



# CHINA BRIEFING

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## IPR PROTECTION AT CHINA'S TRADE FAIRS

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Dealing with Infringements  
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IPR Enforcement in China

*3TC: Dalian and Shantou*

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# Welcome to this issue of China Briefing

Welcome to the October issue of China Briefing. As we move into autumn, the traditional time for China to hold large trade fairs, we examine the subject of intellectual property rights and how to protect them. We also discuss how to proceed if your mark or patent is being infringed, what you can do about it and the resources available to you to take preventative action.

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We trust you find this issue useful and wish you peace during the Chinese October National Holidays.

With best regards;

Chris Devonshire-Ellis  
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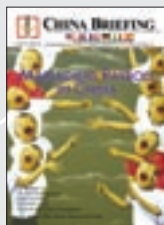
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## This Month's Cover Art

"Han Dynasty Wind" by the artist Feng Zhonglin appears courtesy of the Beijing Central Art Gallery & Cultural Venue. ([www.bjcagallery.com](http://www.bjcagallery.com), [contact@bjcagallery.com](mailto:contact@bjcagallery.com))





# Protecting Your IPR at China Trade Fairs and Exhibitions



Around 4,000 trade fairs take place in Mainland China every year with Shanghai, Beijing and Guangzhou being the most important locations, followed by Dalian, Shenzhen and Zhuhai. One of the main concerns many foreign investors have when approaching the Chinese trade fair circuit is how to protect ones intellectual property while at a fair.

The norms aimed at enforcing intellectual property rights during exhibitions are relatively new. This special set of administrative norms was promulgated by the MOC and SAIC on January 10, 2006 and entered into force on March 1, 2006. In the past, enforcement of rights during exhibitions was not regulated, which led to ineffectual protection against even the most flagrant infringements. Frequent conflicts between different authorities arose as to determine which authority was responsible for taking measures of enforcement. Due to the unclear definition of competences between different offices, it frequently occurred that decisions made by one authority were not accepted or executed by another one, bringing the case to a deadlock and giving the infringers enough time to get rid of the incriminating evidence. The

new legislation has drawn a clear line as to which authorities are competent to intervene during exhibitions in case of infringement. Hopefully this will help solve some problems of the past.

If a trade fair lasts three days or longer, trade fair organizers are obliged to establish a complaint center for IPR related issues. In all other cases, the local IPR authorities are encouraged to step up their efforts to offer consulting and monitoring services.

## Preparation

Foreign companies attending exhibitions or trade fairs in China should do their homework in order to make sure that their intellectual property rights are protected and can be enforced in case of infringements. Trade fairs often serve as a monitoring tool where illegal copies of a product can be detected.

Before participating in a trade fair, a company needs to check whether its products are registered in China in the form of patents, utility models, design patents or trade marks. Copies of the relevant documents should be available on the spot.

In case the exhibiting company has a local lawyer in China, it is advisable to inform them in advance about participation in the trade fair. The lawyer should be provided with the necessary documents and be available during the time of the exhibition.

As mentioned above, trade fair organizers are obliged to set up a complaint center for IPR issues if the fair lasts at least three days. It is useful to establish contact with this complaint center before the trade fair starts and figure out what legal means they have in case of infringements, e.g. whether they have the right to clear stands or to expel an infringer.

If the trade fair lasts only one or two days and the organizers do not provide a complaint center, the exhibiting company can check whether local enforcement authorities such as the Administration for Industry and Commerce (AIC), the Public Security Bureau (PSB), or the Technical Supervision Bureau (TSB) will be present at the trade fair. If not, they may at least provide a contact person who can be addressed in case of infringements. If authorities show little ambition to be supportive, it might be useful to cooperate

with other firms attending the trade fair or contact a national chamber of commerce in order to increase the pressure on the authorities.

Questions that should be addressed when talking to the complaint center or the local enforcement authorities are: how will they react to a case of infringement; what evidence and in what form is necessary to document a case of infringement; what are the possibilities of forcing an infringer to stop exhibiting an infringing product; what are the time frames for the infringer to react to a complaint; what are the chances to use the means of a preliminary injunction; what amount of down payment would be required in the case of a preliminary injunction.

China exhibition organizers usually provide exhibitor information on their websites. Checking the websites of competitors in advance might reveal potential infringements and allows more time to prepare adequate enforcement action. An exhibiting company might also know some “usual suspects” that have infringed its products in the past; so it would be advisable to check whether these will be represented at the trade fair as well.

