

IP ENFORCEMENT IN CHINA

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The usual perception of intellectual property (IP) enforcement in China is not a good one. Whereas many have realised that the laws in China, especially when it comes to IP, are flawless, actually enforcing the rights granted through these laws is considered an utter nightmare. This perception, right or wrong, does not have to influence or even prohibit the establishment and execution of a reasonable IP strategy. Things are not that bad--it is just a question of how you look at it.

Yes, there are several horror stories when it comes to IP enforcement in China. There was the case automobile powerhouse BMW had against Shuanghuan in which the German company claimed the Chinese company had completely copied the design of the former's X5 model. It still doesn't take hours and an advanced degree in industrial design to side with BMW after a quick sizing up of the two cars. They are identical. However, the court disagreed and denied BMW's claim to ban sales back in 2008. China, right? Nope! This case was decided in Torino, Italy!

The same claimant, BMW, decided in 2013 to move against MBWL, a Chinese clothing manufacturer. MBWL used a logo very similar to BMW's (the white and blue circular one on the hood and the back of the cars). This case was decided in China and this time in favor of BMW, to the tune of RMB 2 million. The judge presiding over the case explained the court's decision to award: *"the highest statutory monetary compensation shows China's determination to crack down on infringement and to support brands."*

This determination is supported by most senior Chinese officials. More importantly, the relevance of IP and its protection and enforcement seems to have sunken into the heads of many managers of Chinese companies. How would you otherwise explain numbers like 24,544 IP cases in China in the first five months of 2013? Furthermore, only 504 involved overseas litigants. It clearly indicates that Chinese companies rely on IP enforcement, and with increasing tendency.

What exactly is the extent of litigation? In 2012, nearly 80-percent of the 87 IP cases handled in Shanghai that involved foreign litigants were decided in favor of the foreign party. This is a very encouraging sign. This could even be interpreted as a reason to now focus on all the other challenges foreign companies face in China, such as labour costs, talent retention, administrative hurdles, local competition, investment restrictions, etc. However, IP enforcement is not a one-off event. It is instead a constant effort to screen the market, educate staff, maintain control over IP and how it is registered, used, renewed, etc. and, above all, to continue enforcement.

All these efforts need to be based on a strategy that is tailor-made for a company and its IP in question. Such an IP strategy needs to be based on realistic expectations. Despite the very large amount of compensation BMW was awarded, most compensation amounts range between RMB 200,000 and RMB 400,000. Suing to get rich is therefore not a real option in China. However, enforcing IP against infringers can help a company build up a reputation in the industry for being more proactive than others, making the active IP enforcer and copying its products less interesting and better left alone. One must consider that being involved in a legal action often also effects on the counterparty, as defending itself is time-consuming and costly.

The logo for 'eiger' is located in the bottom right corner of the page. It features the word 'eiger' in a lowercase, sans-serif font. The letters are a golden-brown color with a subtle gradient and a slight shadow effect, giving it a three-dimensional appearance. The background behind the text is a soft, circular glow of the same color.

Furthermore, communication is key as the realities change from case to case (what might be true for Shanghai may be not be the case in Zhejiang province) and the goals may have to be adjusted as new facts come up in the process. This requires a watchful eye in respect of communication between, for example, a local GM and his or her staff, the attorney, the decision makers in the headquarters, headquarters' legal counsel and external advisors, etc. Communication errors, over-promising, misunderstandings, delayed updates, incorrect instructions, etc., are all possible and happen faster than one might believe. Fast-changing realities, time differences between China, Europe and the U.S., language issues and sometimes a basic lack of understanding of what is actually happening are only some of the reasons for redundant, wrong or inefficient communication. Underestimating the time a company's management has to allocate to dealing with legal matters is often also a factor that can cause further frustration.

The actual enforcement, based on a proper strategy and to achieve realistic goals, can now be initiated. It often starts with building a case against an identified infringer by notarising online material, notarising the staged acquisition of products, and notarising photographs of points of sale in shops and stalls in trade fairs. Online trading platforms such as Alibaba provide a low-key, online IP infringement claim system to address, for example, fake products being sold on the platform. If successful, a seller may face different consequences, from removal of their offers to deletion of accounts. Understated measures could further include early screening at trade fairs for infringing products and requesting protection measures from the event's own IP office, which would include the removal of the infringing material, closing the stall, or even banning the infringer from further participation.

A very effective option is to exert commercial pressure on the infringer, provided, of course, such pressure is possible. Outstanding invoices in favor of the infringer, for example, can only be paid after a newly concluded non-infringement agreement is signed and fulfilled. The availability and success rate of administrative actions highly depend on the location of the authorities. Whereas such actions are probate measures in Shanghai, for example, it has proven difficult to impossible in other provinces. Pre-emptive measures such as preliminary evidence preservation have proven to be a very effective measure and have been granted in a very short time--two months since the application is the fastest so far. Of course, such measures require commitment to file a full-scale civil lawsuit. But the results can be more than worth the commitment. Even the toughest copycat gives in to the authority of a judge, his assistant, two policemen and a couple of lawyers. Judges have performed very efficiently and adopted a straight-forward approach when it comes to identifying and sealing probable copies or parts thereof. Such measures can also have the benefit of revealing further information such as the identities of the copycat's suppliers. This information can then be used to put these suppliers under pressure and even lodge subsequent lawsuits against them, drying out the supply chain. We have even observed judges pro-actively offering solutions which were even more favorable for the claimant.

Furthermore, the benefits of attacking from different angles should not be underestimated. Blocking online trade can cause massive financial losses. Halting exports of export-oriented infringers can also have a serious negative effect on their businesses. Furthermore, by conducting enforcement measures, most of which will result in publicly available information, a company can build up a track record in scaring away future infringers. It can also gain additional and valuable knowledge about the infringer's industry, its suppliers and distributors.

Conclusively, securing IP registration and protection in the relevant jurisdictions (in “Greater China” this would be in China, Hong Kong, Macao and Taiwan), is of course inevitable for any successful IP enforcement strategy and its execution. Based thereon, a reasonable and pragmatic enforcement package can be made and executed, adjusted or extended if necessary, in close and clear communication with the involved parties. Relying on an approach of realistic expectations, clear goals, the necessary flexibility, efficient communication and a tailor-made strategy allows the rights owner to benefit from a rising star in China’s legal system, IP law.

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The logo for 'eiger' is displayed in a stylized, lowercase, orange-brown font. The letters are slightly irregular and have a soft, glowing effect around them.