



Expertise makes it possible<sup>SM</sup>



2F, Yiyuan Office Building, Friendship Hotel, No. 1 Zhongguancun Street South, Haidian District, Beijing 100873, P.R. China  
Tel: 86 10 6894 8018  
Fax: 86 10 6894 8030  
Web: www.wanhuida.com

**Profile:**

Established in 1997, WAN HUI DA Intellectual Property Agency has now grown into one of the leading IPR firms in China, especially for its service in trademark procurement and anti-counterfeiting practice. With its head office in Beijing dealing with patent and trademark litigation matters, it has branch offices in Ningbo, Guangzhou and Shenzhen and front stations in other coastline cities to allow more efficient tackling of IPR infringement activities which frequently operate along the coast.

Unlike other local IPR firms, WAN HUI DA prides itself as a provider of comprehensive and integrated services in IPR, from consultation to procurement and protection, either through enforcement actions or judicial actions. Seamless teamwork of over 100 seasoned attorneys-at-law, patent attorneys, trademark attorneys and investigators secures the best available service in all aspects of IPR.

**A few of the landmark cases that WAN HUI DA processed in the past three years:**

> Having the State Administration for Industry and Commerce recognize the well-known status of a foreign client's trademark in China in 2004, the first time SAIC recognized a foreign brand as well-known
> Helping one foreign client to register their colour combination trademark in China in 2006, which is the first colour combination trademark registered by China Trademark Office
> Helping a foreign client to have their three-dimension trademark recognized by China Trademark Office as "well-known" in an opposition procedure in 2006
> Helping Chinese courts recognize two trademarks as "well-known" in civil lawsuits in the years 2005 and 2006 respectively
> Solving conflicts between trademark and trade name through a famous civil lawsuit in China in 2006
> Cooperating with police to crack down a multinational counterfeiting network, which is listed as one of the "Ten Best Cases" of the "Mountain Eagle 2004" campaign organized by the State Council
> AIC raid and consequent criminal prosecution of a big counterfeiter in Wenzhou City, listed as one of the "SAIC Ten Key Cases in 2005"
> Legal actions against a trademark infringer, listed as one of the "Ten Important Practices" of the State IPR Protection Office in 2006

**IP International membership:** INTA AIPPI  
**Languages:** English, French, Cantonese  
**Branch offices:** Guangzhou, Ningbo, Shenzhen

Managing Intellectual Property™

IP Focus



China 5th edition

Actions speak louder than words

WAN HUI DA IP AGENCY

2007

# Actions speak louder than words

**Bai Gang of Wan Hui Da IP Agency and Paul Ranjard of UNIFAB** say that IP owners have a duty to try every means of enforcement provided under Chinese law

Counterfeiting poses a threat to a country's economic health. Cancer poses a threat to our health and our lives. One can draw many parallels between the damage caused by counterfeiting to a business, and through all businesses to the economy, and the damage caused by cancer to the human body.

Humans carry many cancerous cells all the time. But our immune system is there to eliminate them before they start getting organized. Counterfeiting is the cancer

of our societies. Firstly, we need to work on an immune system that quickly and effectively uses the protection provided by law for trade marks, patents or designs. Secondly, we also have duty to use, and exhaust, all means made available to us by the law, to crack down on counterfeiters.

And there are many means in China: administrative raids, Customs seizure, civil law suits and criminal prosecution. It cannot be said that China lacks enforcement methods against counterfeiters. And it is pointless to try to assess which one works best, because they are all valid.

## Administrative raid

Administrative raids are a feature unique to China. And China can be proud of the achievements of the Administration of Industry and Commerce (AIC) and the General Administration of Quality Supervision, Inspection and Quarantine in terms of number of raids performed each year, which seems to be ever increasing. In 2005, almost 50,000 trade mark infringement cases were handled by the AIC throughout China, of which 6,770 involved foreign intellectual property rights (according to State Administration

of Industry and Commerce). However, IP owners often complain about the poor efficiency of such measures, which do not seem to deter counterfeiters, who merely accept them as a business cost (they save costs by so many other means that they can easily afford it). Administrative sanctions are often lenient and local protectionism often contributes to this lack of deterrence. One of the reasons for this situation is that the IP owner is not legally a party to the administrative procedure and has limited power to interfere.