As part of the preparation, a company should also spend some time considering what information it makes available to the public in the form of brochures or samples. Everything that is given away could serve as an inspiration or instruction manual for potential illegal copies.

Dealing with infringements

Trade fairs and exhibitions provide a good opportunity to detect potential infringers. The “set-up” day of the trade fair, therefore, can be well used also to walk around the stands and search for infringing products. It is also useful to pay a visit to the booth of the complaint center or the local enforcement authority.

In cases where a potential infringing product is detected, it is important to obtain as much information as possible about the exhibitor and the product. A digital camera or a camera-phone might be useful to secure evidence. Brochures, business cards and other types of literature are all helpful to support enforcement action.



After detecting a potential infringer, the rights holder has to decide whether or not to take action. If action is taken, the company has to decide which legal means can and should be used to fight the infringer, according to the information it receives from the local enforcement authorities and its own local lawyer. If action is taken at an exhibition, it might be necessary to follow up with the authorities to ensure that appropriate prosecutions take place.

Protecting your IPR

Filing for intellectual property rights in the form of patents or trademarks entitles a person or a company to use all legal means defined by law in case of infringements. However, these rights do not “protect” the content of intellectual assets. It is highly recommended to combine IP rights with protection mechanisms that ensure that crucial information cannot be retrieved easily from disloyal employees or criminal outsiders. In some cases, protection measures can be more effective than a patent, e.g. the product cycle is much shorter than the time needed for a patent registration. For products with short life cycles, filing for a utility model may be more useful than a patent as the examination period is much shorter.

Strict confidentiality is one of the best protection methods and should be a main concern, especially with long-lasting products or technologies. In general, the protection of sensible information is mandatory and can be achieved by implementing some common-sense rules, such as access control and prohibiting downloads from PC stations. However, sometimes simply the fact that a product is in the market does not allow keeping a technology confidential as many technological traits can be re-engineered. In most cases confidentiality is used to protect recipes or production procedures

that cannot be simulated easily. The recipe of Coca-Cola is a well-known example for keeping a combination of ingredients secret much longer than the life-time of a patent.

Safety measures

Technological development allows a variety of protection measures that can be applied for all kinds of products. The following list names some of the most common safety measures according to the level of sophistication:

Level	Measure
1	holography watermarks temperature sensible colors color-shifting ink mechanisms to prevent unauthorized opening
2	invisible, UV/IR reflecting color micro writing colors that are only visible with filters radio-frequency identification (RFID) tag
3	bar code, matrix code encrypted matrix code
4	digital watermarks taggants (either a radio frequency microchip used in automated identification and data capture or a chemical or physical marker added to materials to allow various forms of testing) cryptographic data protection

According to security experts, protection can be achieved by using three to ten security features and also by changing them on a regular basis in order to make illegal copying even more difficult.

When deciding which security feature might be feasible it should be taken into consideration whether the measure serves as a preventive protection against counterfeiting or a means of generating evidence in case of a lawsuit or administrative action against illegal copies. Preventive measures include all features that can be recognized by non-experts and without technical support (see Level 1 in the table), such as safety features on money bills. Measures that provide evidence are usually hidden and demand a complex procedure.

Measures that allow a continuous tracking of each product guarantee the highest standard of protection

against counterfeiting. However, the implementation of such a complex tracking system is expensive and may not be justified although those measures also have a positive secondary effect in terms of quality control and logistics.

No matter whether a company decides to use preventive or evidence securing measures or tracks the whole production and distribution chain, if an infringement occurs the company needs explicit rights to fight the counterfeiter. Without a trademark, design patent, invention patent or utility model there is no legal foundation to prevent a counterfeiter from using another company's intellectual rights. A reasonable combination of technical safety measures and intellectual property rights increase the probability that counterfeiters may stop the infringing activities or chose another victim with less protection.

## Detecting infringements

As a rule of thumb, the earlier an infringer is detected, the better. However, this is easier said than done, especially in a huge market like China. Nevertheless continuous monitoring should be part of preventive protection measures in order to find counterfeiters at an early stage and to keep the damage at the lowest level possible. If an infringer has plenty of time to establish their company and the counterfeited products in a market, the costs of fighting them will be higher and the damage done in terms of name recognition, trust in a brand and market share will be extensive.

Monitoring tasks include systematic screening of the internet and relevant publications, visiting trade fairs and exhibitions as well as market research on the spot. These tasks can also be delegated to specialized investigation agencies that are also aware of the necessity for securing evidence in a way that will be accepted before court.

