



China: No excuses for infringement?

Nikita Xue of **HFG Law & IP Practice** reflects on how actual practice in enforcement will be influenced by the newly amended Trademark Law in China.

In the event that you could provide any written documents to prove that the products being complained as infringing other's registered trademark and sold at your shop, including purchasing receipt, sales contract, invoice and so on, and you further explain that you are not selling them knowingly, then you may be free from any administrative economic penalty by the administrative authority or civil compensation liability by the brand owner, and more than that, those disputed products could be still under your custody. This is according to Article 60th of the *Trademark Law*, and Article 79th & 80th of the *Regulations for the Implementation of Trademark Law* (both effective since 1 May 2014). Before the amendment, the law did not provide such a pardon to the distributing entity. Therefore, it looks like brand owners lose an important legal tool to protect their legal interest from being damaged on the market in China. According to this newly amended law, the administrative authorities could only "order the cease of distribution" to the shop, and there is no specific term like "confiscating, seizing, destroying, and imposing economic penalty", and even no need for the distribution to cease "immediately" now.

However people have different points of view towards Article 60th, and some think it is still a kind of administrative compulsory measure, while others think it is just a kind of form of punishment by the administrative authority since there is no further detailed explanation on how to "order" such a cease of distribution. The original intention by the legislator might try to encourage the administrative authority to take further efforts by chasing the source of the infringing products, instead of just finishing all the administrative punishment work at market level. Furthermore, it could also express an attitude towards those market business operators that would normally be provided with an opportunity to explain themselves, and then such an amendment would also be helpful for encouraging the market economic development by reducing the direct attack on innocent wholesalers and retailers.

But what if the wholesalers and retailers just "created" some documents to self-explain that they did not know anything about the potential infringement? Does that mean they could easily use this legal cover to get rid of any legal responsibility? Let's look further at Article 79th and Article 80th of *Regulations for the Implementation of Trademark Law*. All the documents provided by the wholesalers and retailers should be verified as true and authentic by the authority and admitted by the supplier. If the inspected wholesaler and retailer could not provide any verified evidence, their testimony would be groundless. Article 80th of the Regulation also states that the administrative authority should report the whole case to the authority that has jurisdiction over the supplier of all involved goods. This should ensure the continuation of the administrative inspection on the case, meaning it would be not dead just by "ordering the cease of distribution".

The amended Trademark Law has impacted on actual practice for those cases requesting local administrative authorities to enforce intellectual property rights at the market level. All evidences that could change the situation is held by the raided entity, and it would be impractical for the officials to verify whether that evidence is true or

Résumé

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not in a short time. Even if the documents could be verified and the supplier's information could be identified, it would be a very important issue to protect the brand owner's legal rights if different administrative authorities could work together smoothly and efficiently. This would help reduce the amount of issues.

Firstly, officials at different jurisdictions might have different legal opinion over the same matter, and when such a situation happens the brand owner might need to submit the case to the same supervising level which has jurisdiction over both authorities. Secondly, further field work is necessary for verifying the supplier's information and their business operation status. That would not be an easy job if the supplier has been informed by the first administrative authority of the wholesaler and retailer. Most importantly, no matter whether the shop is intentional infringing or not, by selling the products such behavior (as trademark infringement) should be defined clearly by the administrative authority, even though there is no need to bear the economic compensation or compulsory penalty, and this is the vital point for brand protection.

Hereinafter, we would like to share some points of view based on actual practical experience for maximizing brand protection in such a situation. Taking raid actions against the source, the manufacturer,

and/or the supplier of the infringing products are undoubtedly important for stopping them from an origin point of view, but proper legal action at the market level also plays an irreplaceable role in brand protection. We all know the market is the first place for customers to get to know about the goods, to buy the products, and it is more public. Furthermore, the business operators at market level are usually centralized in a geographic location, and that makes the negative impact of brand reputation much worse. Before any action, comprehensive evidence preservation is necessary and helpful, including but not limited to obtaining the evidence that the shop is promoting and selling the infringing products, and if situation allows, to complete the evidence preservation through the notary public office. This would be the most desirable situation to ensure you have a convincing and strong case for any further legal proceedings.

