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Dilemma with enforcement by Clause 60th of Trademark Law in China

Nikita Min Xue from HongFangLaw considers some of the difficulties encountered by law enforcement in China.

Item	December 2017		January to December 2017	
	USD (\$100 million)	Percentage over the last period	USD (\$100 million)	Percentage over the last period
Total value of import & export	4088.9	8.0	41044.7	11.4
Total value of export	2317.9	10.9	22634.9	7.9
Total value of import	1771.0	4.5	18409.8	15.9
Trade gap	546.9	38.3	4225.1	-17.0

Statistics from the Ministry of Commerce of the People's Republic of China tell that the total import and export value in China from January to December, 2017 has achieved USD \$4104.47 billions, with the growth of 11.4% over the previous year, and therein the total import value has reached USD \$1840.98 billions, increasing 15.9%, as the table above shows¹.

This rapid growth means that the domestic demand for various options of products coming from all over the world is increasing, rapidly. The broader availability not only brings a higher products range for local consumers, but also might create conflicts with local brands and potential risk on product identification. For imported goods, there is a requirement by law to provide clear product specification and indications in Chinese language, so that local consumers will know about the product origin, and the information of the imported distributor in China, so that whenever there is problem, the consumers and local authority could turn to them for problem-solving negotiation.

However, it seems that there are certain dilemma situations, within the trademark infringement field, that the current applicable laws cannot provide a solution to, when enforcing the trademark protection in China.

The current Trademark Law of the People's Republic of China has been amended for a third time and effective since May 1st, 2014, after being adopted at the 4th Session of the Standing Committee of the Twelfth National People's Congress on August 30, 2013, the changes were made especially comparing it with the 2nd amendment in Oct. 2001. The way to deal with the distribution of commodities that infringe on others exclusive trademark rights has highlighted two different situations; the following quotations show the sections of the law on which it is explained how the authority deals with the distribution of the infringing products respectively by the old law and the new law.

Clause 53rd... *Where it is established that the infringing act is constituted in its handling the matter, the administrative authority for industry and commerce handling the matter shall order the infringer to immediately stop the infringing act, confiscate and destroy the infringing goods and tools specially used for the manufacture of the infringing goods and for counterfeiting the representations of the registered trademark, and impose a fine...* [Trademark Law of People's Republic of China (amended in 2001 version)].

Clause 60th... *Where a seller with no knowledge of its infringing goods can prove the legality of acquiring such goods and point out the provider, the administrative authority for industry and commerce shall order the seller to stop selling the infringing goods...* [Trademark Law of People's Republic of China (amended in 2013 version)].

The compulsory measures entitled to the authority by stopping, confiscating, and destroying the infringing products against the distributors have been narrowed to only stop

¹ Source from Ministry of Commerce of the People's Republic of China: <http://www.mofcom.gov.cn/article/tongjiziliao/cf/201801/20180102701184.shtml>

Résumé

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Ms. Xue has been practicing in the IPR industry in China since 2002 and has rich experience in trademark acquisition, brand protection and dispute solution in China. Nikita has been a member of the International Trademark Association (INTA) since 2006 and served as a committee member of the INTA Pro Bono Committee (2012-2013 & 2014-2015), the INTA Bulletin Committee for 2016-2017 & 2018-2019, as the co-chair of the Law & Practice, Asia Pacific Sub-committee. Recently nominated as "Ranked individual" by World Trademark Review 1000.

selling the infringing products, but there is the need to satisfy prior condition first. The distributors should prove that they do not know that the products are infringing others trademark rights and they should provide the origin of the products, such as the sales contract, the receipts, and so on. The information provided should be valid and true, allowing the authority to further pursue their legal liability, according to *Clause 79th of the Regulations for the Implementation of the Trademark Law of the People's Republic of China*.