A company needs to define a procedure on how to handle a potential infringement case. Gathering as much information about the potential counterfeiter as possible is a priority in order to define further action. The strategic decision whether to fight the infringer immediately or to further monitor the development usually needs to be made by the management. Any legal

action against an infringer needs careful preparation; a hastily written letter with vague accusations can cause a long lasting legal battle with sometimes bad results for the rights holder.

A company should, therefore, define the strategically important issues that trigger immediate action in case of infringement. The choice of weapon with which to fight the counterfeiting activities has to be discussed thoroughly; consequences of different scenarios need to be compared in order to decide on how to attack the infringer.

## Enforcement of IPR in China

Registering intellectual property rights is pointless unless they are actually used to prevent infringing activity. In China, the principle of "dual enforcement" provides two means of action. A rights holder can choose to enforce their patents, trademarks and copyrights either before the courts or before an ad hoc administrative body. A rights holder or their counterparts will also have the right to appeal in court administrative decisions.

The accession of China to the WTO has forced many changes and a modernization upon the Chinese enforcement system. In particular TRIPS is now directly applicable in China, although it will be very unlikely that a rights holder might be able to claim their rights based only upon international regulations. There is no doubt that the accession of China to the WTO has introduced a certain level of international scrutiny on the enactment of IP standards by national and local legislators and its enforcement by judicial and administrative bodies. The external pressure of the international community as well as the obvious economic calculation of the interests at stake has pushed Beijing to recognize the insufficiencies of the Chinese enforcement system and to support legislative as well as cultural reforms, including campaigns for consumer awareness of IP rights.

There still is quite some room for improvement however, as the practical enforcement of intellectual property rights might turn out to be very difficult. Many judges and administrative officials, especially outside the main cities like Beijing, Shanghai or Guangzhou, do

not have sufficient juridical education to handle complex patent disputes. Local protectionism and corruption still plays a role in court as well as in administrative proceedings. To litigate against a public company in a province outside Beijing or Shanghai can prove a very hard challenge with very little chance of success.

Very often conflicting interests are at stake. One above all is that of local politicians to back the development of local industries and protect full employment policies which also are incidental on social and police security. Damage compensation or even a proper enforcement is often difficult to obtain. Judicial or administrative activism is nonetheless necessary. At least it will send the infringers a clear message of the risks involved in infringing a company's IP rights. In many cases the best result that can be achieved is that of stopping a criminal organization from infringing on IP right so that they will move on to a weaker target. This is the only way to push for an effective enforcement of IP rights in China. Only by testing courts and administration on real cases, instead of simply complaining about how difficult is to enforce IP in China, can companies push the whole system to substantial change, to mature acceptable standard practices and transparency.

One of the consequences of the Chinese dual system of enforcement is the multiplication of the authorities potentially responsible to hear an infringement case. This factor contributes to the slowness of many proceedings which normally go through a first administrative phase and later a revision phase with the judicial authorities. However, this is not always the case. Depending on the infringer and on the IP right at issue, curtailed strategic choices can help avoiding lengthy proceedings. The infringers of trademarks rights are often illegal organization structured in so called "business card" or "ghost" companies which do not have business licenses. These kinds of infringers will try to escape the procedures initiated against them. In these cases, issues of appeal or recourses are out of the question. A simple administrative action, if well prepared, can be the first and last instance of protection. However, these cases might

need significant time to prepare in order to catch the infringers and not let them escape justice.

Suing a public or private company of a certain standing for an IPR infringement will certainly involve long legal battles. In these cases the most effective procedure, independent of contingent considerations, like the costs of the procedure, should be taken after analysis of all relevant factors has been done. In these types of cases, resorting to administrative enforcement should be ruled out because of the likely political connections of the infringer and also because any decision of the administration will surely be challenged *ex novo* before a court. In this case, the proceedings will be doubled together with costs and time.

A low-key and low-cost first step towards enforcement of IP rights is simply to write to the infringer demanding they stop. The letter normally encloses an undertaking not to infringe further, which, if signed, is useful evidence against the infringer in the future.

## IPR complaint centers

One initiative in a series of activities of the Chinese government to enhance IPR protection was the establishment of IPR complaint centers. Since 2006, around 50 such service centers have been opened in 12 provinces and municipalities to record complaints on intellectual property rights infringements. The 12 locations include Beijing, Heilongjiang, Gansu and Jiangsu provinces. All complaint centers use the same telephone number (+86 - city code - 12312).

IPR complaint centers verify the authenticity of information gained through the hotlines, sort out the cases, and convey them to relevant departments. The departments responsible for handling the cases have to report results back to the complaint centers.