Usually there are a number of different situations when raiding the retail shop:

- there is no information obtained or disclosed about the source of the infringing goods, and the administrative enforcement against the shop is not only to stop the infringement at the market level but also to try to get more information about the source, if any;
- there is already information identified about the source or manufacturer of the infringing goods, and the raid actions against both manufacturer and retailing shop would simultaneously provide a much stronger deterrence, and the evidence about the market distribution would somehow confirm the substantial infringement activity by the infringer at the manufacturing site; and
- to try to have favorable jurisdiction over the case if any further court proceeding arise.

Of course, there may also be other possible situations to consider. Let's take the first situation to discuss further. No further information is obtained about the supplier or manufacturer before and or during the raid action and the shop self-claims that they have no knowledge of the trademark infringement and can provide some documents telling a similar story. This would be the most difficult situation, and the administrative authority would likely decide to "order the cease of distribution" to the shop.

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What the brand owner could do is try to:

- keep such action as a piece of record in the administrative inspection system by the authority, and try to convince the authority to properly monitor the subject shop;
- send a written and formal letter to the subject shop after the authority's inspection, and such a letter would also be a kind of record about their previous infringement; and
- get any written memorandum from the retailing shop by promising no further or similar activity.

All the above efforts would be targeting to prove that the subject retailer would be knowingly infringing if there was any further attempt to promote and distribute identical or similar infringing products, no matter what documents they could provide the second time; it would be not taken into consideration.

The law is law, and we cannot change the law, but we can change our mind and strategy by taking different approaches to let the market operators understand that the newly amended Trademark Law is not going to give them any excuse or exemption from legal liability by trademark infringement. We need to request they do business in good will and with respect to brand owners' intellectual property rights and other legal rights.



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Background reading

Here are some relevant laws and regulations background for readers' understanding:

■ Trademark Law of People's Republic of China

Article 60th, ... The administrative authority for industry and commerce may, upon determining the infringement has taken place, order the infringer to immediately stop the infringing act, confiscate and destroy the infringing goods and any implements specifically used to manufacture the infringing goods and counterfeit representations of the registered trademark.

Where the volume of the illegal business is more than RMB50000, a fine of less than five times of the volume of illegal business may be imposed. Where there is no volume of illegal business or the volume of illegal business is less than RMB50000, a fine of less than RMB250000 may be imposed.

Any person who commits trademark infringement acts more than two times within five years or has other serious circumstances shall be given heavier punishment.

Where any person unknowingly sells goods that have infringed the exclusive right to use a registered trademark and can prove that he obtains the good from a legitimate channel and can indicate the suppliers of the goods, the administrative authority for industry and commerce shall order him to stop selling the infringed goods.

■ Regulations for the Implementation of Trademark Law of People's Republic of China

Article 79th, A party that falls under any of the following circumstances shall be considered as being able to prove that it has obtained relevant products by legitimate means under Article 60th of the Trademark Law:

- (1) Where the party has supply lists and payment receipts bearing the legitimate signatures and seals of the suppliers, and such supply lists and payment receipts are confirmed as true upon verification or are acknowledged by the suppliers;
- (2) Where the party has the purchase contracts signed by both the suppliers and the sellers, and such contracts are confirmed as having been truthfully performed;
- (3) Where the party has lawful purchase invoices, and the items recorded thereon correspond to the products in question; or
- (4) Where there are other circumstances under which the party can prove that it has obtained the products in question by legitimate means.

Article 80th, Where a party unknowingly sells products that infringe upon another party's right to exclusive use of a registered trademark, but is able to prove that it has obtained such products by legitimate means and to provide information on their suppliers, the relevant administration for industry and commerce shall order the party to stop sales, and shall inform the administrations for industry and commerce at the domiciles of the suppliers of the infringing products of the circumstances of the case.