhile.

- For both active and passive enforcement, if the infringements are sufficiently serious then they will incur criminal liability. A case should then be referred to the Public Security Bureau (PSB) for investigation, and the People's Procuratorate should then take the case to trial. Coordination with customs officials may be needed to ensure that communication between the different departments runs smoothly.

Conclusions

China has become the world's most important manufacturer for several types of goods most of which can be easily copied. It is safe to presume that counterfeit goods are being imported and exported all over the world on a daily basis. For many companies, protecting non-China markets from being flooded with counterfeits is a priority and in this pursuit customs protection in China can play an important part.

Customs protection will, over time, become more effective as a tool against IPR infringements. IPR owners can spur on this development by ensuring that their IPR are recorded with Customs. The system works the most effectively if IPR owners, either directly or through their agents/attorneys, coordinate their enforcement activities closely with customs. China is spurring on its customs authorities to participate more actively in combating IPR infringement. IPR owners are advised to take note, and where the opportunity arises, take action.

Note: This article was previously published in the April 2007 Wang Jing & Co. Law Firm IP Bulletin
<http://www.wjnco.com/downloadFile/1176461296.pdf>