

Intellectual Property Crimes under China's Latest Criminal Law

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Contents

- Types of Infringements that may Constitute Criminal Offences
- Introduction to the 11th Amendment to China's Criminal Law
- Latest Changes to the Law for Crime of Trade Secret Infringement

1. Types of Infringements that may Constitute Criminal Offences

Types of Infringement Constituting Criminal Offences

◆ Trademark

➤ Trademark Infringement for Uses of Identical Trademark

- 【Article 213】
- trademark **identical** with the **registered** trademark
 - the **same** kind of commodities or services
 - circumstances are **serious**

- 【Article 214】
- commodities bearing **counterfeit** registered trademarks
 - Knowingly sells such commodities
 - the amount of **illegal gains** is relatively large

➤ Forgery of Trademark Representations

- 【Article 215】
- forges or without authorization makes representations of **registered** trademarks or sell such representations
 - circumstances are **serious**

Types of Infringement Constituting Criminal Offences

◆ Patent

➤ Counterfeiting a Patent

- 【Article 216】
- counterfeiting or passing-off
 - refers to **misleading activities**, causing confusion among the public
 - by uses, without permission, of somebody else's patent number on products, in adverts or in business contracts, faking a patent or pretending to have a patent for non-patented product

Types of Infringement Constituting Criminal Offences

◆ Copyright

➤ Copyright Infringement

- 【Article 217】
- centres around **primary economic forms** of utilisation of works
 - derivative forms of utilising works generally are **not** regarded as criminal offences
 - two exceptional copyright infringement crimes: (1) **art forgery**, and (2) **intentionally avoiding or destroying the technical measures** for copyright protection taken by the right holder without the permission
- 【Article 218】
- for the **purpose** of making profits
 - knowingly sells works **reproduced** by infringing on the copyright
 - the amount of illegal gains is huge or the circumstances are otherwise serious

2. Introduction to the 11th Amendment to China's Criminal Law

Introduction to the 11th Amendment to China's Criminal Law

◆ Adjusts the criminal thresholds

➤ Changes “amount of sales” to “amount of **illegal gains**”

In Article 214 【the crime of selling commodities bearing counterfeit registered trademarks】 “selling commodities bearing counterfeit registered trademarks with a large amount of sales” is changed to “selling commodities bearing counterfeit registered trademarks with a large amount of **illegal gains or other serious circumstances**”

➤ Adds miscellaneous provisions

In Article 218 【the crime of selling infringing copies】 “**other serious circumstances**” is added as a miscellaneous provision

Introduction to the 11th Amendment to China's Criminal Law

◆ Expands the scope of criminal judicial protection

➤ Expands the scope of the crime for infringing on trademarks

In Article 213 【the crime of counterfeiting a registered trademark】

- the "service trademark" is explicitly included in the scope of this crime
- before amendment, only infringements on trademarks for commodities may trigger criminal penalties

➤ Expands the scope of the crime for infringing on copyrights

In Article 217 【the crime of infringing on copyright】

- includes infringements on neighboring rights, such as, performer's rights
- Adds criminal punishment for the behaviour of information network dissemination
- "film, television and video works" are uniformly renamed "audio-visual works"
- adds a new type of criminal behavior: intentionally avoiding or destroying technical protection measures

Introduction to the 11th Amendment to China's Criminal Law

◆ Enhances the criminal penalties

➤ Increases the statutory maximum sentence

- In Article 213, 214, 215, 217, etc., the legal maximum penalty has been increased from seven years' imprisonment to **ten years**' imprisonment;
- In Article 218, the legal penalty for the crime of selling infringing copies has been increased from “less than three years” to “less than **five years**”
- the “criminal detention” has been **deleted** from the above articles

Introduction to the 11th Amendment to China's Criminal Law

◆ Strengthen the protection of trade secrets

➤ Replace "causing heavy losses" with "serious circumstances"

In Article 219 【 the crime of infringing on trade secrets 】

- revise "causing significant losses to the right holder of trade secrets" to "if the circumstances are serious"
- transition from "result crime" to "conduct crime"
- increases the maximum punishment to 10 years' fixed-term imprisonment

➤ Expands the scope of the crime of infringing on trade secrets

Adds Article 219-I 【 "commercial espionage" 】

Whoever steals, spies into, buys or unlawfully supplies trade secrets for an overseas organ, organization or individual shall be sentenced to fixed-term imprisonment of not more than five years and subject to a fine concurrently or separately, or be sentenced to fixed-term imprisonment of not less than five years and subject to a fine concurrently if the circumstances are serious.