## Counterfeiters have grown cautious and organized, and have devised various means to evade raid actions

So the efficiency of an administrative raid mainly depends on the professionalism and conscience of the enforcement agents.

But administrative enforcement still has many advantages. It can at least put a temporary stop to the illegal activity. It is usually rapid and relatively cheap. If well organized, a raid can effectively damage a distributing network of counterfeit goods, and is particularly recommended, and cost effective, for actions against wholesale and retail markets.

## Local protectionism

Local protectionism is almost as natural and inevitable as counterfeiting. It is nothing but an aspect of the whole problem that we have to deal with.

Rather than merely complaining about it, we need to understand why and how it works. It is mainly a consequence of the fact that, apart from Customs (which is a centralized administration), all administrative and judicial enforcement agencies are controlled locally by local

governments and/or people's congresses. So it can be expected that counterfeiters are always ready to devote some of their illegal profits to buying protection from local authorities.

However, buying protection is costly and might not always achieve the same efficiency with all authorities: one administration might be receptive but another will not.

## Although investigators can play a crucial role in a global strategy against counterfeiters, they can also, if inadequately used, cause a lot of frustration for the IP owner

The whole "game", therefore, will realize that any action forces the counterfeiter to spend, and the less connected they are, the more they will have to spend. One day, if enough pressure is applied, the cost of buying protection becomes so high that its illegal business ceases to become profitable.

We have seen such cases, where a counterfeiter had an obviously strong protection with a certain administration in a certain province. Many enforcement actions were launched at the same time in many other places of other provinces, including People's Courts. The counterfeiter eventually agreed to negotiation and gave up.

Never give up against a counterfeiter on account of local protectionism.

## About investigation

As a result of an intensive anti-counterfeiting campaign, counterfeiters have grown cautious and organized, and have devised various means to evade raid actions. They know how to organize specific division of labour between market, procurement, order, packaging, production, transportation, warehousing and export, with short holding times and a small amount of stock on each end, which makes separate raids unpractical and ineffective.

Also, organized counterfeiting is often manipulated by a hidden group, and foreign criminal gangs are usually involved in bulk counterfeit exporting cases. Several factories in a certain regions, big or small, might manufacture counterfeit products in small batches, which will be swiftly collected and exported. At this point, repeated administrative raids can impose little harsh punishment upon the counterfeiters, while the

organizer and operator behind the curtain is seldom brought to justice.

To catch the big fish and destroy such a network, it is crucial to penetrate the network and adequately collect evidence. In 2005, a six-month investigation of a fake razorblade counterfeiting network, including manufacturing, moulds, accessories, packing and export channels, was carried out gradually. Later, by

close cooperation between the administrative and Public Security Bureau (PSB) bodies, nine suspects, including a counterfeit purchaser overseas, were caught, and this long-term counterfeit-export network was demolished.

However, although investigators can play a crucial role in a global

strategy against counterfeiters, they can also, if inadequately used, cause a lot of frustration for the IP owner. Indeed, some IP owners, driven by concerns to save cost and bring investigation fees down, choose to instruct several investigation companies to do the anti-counterfeiting work in a certain district, in the spirit of competition. Competition, beyond doubt, will cut costs and facilitate work. But it might also have detrimental side effects. Generally speaking, investigators and informants act without foresight and, due to the competition, are too eager to cash in the money by organizing a quick raid. This makes it almost impossible for the IP owner to track down the hidden network and solve the problem.

## Criminal investigation and prosecution

Criminal prosecution is a sharp sword. It is certainly the most deterrent action that one can take.

But PSB authorities have limited resources for IP cases, so it is necessary for the IP owner to prepare the case in great detail when requesting PSB's intervention. Common sense recommends that priority be given to the most serious cases, regardless of what is provided in the judicial interpretations about the definition of the term serious.