For foreigners, these complaint centers offer the advantage of having one single point of contact, thus avoiding the task of finding one's way through the Chinese IP administration. On the other hand, the complaint centers so far only offer their services in Chinese. Once a company has used a complaint

center to record an infringement, it cannot file an administrative action. Follow-up can also be done only via the complaint center and not directly with the responsible departments, which might be disadvantageous.

## Preliminary conditions for administrative and judicial enforcement

As in any other part of the world, the first thing that a court or an administration will do before a lawsuit is to check whether the plaintiffs have active legitimacy according to the law. A plaintiff must be a natural person, legal person or other organization with direct interests in the case. Before filing an administrative or judicial action, the rights holder should make sure that their patent rights have been duly registered in China. In case of a patent for invention, before its announcement and publication by SIPO, the applicant enjoys no protection. A partial protection is provided by the patent law after publication against third parties exploiting the invention. In this case, the patent applicant has the right to ask them to pay royalty fees for the period between the publication of the patent and its registration (issuance). However, only after the registration (issuance) of the patent is full judicial enforcement possible. In the case of utility model and designs, protection is offered only after full issuance. Furthermore, when filing an action against an infringement, the holders of a utility model must also provide the administration with a search report. Being a utility model in China registered without substantive examination and therefore its validity at the time of registration still uncertain, this measure aims at preventing bad faith enforcement of patents lacking patentability.

## Administrative action

In China, one way to formally enforce IP rights is to harness the power of the State. The Technical Supervision Bureau (TSB), the Administration for Industry and Commerce (AIC), the Copyright Office and Patent Administration Office are all designated separately or jointly to enforce IP rights. These agencies are empowered to conduct inspections of suspected infringers. Some are empowered to actually seize infringing goods and impose fines. The nature of the rights

infringed and the complexity of the case will determine which agency to use. The costs of the raid against the infringer vary depending on the circumstances.

Even if the administrative procedure offers an economically cheaper and faster alternative to the more expensive and lengthy court proceedings, there are a number of reasons why administrative procedures lack attractiveness, especially when it comes to the enforcement of patents. Some of them are endemic to the administrative proceeding system: no interim injunctions and no damages can be obtained through administrative proceedings. Unlike in the case of administrative enforcement of trademarks, no raids “*inaudita altera parte*” are conducted by the administration against the infringers. According to the special set of norms regulating patent infringement administrative proceedings, the infringer must be always notified in advance of the pending action. Furthermore, unlike in the case of administrative enforcement of trademarks, the procedures for the administrative enforcement of patents are more complex and require fulfillment of more formalities which make the process something halfway between the trademark administrative enforcement and the court civil proceedings. Many courts, especially those of the big industrial and commercial cities like Beijing and Shanghai, have improved the quality of their judges and shortened the length of the proceedings. These courts are better prepared to decide complex technical matters than the administration. Bribes and local protectionism are a less incisive factor in a court proceeding when a court like Beijing or Shanghai is invested of a patent lawsuit. Courts have much more investigative and enforcing powers than the administration and can grant protective measures which are not available in the administrative proceedings and can compensate damages.

## *Administrative action against infringements of patents:*

Administrative action is available against infringements of any of the three types of patents: inventions, utility models and designs. The action can be filed with SIPO or one of its local bureaus. The administrative authorities cannot intervene “*ex officio*” to regulate patent infringement disputes, which means the



administration must be activated upon initiative of the patentee or any interested party (i.e. the holder of an exclusive license by his on initiative or the holder of a simple license if authorized by the patentee).

### ***Administrative action against infringement of trademarks:***

Trademark rights are enforced by SAIC and its local AIC. The AIC is set up at provincial level, city level and district level. Any of these levels can be involved in trademark enforcement actions. No specific rules of procedure have been issued. In case more than one AIC is responsible for handling a case, it will be handled by the AIC that has been activated first by a complaint. Conflicts may arise between different provinces and political motivations might influence the decision of an AIC to take over a case or not. The AIC often cooperates with other administrative agencies like Customs and provincial or national governmental agencies in fighting infringements.

### ***Administrative action against infringement of copyright:***

Copyrights are enforced by the National Copyright Administration (NCA) in Beijing with its local copyright bureaus in the provincial capitals and in other municipalities. The copyright administration has the right to intervene, also “ex officio,” to order cessation of infringements, to confiscate illicit profits and infringing reproductions. These authorities can also impose fines and confiscate equipment used for the reproduction of counterfeits. They are constantly improving their skills and now are accumulating more and more experience in the enforcement of copyright, especially in software matters. However, in some parts of the country like the western regions, these authorities still lack sufficient experienced staff, and this sometimes creates problems with the consistency and quality of their work.

