

Recent Amendment of the PRC Regulations on Customs Protection of Intellectual Property Rights

In March 2010, the PRC State Council amended the Regulations on Customs Protection of Intellectual Property Rights (“Regulations”). The amendments, which came into force on 1 April 2010, aim to strike a balance of the interests between intellectual property rights holders (“IPR holders”) and the importers and exporters and to streamline and strengthen the Mainland China Customs’ enforcement measures at the border.

Background

The Regulations empower the PRC Customs to protect the exclusive rights of IPR holders against the import and/or export of infringing goods.

Under the Regulations, a recordal system of intellectual property rights (applicable to trademark, copyright and patent only) is imposed whereby IPR holders can apply to record their intellectual property rights with the Customs (“the Recordal”). After filing the Recordal, in the event that the Customs discovers any suspected infringing goods, the Customs will inform the relevant IPR holder immediately. The IPR holder can then liaise with the Customs to inspect the suspected infringing goods and/or the photos thereof for verification and if those goods are confirmed to be infringement, the IPR holder can apply to the Customs for detention of the suspected infringing goods by submitting a written application and providing a bond, the amount of which depends on the value of the goods but in any event is capped at RMB100,000. Upon such application, the Customs will investigate the matter and make an adjudication whether the detained goods are infringing. If the goods are found to be infringing, a penalty decision (usually a fine) will be issued against the relevant

importer/exporter and the goods will be confiscated and disposed of by the Customs. The above Recordal and Customs’ seizure measures provided in the Regulations have been implemented since 1994 and have proven to be one of the most effective safeguards for IPR holders.

So far as the bond is concerned, many IPR holders, who have to deal with suspected infringing exports/imports frequently, will usually arrange a blanket guarantee with the Customs on an annual basis to cover all the bonds that may be incurred on and off throughout the year to save the time and trouble in paying a separate bond for each and every case.

Further, after applying for detention of the suspected infringing goods, the IPR holders are entitled to apply to the court for an order of cessation of the infringing act or for property preservation against the detained goods (“the Relevant Court Orders”) prior to the commencement of an infringement action pursuant to the PRC Trademark Law, the PRC Copyright Law or the PRC Patent Law (as the case may be).

The Amendments

The new amendments and their implications are discussed below:

- 1. Cancellation of Recordal** (Revised Article 11) - If there is any change to the particulars of the Recordal, the IPR holder shall either modify or cancel the Recordal within 30 working days of such change, failing which, the Customs can, upon application by any relevant interested party or on its own initiative, revoke the relevant Recordal.

The old Regulations do not impose any deadline for the IPR holders to update the Recordal particulars and do not prescribe the consequences for failing to do so in good time. Under the new amendments, IPR holders are now recommended to promptly update their Recordals (in any event within 30 working days) if the status of their relevant recorded information such as licensing details or ownership particulars has been changed, otherwise their Recordals may risk of being revoked. On the other hand, third parties whose interests are affected will less likely be troubled by another's "aged" and "outdated" Recordal; even if their imports/exports are blocked by the same, they are entitled to apply to revoke such Recordal to avoid any further inconvenience in the future.

2. Legal basis for application for the Relevant Court Orders (Revised Article 23(1)) - The laws based on which an IPR holder can apply for the Relevant Court Orders are no longer limited to the PRC Trademark Law, PRC Copyright Law and PRC Patent Law.

An IPR holder can now apply for the Relevant Court Orders based on any other relevant law in the PRC.

3. Right of withdrawal of the detention application (New Article 24(5)) - This new provision allows an IPR holder to withdraw his application for detention of the alleged infringing goods seized by the Customs at any time before the Customs makes an adjudication whether those goods are infringing or not. This right was not expressly provided in the old Regulations.

This would enable the IPR holders to explore settlement with the infringers without undergoing a formal customs investigation. The IPR holders may take this opportunity to obtain information about the supply or manufacturing source of the infringing goods. Resources of the Customs can also be reduced in case a settlement is reached and the IPR holder withdraws the case at an early stage.

4. Disposal of the confiscated infringing goods (Revised Article 27(3)) - Under the old Regulations, the confiscated infringing goods should be donated to the charitable organisations whenever possible, or sold to the relevant IPR holders if they are interested; in case neither donation nor sale to IPR holders is feasible, they can be sold off by auction after removing the infringing features; in case the infringing features cannot be removed, they shall be destroyed by the Customs. However, after the Customs auctions off the confiscated infringing goods, very often, those goods will re-appear in the market, with only the infringing marks removed and other imitation features remained thereon. Those goods may still confuse the consumers and prejudice the rights of the IPR holders.

The new amendment now creates a caveat that for imported goods that infringe another's trade mark(s), except under exceptional circumstances (which the new Regulations do not specify), the goods shall not be allowed to go into the commercial channel by merely removing the infringing trade mark(s) from the seized goods. This is generally perceived to be an attempt to bring China up to the TRIPS standard. However, it is important to note that this caveat only applies to imported trade mark infringing goods and is not applicable to exported items and/or goods which infringe other's copyright and/or patent.

Even with this new amendment, many IPR holders may still be concerned about the ways how the Customs dispose of the confiscated infringing goods because:

- i. In practice, most of the infringing goods will be donated to charitable organizations without removing the infringing features. The charitable organisations are free to deal with those goods at their own will. Sometimes, those goods (with all the infringing marks and features) may re-appear in the market.

- ii. The IPR holders do not have the right to demand the destruction of the infringing goods or otherwise dictate the Customs how they should dispose of the infringing goods. The Customs has full discretion in handling and disposing the infringing goods. Under the relevant Implementing Measures of the Regulations, the Customs is only required to seek the opinion (but not consent) of the relevant IPR holders before the goods are to be sold to the public by way of auction.

5. Infringing articles carried by individuals and/or sent by post (New Article 31 (previous Article 28)) - Before the amendment, infringing articles which are carried along by individuals or sent by post into or out of the Mainland China border will simply be confiscated by the Customs if their quantity exceeds the reasonable limit for personal use. No penalty decision will be issued.

To avoid the whole batch of infringing goods being seized at the border and being fined, the infringers now tend to break the whole batch of infringing goods into smaller parts and arrange them to be carried across the border by individuals separately and/or sent to or from overseas by post in different parcels instead. This problem is tackled under the new Regulations whereby the infringing articles

carried by individuals and/or sent by post will now be treated in the same way as other imported or exported infringing goods pursuant to the above-mentioned notification and detention mechanism and subject to penalties (not only confiscation). In the past few weeks since this new provision has come into force, we have been assisting clients to handle different Customs' seizure cases in relation to infringing goods sent via post from the Mainland to other countries. The Customs appears to have been actively taking enforcement actions under this new provision.

Our IP/IT Practice Group has extensive experience in handling PRC Customs recordal and seizure matters and dealing with the PRC Customs in different cities and at different ports. If you require any assistance in protecting your IPRs at the borders of the Mainland China, please do not hesitate to contact us.

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