



**New Implementing Rules
For the Customs Regulations on
IPR Protection**

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On July 1st, 2009, a new set of *Rules for the Implementation of the Customs Regulations on the Protection of Intellectual Property Rights*, which were published on March 3rd, 2009, will replace the existing Rules of March 24, 2004.

Some of the changes, analysed below, emphasise the need of cooperation between the Customs and the IP rights holders and provide details on the use of security bonds. Other changes relate to procedural issues: simplification of the detention upon requests, more precision for the detention *ex officio*, possible agreement between IP right holder and consignor/consignee. The New rules also contain some modification concerning fake goods transported by passengers or sent directly by post.

Unfortunately, other issues, such as the immediate communication of full information and the possibility to take a sample of the infringing goods, are still not addressed in the Implementing Rules.



Risk analysis: cooperation between Customs and IP rights owners.

When controlling the outward flow of merchandise, the Chinese Customs are faced with a dilemma. On the one hand, they are expected to intercept goods suspected of infringing intellectual property, while on the other hand, they are expected not to slow down or impede the clearance of goods exported from China. In order to achieve this ideal goal, Customs perform what is called a "risk analysis", which aims to target the "right" containers (with fakes) and to avoid stopping the "wrong" ones (with legitimate goods). In performing such analysis, the Customs need the active cooperation of the IP holders, not only for distinguishing between fake and legitimate goods, but also at the earlier stage of "risk analysis". In particular, the Customs need as much information as possible about the legitimate business operated under the relevant IP right, such as the list of licensees authorised by the IP holder.

The new Rules contain some provisions, in particular the combination of Articles 6, 11 and 12, which create an obligation for the right holders to cooperate, if they wish to continue benefiting from the *ex officio* actions of the Chinese Customs.

According to the new Article 6, the right holder must provide, directly in the recordation application, detailed information concerning the IP right (name, class of goods, representation of logo, period of protection, etc.), concerning the identity of the licensee and the terms of such licenses, concerning the name, place of origin, ports of entry/exit, main features, price, etc. of the legitimate goods, and also concerning the infringing goods (their features, price etc.). Article 7, which lists the documents to be attached to the application (personal identification documents, registration certificate of the IP right, contract licence if any, photographs of the goods and package, evidence of known infringing goods), remains unchanged.

The new Article 11 provides that, within 30 days from any change occurring to the information contained in the recordation application, the IP holder must apply for amending the record of its IP right. The principle is the same as in the current Article 11, but the scope is wider and extends to all the information recorded, and not only to the information concerning the IP right holder.

Finally, the new Article 12 stipulates that the Customs have the power to revoke the recordation where the IP holder *fails to apply to the GAC for modification (pursuant to Article 11) or withdrawal of the recordation and causes serious effects on lawful imports/exports made by others*. In the current Article 12, revocation of the record only applies when the IP right is no longer protected or has been transferred,

There is a reason behind this: statistics reveal that an average of 50% of the outward shipments temporarily detained are found, after verification, to contain authentic goods. Whenever this happens, the Customs officers are accused of slowing down the flow of exports

and having a negative impact on the economy.

This is why the Customs reserve the right to revoke the recordation when, as a result of the lack of accurate/updated information caused by passive attitude of the right holder, they end up in causing “serious effect on lawful exporters”, i.e., detaining legitimate shipments.

Right holders will, therefore, be “stimulated” to improve their communication with the Customs, which should become relatively easy when – as it has been promised – online communication channels will be opened.

Simplification of the detention upon request

Detention upon request applies to all IP rights, recorded or not.

In the detention upon request, the new Article 16 deletes the possibility (current Article 16) for the IP holder to inspect the goods and to revise or withdraw its application before detention is performed. Such inspection may only be made (with Customs consent) after detention is decided.

More details for the detention ex officio

Detention *ex officio*, only applies to recorded IP rights.

The new Article 21 brings a more detailed procedure to be followed by the Customs when, in the course of their general tasks of supervision of imported or exported goods, they discover a batch of goods suspected of infringing a recorded IP right.

First, the inspection is only made where no information is provided in the record of the IP about the importer/exporter or manufacturer in question (hence the emphasis on the need to timely update the list of licensees in the recordation). Then, before deciding to suspend the goods, the Customs require the importer/exporter or manufacturer to “declare” and “provide evidence” about the status of the IP right. Finally, it is only if no declaration and no evidence is produced, or if such declaration or evidence remain suspicious, that the Customs will decide to suspend the clearance of the goods and notify the IP holder.

Agreement between IP right holder and consignor/consignee

Customs only investigate a case when they act *ex officio*.

The period of investigation by the Customs remains 30 days from the date of detention of the goods. The new Article 27 provides that, during such investigation, the IP holder and the consignee/consignor may reach an agreement and apply for cancellation of the detention. In such case, unless the Customs believe that a crime has been committed, they may terminate their investigation.