3. Latest Changes to the Law for Crime of Trade Secret Infringement

Latest Changes to Crime of Trade Secret Infringement

◆ The crime of trade secret infringement: Criminal Law Article 219

- Whoever commits any of the following conduct to infringe upon a trade secret shall,
 - if **the circumstances are serious**, be sentenced to imprisonment of not more than three years with a fine or be sentenced to a fine only; or
 - if **the circumstances are especially serious**, be sentenced to imprisonment of not less than three years and not more than **ten years** with a fine:
 - (1) Obtaining a right holder's trade secret by theft*, **bribery, fraud**, coercion, **electronic intrusion**, or any other illegal means.
 - (2) Disclosing, using, or allowing any other person to use a trade secret obtained from a right holder by any means as mentioned in the preceding paragraph.
 - (3) Disclosing, using, or allowing any other person to use a trade secret known by him or her in violation of **confidentiality obligations** or the right holder's requirements for keeping the trade secret confidential.

** Access without authorization for computer information systems is considered as "theft" under Article 219 of the Criminal Law*

Latest Changes to Crime of Trade Secret Infringement

◆ The crime of trade secret infringement: Criminal Law Article 219

Precondition

➤ Whoever commits any of the following conduct to infringe upon a trade secret shall,

- if **the circumstances are serious**, be sentenced to imprisonment of not more than three years with a fine or be sentenced to a fine only; or

- if **the circumstances are especially serious**, be sentenced to imprisonment of not less than three years and not more than **ten years** with a fine:

- (1) Obtaining a right holder's trade secret by theft*, **bribery, fraud**, coercion, **electronic intrusion**, or any other illegal means.
- (2) Disclosing, using, or allowing any other person to use a trade secret obtained from a right holder by any means as mentioned in the preceding paragraph.
- (3) Disclosing, using, or allowing any other person to use a trade secret known by him or her in violation of **confidentiality obligations** or the right holder's requirements for keeping the trade secret confidential.

** Access without authorization for computer information systems is considered as "theft" under Article 219 of the Criminal Law*

Latest Changes to Crime of Trade Secret Infringement

◆ The crime of trade secret infringement: Criminal Law Article 219

➤ Whoever commits any of the following conduct to infringe upon a trade secret shall,

- if **the circumstances are serious**, be sentenced to imprisonment of not more than three years with a fine or be sentenced to a fine only; or
- if **the circumstances are especially serious**, be sentenced to imprisonment of not less than three years and not more than **ten years** with a fine:

Access

- (1) Obtaining a right holder's trade secret by theft*, **bribery, fraud**, coercion, **electronic intrusion**, or any other illegal means.

Disclosure

- (2) Disclosing, using, or allowing any other person to use a trade secret obtained from a right holder by any means as mentioned in the preceding paragraph.

Use

- (3) Disclosing, using, or allowing any other person to use a trade secret known by him or her in violation of **confidentiality obligations** or the right holder's requirements for keeping the trade secret confidential.

** Access without authorization for computer information systems is considered as "theft" under Article 219 of the Criminal Law*

Latest Changes to Crime of Trade Secret Infringement

- ◆ When is trade secret infringement a crime?
 - ◆ *11th Amendments to the Criminal Law*
 - “if serious damages suffered by the right owner were caused” → “if **the circumstances are serious**”
 - “if especially serious consequences were caused” → “if **the circumstances are especially serious**”
 - ◆ *Interpretation (III) of the Supreme People's Court and the Supreme People's Procuratorate of Several Issues Concerning the Specific Application of Law in the Handling of Criminal Cases Involving Infringements upon Intellectual Property Rights*
 - Serious Circumstances: **Damages suffered by the right owner or the defendant's illegal gain exceeds RMB 300,000 (around 47,000 USD)**
 - Especially serious circumstances: RMB 2,500,000

Latest Changes to Crime of Trade Secret Infringement

- ◆ Interpretation (III) of the Supreme People's Court and the Supreme People's Procuratorate of Several Issues Concerning the Specific Application of Law in the Handling of Criminal Cases Involving Infringements upon Intellectual Property Rights
 - Calculation of the damages or illegal gains
 - can be based on reasonable royalty if not disclosed or used yet
 - can be based on the right holder's lost profit
 - Reduced shipment * reasonable profit per product
 - can be based on the commercial value of the trade secret considering the R&D cost, the profit of the right holder, etc. if the trade secret is known by general public or lost because of the infringement
 - Taking into account the right holder's cost for remedies to alleviate the damages to the business operation/business plan or to restore the computer security system

Latest Changes to Crime of Trade Secret Infringement

- ◆ **Definition of Trade Secret Provided under *the Anti-Unfair Competition Law***
- ◆ ***For the purpose of this Law, "trade secret" means technical, operational or other commercial information unknown to the public and is of commercial value for which the right holder has taken corresponding confidentiality measures.***
 - ◆ **Technical information, business information, etc.**
 - ◆ **Secrecy: Unknown to the public**
 - ◆ ***Technical appraisal report***
 - ◆ **Confidentiality measures taken by the right holder**
 - ◆ **Of commercial value**

