



**Thornhill Capital**



## **China Newsletter – August 2016**

### **Intellectual Property Enforcement**

Intellectual property enforcement is both administrative and legal. When parties feel that their intellectual property has been violated, they would either file a complaint at the local administrative office or through the court system. In addition, jurisdiction in an intellectual property case can go through a number of government agencies and offices. This has caused a great deal of confusion, as these agencies and offices are normally only given responsibility over one statute or a specific area of intellectual property law. There may also be geographic limitations imposed on a case. In an administrative complaint, the infringer can only be fined and have goods or equipment used in the manufacturing process seized.

In a civil action, a claim for damages, or an injunction, can be issued by a civil court. Following a written complaint by the plaintiff, evidence will be presented at a trial and a verdict rendered. Judgments in civil actions may be appealed.

In a criminal action, complaints against infringers should be filed directly with the public prosecutor's office. The prosecutor will then conduct a raid, followed by a series of hearings, which may result in an indictment. A criminal conviction for

intellectual property infringement can result in imprisonment of from three to seven years.

According to the US Department of Commerce's International Trade Administration, there are several factors that undermine effective enforcement action for intellectual property rights infringements in China:

- corruption and local protectionism at the provincial level
- reliance on administrative rather than criminal measures to combat intellectual property rights infringements
- limited resources and training available to enforcement officials
- lack of public education regarding the economic and social impact of counterfeiting and piracy

### *Chinese Agencies Charged with Administrative Enforcement*

The US Department of Commerce lists the following Chinese government agencies as being the major players responsible for administratively enforcing China's intellectual property laws:

- Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)
- State Administration for Industry & Commerce (SAIC) Trademark Office
- State Intellectual Property Office (SIPO)
- National Copyright Administration (NCA) of China )
- General Administration of Customs (GAC)
- Public Security Bureau (police)/Procuratorate (prosecutors)
- regional Intellectual Property Rights (IPR) Bureaus
- judicial system

### *Administration of Quality Supervision, Inspection and Quarantine (AQSIQ)*

The function of the Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) is to ensure the quality of Chinese products and standards. It's China's standard-setting and quality control agency. It also oversees entry and exit quarantines for animals and plants, certifies import and export for foreign manufacturers in regard to food safety, and is involved in administrative law enforcement.

AQSIQ's primary mission is to protect the consumer against inferior or shoddy goods, which includes goods with a counterfeit trademark or those that are being marked in a package bearing another person's name and address.

The AQSIQ has an administrative enforcement arm by which it may take action against registered trademark infringers. As a matter of course, the main issue for the AQSIQ is quality, rather than the protection of intellectual property. According to the European Union's IPR2 Team, a complaint to the AQSIQ can only be based on two grounds: the goods are substandard or the goods are in a package that bears the name and address of another person. Most of the cases reviewed by the AQSIQ involve goods bearing a counterfeit trademark. In this case, the AQSIQ can fine those who produce fake or shoddy goods between two and five times the value of the goods. If the goods bear an incorrect place of origin, falsify the name and address of another factory, or forge quality marks such as certification marks, then *illegal profits* are seized and a *to-be-determined* fine is imposed. Administrative litigation can be instituted before the People's Court within fifteen days of notification of a decision by the AQSIQ. If neither quality nor false name and address are an issue, and goods represent only a trademark infringement, then a claim would be filed with the SAIC instead of the AQSIQ.

### ***State Administration for Industry & Commerce (SAIC)***

The State Administration for Industry & Commerce (SAIC) is the largest of all IPR enforcement agencies and employs over 500,000 people. The SAIC is responsible for trademark registration, registration of businesses (individual and legal persons), administration of well-known trademarks, and trademark enforcement. The Fair Trade Bureau, as part of the SAIC, enforces the Law to Counter Unfair Competition Act, as well as violations of trade secrets.

The SAIC investigates suspected infringements, and if it determines that an infringement has occurred, it can stop the sale of infringing items, destroy infringing marks or products, as well as impose fines and confiscate the machinery used to produce the counterfeit goods.

To lodge a complaint, a trademark owner would file the complaint with the local trademark bureau of the SAIC where the infringement was committed, give a copy of the trademark registration certificate, and provide evidence of the infringement, such as a sample of the infringing product. The SAIC does have some constraints on its power. For example, when it goes to the premises of the alleged

infringer, it can't force the owner to open the premises if the location is on private property. Instead, it would have to call the police and also call the Public Security Bureau. Depending on the alleged infringer's relationship with the local police, the SAIC may or may not be granted access onto the premises.