In spite of all the efforts made, there have been too many instances where a serious, or even very serious, case was concluded with a lenient decision based on an existing loophole in the law. For example, when the sentence is less than three years, the court may instead apply a probation period. So even if the case qualifies, by official criteria, as extremely serious, deserving a sentence from three years to seven years, several cases have been reported where the court systematically applied

the lowest term, three years, and added a probation period. So a serious criminal walks out of court free as a bird, ready to continue doing their illegal business, under another name.

## About civil action

Judicial protection is a cover-all means, providing solutions to all IPR-related disputes possibly involving patent, trade mark, copyright, domain name and trade secret rights. Its main purpose, which other administration means do not provide, is claiming financial compensation.

Compared with administrative enforcement, litigation requires the participation and operation of legal professionals, so it is more costly, it takes more time and it is more complex, which seems to be an obstacle.

But this is too short-sighted a view. Civil litigation can be extremely effective.

For example, an IP owner, with the assistance of Shanghai Customs, seizes over 30,000 fake shirts exported by a large foreign trade company. Due to the value involved, the company initiates an investigation on the exporter and reports the case to the local PSB. At the same time, it starts a civil action before the People's Court, asking for a large amount of compensation. The defendant is cornered between the risk of seeing a criminal prosecution taking place, and the risk of seeing its own reputation further affected by a financial sentence, regardless of the amount. In the end, under strong administrative, criminal and civil litigation pressure, the exporter prefers to settle, providing compensation of Rmb800,000. This amount will serve to finance other investigation and enforcement actions.

In other cases, a defendant will prefer to negotiate and offer to disclose information such as the name and whereabouts of the manufacturer, or of its biggest client abroad.

So the IP owner will make progress in their investigation and at the same time obtain some additional finance.

## IPR protection is a complicated issue

When evaluating the achievements of the anti-counterfeit campaign, some IP owners prefer to look at results in terms of quantity, such as the number of cases. But mere figures do not represent the success of IPR protection. In fact, constantly climbing case figures also prove an increase in counterfeiting activity. The results of an anti-counterfeiting strategy should rather be analyzed in terms of quality: the average size of cases, and the level of penalty imposed or compensation obtained.

Lastly, always remember that, before an IP owner has the right to complain about the situation of counterfeiting in China, they must fully use all the means made available by the law.

### BAI Gang



Bai Gang is a senior partner of Wan Hui Da IP Agency and is a founder of the firm.

Before establishing Wan Hui Da in 1999, Bai Gang had served as a trade mark attorney for seven years in two IP firms, where he gained extensive experience and knowledge of prosecutions and IP protection enforcement. He now not only works as a trade mark attorney, but also is an IP consultant for several large companies.

He can claim outstanding achievements in protecting his clients' IP rights, and has been involved in influential trade mark disputes and litigation, as well as IP-related criminal cases.

In 2003, Bai Gang was invited to be a specialist of the EU-China Intellectual Property Rights Cooperation Programme and participated in drafting the *Roadmap for Trademark Protection in China* for this programme.

In 2005, Bai Gang was selected by the State Intellectual Property Right Strategy Working Conference as an expert and also selected by INTA to be a member of INTA's 2005 Enforcement China Committee.

Bai Gang has been working on *China Trademark Report* as co-editor since 2003.

### Paul Ranjard



Paul Ranjard is a French lawyer who has been based in China since 1997. He graduated in 1969 from the Paris Law School and joined the Paris Bar in 1972.

Apart from his general practice as a commercial law litigator, Paul Ranjard has developed a China-related practice. His interest and work in the region began on a trip to Hong Kong in 1981, after which he made an increasing number of trips to China between 1986 and 1997, and ultimately moved to Beijing in September 1997.

Since that date, Paul Ranjard has devoted most of his time to IP-related cases, acting on behalf of French companies to help them protect their IP rights, as well as representing the French association Union of Manufacturers for the International Protection of Intellectual Property, and chairing the IPR working group of the European Chamber of Commerce.