What is intended for such lawmaking is to protect the goodwill of business participants, and if they really are unaware that the products they purchased from others and then sold to the consumers are a kind of infringing products against others registered trademark, their legal interest has indeed been damaged as well. They should cooperate with both the authorities and the brand owner to pursue the legal liability of the real “trademark infringers”, by providing all necessary evidences. However, there are situations where law enforcement in these years seems to be encountering some difficulties, including, but not limited to, the following situations:

- **How to verify the authenticity of the sales contracts and sourcing documents?**

The buy-sell activity is one of most common in the market and business participants should protect their legal rights by implementing full contracts with each other in case any legal dispute arises. When brand owners or their authorized representative calls upon a seller for selling infringing product, they should help the authority establish direct communication with the product providers and hand over all necessary support information, if they do not know about the infringement at all. Only when the authority confirms that those infringing products are from another provider, and there is no evidence to prove that the current distributor did know about the infringement beforehand, the current distributor could be ordered by the authority to only “cease selling” and bear no other legal liability.

This demands to the authority more effort in verifying the documents, to contact the sourcing provider and to evaluate the business activity between them, which, with no doubt, would take longer and require a more complicated procedure.

- **How to deal with a sourcing provider located at other jurisdictions beyond the current authority?**

Administrative authorities have their own jurisdiction region, and for those cases turning out to be related to other jurisdictions, the authority should contact and report the case to the one having jurisdiction over them. In this way, relevant authorities could conduct their own administrative inspection and enforcement accordingly to pursue the infringement activity, following the regulations by *Clause 80th of the Regulations for the Implementation of the Trademark Law of the People's Republic of China*.

Cross-jurisdiction cases would sometimes contain the risk of evidences vanishing or being hidden, therefore, in actual practice, this requires the close cooperation between different authorities to take proper action effectively and efficiently.

- **How to act if the infringing products are imported from overseas sellers?**

This would be the most complicated situation. For some of the

products imported from overseas sellers, once they have been seized by local authority for the claim of infringing another’s registered trademark, the local distributor in China might provide, in order to prove their goodwill and unknowing intention, the sales contracts, the customs declaration documents, importing records, and so on, to the authority. The burden to verify the authenticity of those documents and the trading activity would then turn to the authority side. There are a few steps they need to go through, including, but not limited to, communicating with the relevant customs to verify whether there is such import records under the customs’ system for the said batch of products, the date, the time, the batch numbers and, also, both entities on the invoicing documents. Furthermore, they also need to check the background of exporting entities from overseas, and sometimes support would be required and expected from the brand owner, especially if it is an international brand and that brand has branch business in the same countries or regions as the exporter.

However, Clause 80th only indicates that the local administrative authority should cease the distribution of the infringing products against the local distributor. The next step is to contact and report the case to the other administrative authority for further handling, if the distributor could prove their unknowingly distribution of infringing products and if the distributor could provide valid and authentic documents about the product source. There seems to be a lack of guidance for administrative authorities on how to act when the sourcing provider is located in another country.

China has recently launched a few cross-nation campaigns on intellectual property protections by jointly attacking the networking counterfeiters with the cooperation among criminal investigation organizations, such as the Ministry of Public Security, the General Administrations of Customs, and through the office of INTERPOL, but it is only for criminal cases. This has become a challenge for administrative authority.

Apart from the burden on the administrative authority to verify the distribution facts and trace the source of the infringing products, another situation makes the administrative enforcement execution challenged. As mentioned above, the new law has only kept the term of “*stop selling the infringing goods*” from the previous paragraph “*stop the infringing act, confiscate and destroy the infringing goods and tools specially used for the manufacture of the infringing goods and for counterfeiting the representations of the registered trademark, and impose a fine*” in the old law. The difficulty for the administrative authority would be on how to supervise the distributor on “stop selling the infringing goods”. Who should take custody of those goods that have been verified as infringing products by the trademark owner? How to make sure that the distributor would not sell the infringing goods again even if they promise not to do so? There should be at least one thing to be sure: if the distributor were found selling the infringing products again afterwards, there would be no excuse for them to self-claim as unknowingly doing so and, at that time, the administrative authority could be entitled to apply stronger compulsory measures to stop them.

Raising questions is always easier than answering them. As trademark practitioners, we have witnessed the implementation and improvement of the Trademark Law, the Regulation of Implementation of the Trademark Law, and other relevant regulations in China, along with the rapid change and increasing demands by the society. For the new situations arising from a new business mode, sometimes we might find the answers and solutions within those situations themselves and, despite the existing challenges, we have faith that someday the law would provide coverage to protect the legal interest of any legal person on the right side of the law.

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