Most infringers don't keep good documentation. As a result, invoices, contracts, and accounting books may not be available to use as documentary evidence. If, however, the SAIC is able to obtain entrance onto the premises of an alleged infringer and determines that an infringement has occurred, it will seize the goods, equipment, and seals used in the infringement. It may also impose a fine of up to three times the size of the illegal business, although this is not an easy number to calculate as Chinese authorities don't usually accept the price of authentic goods in determining the size of the illegal business. The maximum fine is 100,000 yuan (\$16,313). The SAIC can only act as a mediator in disputes. Legislatively only the People's Courts may apply Civil Procedure Law.

### ***State Intellectual Property Office (SIPO)***

<p>The State Intellectual Property Office (SIPO) is a national-level agency that examines foreign and domestic patents and can be thought of as the equivalent of the US Patent and Trademark Office.</p>
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The State Intellectual Property Office (SIPO) operates through a network of local provincial offices to administratively enforce patent complaints.

China has experienced tremendous growth in the filing of patent applications. In 2001, for example, it processed the filing of 40,000 patent applications. This represented 5 percent of the global total. In 2011 SIPO surpassed the U.S. Patent and Trademark Office for the first time and became the largest processor of patent filings in the world. In that year, SIPO received 526,000 patent applications, a growth of 34.6 percent from the previous year. Globally China held a 24.6 percent share of patent applications in 2011. According to Tian Lipu, Commissioner of the State Intellectual Property Office (China), China's patent filings increased by 20 percent in 2012. Part of the reason for this large increase is the country's transition from a manufacturing-oriented economy to an innovation-driven economy.

### ***National Copyright Administration (NCA)***

The National Copyright Administration (NCA) is China's highest administrative agency for interpreting the country's copyright laws.

The NCA is responsible for investigating and enforcing copyright infringements, managing foreign copyrights, and investigating significant national copyright infringement cases.

Because of a chronic shortage of staff, the NCA generally does not take administrative action against infringers, but encourages both parties to utilize the court system to resolve disputes.

### ***General Administration of Customs (GAC)***

The General Administration of Customs (GAC) is responsible for controlling the transportation of inbound and outbound goods, combating smuggling, enforcing intellectual property rights, collecting customs duties and taxes, and collecting statistical data regarding goods in transit to and from China.

The General Administration of Customs (GAC) is also responsible for collecting value-added tax, customs duties, excise duties, landfill taxes, air passenger duties, and insurance premium taxes.

Chinese law bans the import or export of goods that infringe on another's intellectual property. But in order to be enforceable by Chinese Customs, the holder of the intellectual property must record its intellectual property with Customs. Once recorded, a certificate will be issued by Customs and is good for a period of seven years. If the holder of this certificate then suspects that infringing goods are about to enter or leave China, it can submit an application to Customs at the suspected entry or exit point from China, asking Customs to investigate. If Customs determines that an infringement has taken place, it has the authority to confiscate or destroy the goods, and impose a fine.

### ***Public Security Bureau (police)/Procuratorate (prosecutors)***

Commercial-scale piracy is considered a criminal offense. As such, administrative authorities and Customs have the authority to transfer these cases for investigation by police and prosecutors. They also can give an individual the right to prosecute, as a criminal offense, alleged infringers. The Ministry of Public Security's focus is currently in five areas:

- fake and shoddy goods

- counterfeit luxury items
- high-tech products
- home appliances
- food and drugs

The Ministry of Public Security reports that, from November 2011 to August of 2012, police *cracked* 72,000 cases of IPR infringement and the production and sale of fake and shoddy products. In these cases, more than 120,000 suspects were apprehended. The value of the goods seized, according to the police, was \$6.4 billion. It's not clear, however, if the value of goods seized is the market value of the genuine goods or the fake goods. Generally, criminal prosecution in instances such as these is rare, and most cases are handled administratively.

### ***Regional Intellectual Property Rights (IPR) Bureaus***

Some provinces and municipalities have established intellectual property rights bureaus and committees. However, enforcement at this level is limited and not always reliable, as regions and provinces in China tend to *protect their own*. This is because infringers contribute to the local economy, employ people, and pay taxes. As a result, actions against them will be minimal. As a general rule, the smaller the city, the less the IPR enforcement. In the event an infringer is found guilty, the fine is usually small in comparison to the offense.

In our next newsletter we'll explain how the Chinese judicial system handles suspected infringers. References for the data and information contained within the above material can be found in *Conducting Business in the Land of the Dragon* by Alan Refkin and Scott Cray.

**Alan Refkin**

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