### **Civil action through the People’s Courts**

When enough evidence exists, or when enforcement through the authorities is (likely to be) unsuccessful, relief can be sought through the People’s Courts. In China, civil procedures are similar to Western procedure in that a complaint is

filed, fees are paid, and the parties move on to court. One important difference is that Chinese judges play a much more proactive role in the trial. They serve as triers of both fact and law. A typical IP infringement case normally lasts about six months.

Civil lawsuits for IP rights infringements must be brought before the People’s Courts that are territorially or functionally competent. Cases involving foreign entities are normally heard by Intermediate courts. Appeals can be filed to High Courts in the same jurisdiction.

Lawsuits are initiated by filing a written complaint. The complaint must meet certain formal standards to be accepted by the court and docketed in the court registry as a pending lawsuit. Only the acceptance and registration of the lawsuit with the court will trigger the notification of the same to the defendant and the setting of the law-established deadlines for filing defenses, motions of different kinds and evidence.

The acceptance of the lawsuit is not merely a formal matter. In particular, in this preliminary phase the court will examine and determine its jurisdiction and competence over the complaint. This decision is crucial and will be a first test for the whole preparatory phase. If the infringer will file a negative declaratory lawsuit, he will file it with his local court. In these cases it will be difficult to move that case away from that court. Therefore, it is necessary to avoid creating conditions for the infringer to anticipate the rights holder with a negative declaratory lawsuit.

Court deadlines are mandatory and failure to meet submission deadline will result in “preclusions.” The Chinese civil procedure is composed of more than 200 articles, a small number compared to civil law in European countries. This explains why court rules are very general, leaving single court panels discretionary power to shape their own practice. An adversarial system where both parties fully disclose their defenses and evidence is not the rule in China. Courts still have a rather “bureaucratic” approach to litigation. Trial by ambush is a reality. For instance, many important motions are filed by a

party without the other party being even notified of them. The court will examine these motions in its closed chamber and call in a reply from the other party only if deemed necessary. Some motions are decided orally. This is common also in Western countries, but with a decisive difference: in Western civil procedures, oral decisions on motions are issued by the court during a hearing where the parties are present and can directly and actively counter the court decision. In China such decisions are taken by the court, passed on orally to the court clerk, who will in turn pass them orally down to the parties. Appeals or even counter arguments are not possible even if established by the law, for lack of a written order. Court preliminary decisions in written form are no much better because often devoid of any real “motivation” or “reasoning.”

Preliminary injunctions, issued by the People’s Courts are useful intellectual property enforcement tools when there is a risk that the infringer will destroy evidence ship or hide the infringing goods or shut down his operation when he suspects he is soon to be inspected or sued. However, by law, the party seeking the injunction is liable for any damage caused by a wrongful injunction. To balance this risk, the court requires the payment of a security bond normally equal to the value of the expected yield from the seizure.

### **Criminal enforcement through the Public Security Bureau**

Criminal law enforcement is available for all type of IP rights. Criminal enforcement can be activated either by the Law Enforcement authorities “ex officio” or upon request from the rights holder or other interested entities. Criminal enforcement is conducted through district attorneys that avail themselves of the support of the police.

China’s police, the Public Security Bureau (PSB), can be rather effective when fighting an IP infringement. In China, an IP dispute may be criminally actionable if the value of the goods exceeds the statutory criminal thresholds. A recent judicial interpretation of the Supreme Court sets out a lower threshold for criminality compared with earlier

regulations. For example, it may be criminally actionable if the value of goods is over RMB50,000 (for individual infringers) or RMB150,000 (for business entity infringers). The maximum penalty for IP criminal offenders is seven years imprisonment.

## Enforcement through Customs

**Advantages:** Broad powers of investigation, support by police, no costs if action is “ex officio,” sanctions possess strong effect, loss of face for infringer, can be used for later civil claims

**Disadvantages:** No rights to claim prosecution, no control over procedure by rights holder, evidence must be procured beforehand by rights holder, costs if action on demand by rights holder, very few cases successful

Where any holder of intellectual property right requests Customs to take protection measures for their intellectual property rights, he is entitled to lodge the application, directly or entrust an agent established in Mainland China on their behalf.