General Bond: introduction the provisions of the Notice dated May 30, 2006

The amount of bond to be paid by the IP right holder when applying for detention of suspicious goods remains unchanged: from 20,000 RMB to 200,000 RMB.

As to the “general bond” provided in the current Article 22, the new Rules reproduce the *Notice* published by the General Administration of Customs on May 30, 2006: the general bond is restricted to goods suspected of infringing a registered trademark (new Article 23), the general bond can be in the form of a letter of guaranty provided by a bank or a non-banking financial institution, the amount of such guaranty should be equivalent to the sum or expenses relating to warehousing, storage, disposal, etc. incurred in the previous year by the IP holder for the detention of goods, with a minimum of 200,000 RMB, the guaranty is valid for a period starting on the date of approval by the Customs until the 31st of December of the same year (it needs to be renewed and adjusted, as the case may be, at the end of each year). During the validity period of the guaranty, the IP holder does not need to pay any bond when applying for detention of trademark infringing goods.

Modification of the procedure applicable to patents.

Patents being a more complex issue than trademarks or copyright, the consignee/consignor who believes that the goods are not infringing, may apply for release of the goods, subject to paying a bond equal to the value of the goods.

In the detention upon request, (current Articles 19 and 20, and New Article 20), the consignee/consignor may file an application for release of the goods within 20 working days from the detention. In the detention *ex-officio*, the current Article 24 allows the consignee/consignor to file an application for release of the goods during a period of 50 working days from the detention. Pursuant to the new Article 28, this possibility is only open where, at the end of their 30 days investigation, the Customs are unable to determine whether the goods are infringing the patent.

In addition, the new Article 36 provides for a security in favor of the consignee/consignor. When the IP right holder has, after the goods are released, presented to the Customs a case acceptance notice issued by a People's Court proving that it has initiated a lawsuit against the consignor/consignee, the Customs keep the security paid by the consignor and will dispose of it in accordance with the court ruling. Meanwhile, the new Article 36 provides that the consignee/consignor may apply to a People's Court for an asset preservation order against the security paid by the IP right holder (when it applied for the detention of the goods), to ensure that such security will be available, should it win the case and obtain a compensation.



Passengers with personal use

The new Article 31 adds to the current Article 29 a possibility, for the passenger, or the sender or recipient of the goods, to “declare abandonment of the goods” for the goods considered to be in excess of the quantities for personal use. This abandonment, which has the same result as confiscation, simplifies the whole process.

Confiscation of infringing goods (sent by mail)

A new Article 32 provides for the confiscation of goods that the Customs determine, after investigation, to be infringing a property right. Where the parties concerned cannot be specified, the goods are to be handed over to the higher authorities, after a public notice and a period of three months has elapsed. This seems to apply to the increasing phenomenon of exporting fake goods by post. The Customs are to launch a campaign against such activity.

Unfortunately, such simplification is very unlikely to lead to any deterrent sanction, as it is probable that illegal exports of counterfeits will be encouraged if no risk, apart from losing the goods, is attached to being caught.

Disposal of goods

Surprisingly, the new Article 33 maintains the possibility for the Customs to auction out the confiscated infringing goods, after removing the infringing features. This is surprising, given the decision rendered by the WTO panel on January 23, 2009 in the case opposing the United States and China over such procedure, which ruled that such possibility was inconsistent with Article 46 of the Trips Agreement (... *In regard to counterfeit trademark goods, the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit the release of the goods into the channels of commerce*”).

However, the new Article 33 opens an interesting field of cooperation between Customs and IP rights holders. Their *opinion* will be solicited prior to auctioning (consent would have been even better) and even, their active cooperation will also be requested for such measures as storage and destruction. We may, therefore, expect more involvement of the IP right holders during the final and essential part of the Customs seizure, i.e., the disposal of the goods.

The above comments relate to those issues modified by the New Rules. A complete comment should also mention some other issues that the New Rules failed, or avoided, to address.

Right of information of the IP right holder

The new Article 30, which corresponds to the current Article 28, unfortunately brings no change. The passing of detailed information (description, quantity, name of consignee/consignor, destination etc.) to the IP right holder only takes place when the goods are confiscated, and not immediately, when they are detained, or even suspended. This is

regrettable and appears to be in contradiction with the principle of cooperation between Customs and IP right holders supported by the Customs. Indeed, in the Action Plan signed with the European Commission in January 2009, the emphasis is put on such cooperation, as well as on the cooperation between Customs and other enforcement authorities. All persons involved – Customs, IP right holder and others – should be enabled to cooperate from the start on each new case, and not have to wait until the Customs have finished, on their own, handling the case.

It is also regrettable that the IP right holder is still not allowed to take a sample of suspected infringing goods, in particular in the case of patent, where the consignee/consignor is allowed to obtain the release of the goods by paying a bond equal to the value of the goods (which may be cheap if they declare a purposely very low value). Then, no trace remains of the infringement and the chances of success of a lawsuit are considerably diminished.

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