Case Study: Combination of criminal and civil actions

◆ Anqing Hengchang Machinery Co.,Ltd. case

➤ Achieved satisfactory results in both criminal and civil cases

- Anqing Hengchang Machinery Co.,Ltd. is the world's largest manufacturer of non-woven packaging machines.
- Liu Guangfu was a former employee of Hengchang. He changed his name after leaving the Anqing Hengchang and joining Jinhu Sanmu which is a competitor of Anqing Hengchang.
- When worked at Anqing Hengchang, Liu Guangfu took advantage of the convenience of his position and the upgrade loophole of Anqing Hengchang's encryption software and copied several technical drawings of Anqing Hengchang's production line.
- After leaving Anqing Hengchang, Liu Guangfu changed his name and joined Jinhu Sanmu as a technician. Liu Guangfu made simple modifications to the drawings he stole from Hengchang and applied them to the production line of Jinhu Sanmu. Later, Jinhu Sanmu sold the production line to India.

Case Study: Combination of criminal and civil actions

◆ Anqing Hengchang Machinery Co.,Ltd. case

➤ Achieved satisfactory results in both criminal and civil cases

- We assisted Anqing Hengchang to report the case to the police after ensuring the identity of Liu Guangfu.
- Anqing police arrested Liu Guangfu and seized the computer he was using at the competitor's place, from which they found the design drawings of the equipment with the logo of Anqing Hengchang.
- We engaged a third party technical appraisal institution to issue a report proving the secrecy of the drawings.
- In the prosecution of the criminal case, we assisted prosecutors in Anqing, who did not have much experience in this kind of cases, to rebut the arguments of defendant's attorneys in the trial, eventually leading to the sentence of the defendant.
- Later, we assisted Hengchang in obtaining a favorable decision in the civil case against the Liu Guangfu and the competitor company Jinhu Sanmu he worked for.

Case Study: Combination of criminal and civil actions

◆ Agilent case

- **Civil litigation achieved satisfactory result when the criminal case was at an impasse**
 - Agilent Technologies is a U.S. manufacturer of chemical detection equipment.
 - A former employee of Agilent set up his own company in Shanghai after leaving Agilent, and his company was competing with Agilent in the same business.
 - Agilent reported the case to the police in Pudong, Shanghai for misappropriation of Agilent's trade secrets after purchasing the gas chromatographs of the former employee's company for analysis
 - However, the prosecutor did not believe that the evidence is enough to initiate a criminal case and returned the case to the police twice.

Case Study: Combination of criminal and civil actions

◆ Agilent case

- **Civil litigation achieved satisfactory result when the criminal case was at an impasse**
 - We took over the case at this point, and successfully convinced the client Agilent that the evidence obtained during the criminal investigation was sufficient to bring a civil lawsuit against the infringer.
 - Finally, the civil case is settled that the former employee voluntarily compensated Agilent for damages and closed their company.

Case Study: Combination of criminal and civil actions

◆ Klüber Lubrication case

- **Achieved satisfactory results through civil action based on findings in the criminal case**
 - Klüber Lubrication is the world's leading manufacturer of specialty lubricants for equipment manufacturers. The defendant in this case is a distributor of Klüber, who has been selling a large amount of fake and unauthorized subdivided lubricants for many years through a “half fake, half authentic” approach.
 - The “half fake” part is that, the defendant filled the lubricants of other brands purchased at low prices into specially ordered containers with stickers bearing the counterfeit registered trademark of the right holder, and then sold to the public at the price of genuine “Klüber” brand lubricants, from which illegal profits were made.
 - The “half authentic” part is that, the defendant customized small containers from others, subdivided the large cans of Klüber lubricants into small cans with stickers bearing the counterfeit registered trademark of the right holder, and then sold them.

Case Study: Combination of criminal and civil actions

◆ Klüber Lubrication case

- **Achieved satisfactory results through civil action based on findings in the criminal case**
 - In the criminal case, the act of unauthorized subdivision of lubricants from large cans to small cans was not considered as a crime. The profits from the infringement were thus determined only from the seized fake lubricants on site as 260,000 RMB. Therefore, the defendant was charged the crime of counterfeiting a registered trademark, and the penalties in the criminal case were relatively low.
 - Klüber also negotiated with the defendant for civil compensation, and the infringer had been willing to pay only a small amount of compensation, citing the criminal verdict as the ground.
 - In the civil case, we assisted Klüber, to obtain full support from the court and the defendant undertook all the damages for the entire infringing activities.

Thank You!