Such action is normally initiated when the rights holder has knowledge of a specific stock of infringing products being prepared for export outside China. In this case the rights holder will apply for Custom protection with the Customs territorially competent. When applying for Customs protection the rights holder must provide sufficient evidence to prove the following facts:

- the goods requested to be detained by Customs are pending to import or export
- a trademark, utility model or patent has been used on the relevant goods without the consent of the holder of intellectual property rights

Chinese Customs protection upon initiative of the rights holder is only effective if the rights holder has collected all the necessary information and evidence of the illegal export. The efficacy custom action will be higher for trademarks than for patents.

Customs, upon identifying the allegedly infringing products, will request the applicant to make a deposit with the value equal to that of the goods. This deposit will include the price for storage costs. The owner of the sequestered goods will be notified of the goods’ seizure and will be given the opportunity to pay a counter bond to free the goods.

Within 20 days from the Custom protective measure, the rights holder will have to initiate civil proceedings with the court territorially competent in order to preserve the effects of the Custom protection. However, in spite of the filing of a civil lawsuit the seized goods will be freed by the Customs if the goods’ owner pays a counter bond. Therefore, the only way for the rights holder to avoid any risk to see the goods freed by Customs will be that of filing for an interim injunction instead of a lawsuit. If the injunction is granted a new bond must be paid to the court. Afterwards, within 15 days from the injunction the applicant or rights holder will have to file the main civil lawsuit as well. This scenario applies mostly to Customs protection of patent rights, where important and complex machines are at stake and the infringers are well established Chinese private or public companies.

In case of trademark infringements the situation is different as the infringers tend to be criminal organizations which will prefer not to expose themselves to the outside and will simply take the risk of such losses. Therefore, Customs protection can be followed by the filing of a normal civil lawsuit instead of the filing for an interim injunction.

Another way of Customs protection is by recordation of IP rights, which allows the Customs authorities to initiate action as soon as they discover any import or export goods suspected of infringing the recorded intellectual property right. In order to obtain “ex officio” Custom protection, the rights holder must apply for recordation of his IP right and pay the necessary fees. The process of recordation of trademarks right lasts a couple of months and is partly conducted via internet. The Customs protective recordation of intellectual property right enters into effect on the date of

approval by the General Administration of Customs and is valid for 10 years. Where the term of the intellectual property right is less than ten years from the effective date of the recordation, the recordation term of an intellectual property right will be in conformity with the term of the intellectual property right. Once Customs has taken action based on recorded IP, the process will be the same as described above.

In any case, when a rights holder plans to activate custom protection in China, the rights holder must also be ready to file the necessary lawsuits. Therefore, at the time of filing custom protection applications for interim injunctions and lawsuit must be ready to be filed within a few days. The preparatory work for such actions must not be underestimated.

## Invalidation

Another way to defend one’s intellectual property rights might be to request invalidation of another’s rights that are considered an infringement to the rights of the original rights holder. As a matter of fact, in recent years it has become a concern that Chinese companies or persons screen whether IP rights for products have been registered in China, and if not, apply for registration of a utility model or design patent of that right. As mentioned above, the examination for these kinds of patents is rather superficial, so the rights are often granted. This may result in a legal battle whose right is “stronger” and will be often carried out by the attempt of the original rights holder to invalidate the rights of the utility model or design patent.

The written request for invalidation shall, in combination of all the submitted supporting documents, specifically state the reasons for the request for invalidation and designate the evidence on which each reason is based. Against the decision of Patent Reexamination Board (PRB) declaring the patent right invalid or upholding the patent right, the patentee or the person who has filed the invalidation can within three months from the notification of the decision, institute legal proceedings in the People’s Court (the first Chamber of the Intermediate Court in Beijing as in the reexamination).



Any request for invalidation of the patent right on which the examination decision has been made in another invalidation cases shall not be accepted and handled if it is made on the same grounds and evidence. The requester may give up all or part of the grounds and evidence for invalidation. The Patent Reexamination Board will not check nor examine the grounds and evidence the requester has given up.

Any patent right which has been declared invalid shall be deemed to be non-existent from the beginning. However, there are a number of exceptions to this rule such as: "Prior to the declaration of the patent right invalid, the decision to declare the patent right invalid shall have no retroactive effect on any judgment or ruling of patent infringement which has been pronounced and enforced by the People's Court, on any decision concerning the handling of a dispute over patent infringement, which has been complied with or compulsory executed, or any other contract of patent license or of assignment of patent right which has been performed. However, the damage caused to other persons in bad faith on the part of the patentee shall be compensated."

In China, like in Europe, the civil judge in the main infringement proceedings cannot decide on the validity of the allegedly infringed patent. Therefore, it is very common that two proceedings, one for the infringement of a patent and one for the invalidation of this same infringed patent are filed almost at the same time.

In fact, the vast majority of invalidation procedures are initiated within the frame of a patent invalidation lawsuit. The defendant accused of patent infringement will resort to the invalidation as a very effective form of defense in the main lawsuit. The main purpose would be that of obtaining a declaration of invalidation that could wipe away the infringement proceeding. In this regard, special provisions of the "Supreme People's Court on Patent Dispute of 2001" allow the defendant in a patent infringement lawsuit to apply with the court for the suspension of the infringement proceeding during the invalidation procedure. In practice, almost all such requests are granted by the courts. No judge likes the idea of trying a case to its very end only to discover later that the patent declared as infringed has also been declared invalid by the PRB. Therefore, the filing of invalidation serves often a secondary purpose; obtaining a suspension of the infringement proceedings for mere tactical reasons.

### Enforcement costs

The costs for enforcement can vary a lot and are usually much higher when pursuing legal action through the courts compared with administrative action. An administrative action for a simple case would cause expenditures between US\$8,000 and US\$30,000, whereas the costs for a lawsuit in Chinese courts will be rather similar to those for a lawsuit in Europe or the United States.

The procedure costs and fees are proportional to the value of the case.

Important patent infringements can amount to over US\$50,000 in court fees. Administration fees are much lower, from a few hundred dollars to upwards of US\$3,000 for complex procedures involving a number of administrations.

International and Chinese attorneys bill by the hour and rates vary from province to province, and from case to case. Chinese attorneys handling foreign clients enforcement cases charge fees which are equal if not even more expensive than those of Western attorneys. Often such fees can only be partly recovered in case of successful enforcement. In fact the court will award what is "reasonable" and not what was effectively paid.

In China, there is no rule that the loser must pay all legal costs of the procedure and those of the winner in a civil lawsuit. Therefore, full compensation of legal costs is not to be expected. Legal costs are forfeited as well as the costs of the preliminary phase related to the collection of evidence. Only in particular cases will purchase traps, notary and expert costs be awarded in a reasonable proportion.

*We are grateful to Verena Nowotny and Austria Wirtschaftsservice for their assistance with this article. For China and international IPR matters and registrations, please contact:*

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## NORTHEAST CHINA Dalian



*Dalian is a city located in Liaoning province that has coastal access to Japan and Korea. Foreign investors are attracted to the city because of its large port, skilled workforce, and development zones. Technology company, Intel, has made a US\$2.5 billion investment in the city. Although traditionally known for heavy engineering, new industries are also being created in Dalian including a significant software sector and animation. Dalian has been rated as one of China's most livable and beautiful cities because of its mild climate and beaches.*

### Infrastructure

Total road length in the city is 4,451 kilometers and the Dalian Expressway

links Shenyang, Beijing, Changchun and Harbin. Another expressway runs to Dandong in the east. There are also bonded, tariff free trains to Harbin, Shenyang and Yanji. The Yantai-Dalian train ferry takes trains directly across the Bohai Sea cutting 1,000 kilometers on north-south journeys.

The city's location means that train trips to most Chinese cities outside China's northeastern region require changing in Shanghai or Beijing. On August 23, 2007, construction began on the new Harbin-Dalian high-speed passenger railway, which upon completion in 2013 will connect the two in only four and a half hours.

The Dalian Zhoushuizi International Airport, is one of the largest airfreight bases in the northeast. It has 89 international and domestic airline routes and is only 30 minutes by taxi from downtown.

The city's Dalian Port is the largest port operator in the region. It has shipping links to more than 300 ports in over 160 countries and regions worldwide and handles 70 percent of the seaborne trade and 90 percent of container transport.

### Economy and investment climate

In 2007, the city's GDP registered a 17.5 percent increase, reaching RMB313.1 billion, while per capita GDP hit RMB51,624. The city's main industries include machine manufacturing, petrochemicals and oil refining, and electronics. The city's shipbuilding, internal-combustion engines, and finished oil and bearings companies are the largest firms of their kind in the country.

Dalian is an excellent location for businesses involved in metal and lumber processing, component parts consolidation and distribution. It is also working towards building an IT and software center. Finance and other service industries are

growing as well with some 21 foreign-funded banks and financial institutions setting up branches in the city.

The majority of products manufactured in Liaoning, Jilin or Heilongjiang provinces are exported through Dalian. A large amount of energy resources such as coal and oil sourced from the northern provinces also pass through the city on their way south by ship to factories in Zhejiang and Guangdong.

Dalian's main top foreign investors are Japan, South Korea, the United States and Latin America. For 2007, the city reported a foreign trade volume of US\$38.75 billion, an increase of 21.9 percent from the previous year. Imports reached US\$17.3 billion and exports amounted to US\$21.45 billion. During the same period, utilized foreign direct investment increased by 40.4 percent to US\$3.16 billion.

### Development zones and ports

The leading national open zones are: the Development Zone, the Free Trade Zone, the Hi-Tech Industrial Zone and the Golden Pebble Beach National Holiday Resort.

### Fast facts

- the city has a population of about 6.08 million; about 57.5 percent of its population is urban
- is located 200 miles south of Shenyang and 159.8 kilometers by sea to Yantai
- with a coastline of 1,906 kilometers, Dalian governs the entire Liaodong peninsula and about 260 surrounding islands
- its aquaculture products are exported to Japan, Korea and other countries
- the sale of motorcycles is prohibited in the city although the use of cars have increased dramatically in recent years

*For assistance with investment or inquiries about Dalian please contact [dalian@dezshira.com](mailto:dalian@dezshira.com).*

## SOUTH CHINA Shantou



The city is located on the eastern coast of Guangdong province and is one of the five Special Economic Zones in China. It has had a long history of foreign trade since it was made into a commercial seaport city in 1861. The government is working towards developing Shantou into a modern international seaport and city. Shantou serves as a trade and distribution center for east Guangdong, south Jiangxi and southeast Fujian.

### Infrastructure

Highways in Shantou provide easy access to Xiamen in the east and Shenzhen, Zhuhai, Guangzhou, Hong Kong and Macau to the west. The national highways of 324 and 206 run through Shantou, and most cities in the region can be reached within 3 hours.

Two of China's main railway lines traverse Shantou, making it very convenient to get to other cities by train, including Beijing, Chengdu, Shenzhen, Xiamen and Qingdao. The Guangzhou - Meizhou - Shantou railway connects to the Beijing - Kowloon and Beijing - Guangzhou railways.

The Shantou Waisha Airport is 13 kilometers away from the city center and was constructed in 1956. More than

3 million passengers pass through the airport every year. The airport is a hub for more than 40 airlines connecting with more than 40 domestic cities and other countries including Thailand and Singapore.

The new Chaoshan International Airport, located in Jiedong Country which borders Shantou to the southeast, is currently under construction and is expected to replace Waisha Airport in 2010 and provide better services to Chaoshan residents.

Shantou Harbor has cargo ships that connect to over 210 harbors around the world. It also has passenger ships that sail to many of China's port cities, such as Hong Kong, Guangzhou and Hainan Island. The sea-route to Hong Kong is only 195 nautical miles and 214 nautical miles to Taiwan.

### Economy and investment climate

Bordering the South China Sea, the city uses its convenient geographic location to its advantage and has received large amounts of foreign investment. Shantou's GDP in 2007 was RMB85.02 billion, an increase of 13 percent from the previous year. Its industrial production value was RMB41.28 billion.

It currently has economic relations with 165 countries. Over 50 multinational corporations and 11 of the world's top 500 enterprises have investments in Shantou. During the same period, the city's used FDI was US\$170 million, an increase of 21.4 percent. The total number of exports reached US\$3.91 billion and imports were US\$2.2 billion.

The Shantou government has placed a strong focus on developing the electronics and information, bio-engineering, new materials and photo-electric industries. By 2010, eighty percent of the city's major commodities will be manufactured according to internationally advanced standards, while exports of high technologies and high-tech products will make up 30 percent of Shantou's total exports. Agro-scientific development will contribute 50 percent to the city's agricultural economic growth.

### Development zones and ports

Shantou Port, Shantou Free Trade Zone and the Shantou New and High-tech Industrial Development Zone

### Fast facts

- one of the most densely populated cities in China
- residents drink more tea than anyone else in China - a total worth of RMB700 million each year
- was once one of the most prosperous cities in southern China and the only port with commercial value
- in 2000, the biggest tax fraud in China's history, estimated to be worth RMB32.3 billion was uncovered here
- in 1922 the Swatow Typhoon killed 50,000 out of the city's 65,000 inhabitants
- in the 1930s Shantou Port, a transport hub and merchandise distribution center for Southeast China
- major attractions include the Queshi Scenic Spot, Beishan Bay, Qingao Bay and Mayu island

For assistance with investment or inquiries about Shantou please contact [shenzhen@dezshira.com](mailto:shenzhen@dezshira.com).



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# Investing in China can be Bureaucratic



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