

Lend a helping hand: tips on interacting with Chinese Customs

Customs is the first port of call for rights holders looking to protect their brands in China. Recording trademarks and lists of licensees with Customs is crucial to any anti-counterfeiting strategy but the hard work does not stop there. Working with local customs is essential and should be integrated into your brand protection strategy

China has provided border protection measures for brand owners since 1994. The State Council promulgated the Customs Regulations on the Protection of IP Rights in 1995, amending them in 2004 and 2010. The General Administration of Customs (GAC) has issued and revised Measures on Enforcing the Regulations accordingly, and has announced border protection-related decrees from time to time.

Chinese Customs has been very active in IP rights protection and has won plaudits for its work from the industry. In June 2007 the World Customs Organisation recognised Chinese Customs for its outstanding contribution to the fight against counterfeiting and piracy; in 2006 and 2011 Chinese Customs was awarded the Global Anti-counterfeiting Awards by the Global Anti-counterfeiting Organisation.

Unlike in most countries, Chinese Customs is involved with both exporters and importers. Each year, most of the counterfeit goods intercepted by Customs are destined for export. For example, according to Customs' annual report for 2010:

- Chinese Customs temporarily intercepted 22,962 batches of goods, which led to 21,073 seizures;
- among the goods seized, 99.86% were destined for export; and
- 96.52% of the cases were based on trademark infringement, with 20,531 interceptions of fake goods worth Rmb257 million.

Customs interception is the last resort for halting the flow of fake goods onto the world market. However, one must first learn how to cooperate with Chinese Customs to take advantage of the help it can offer. Here are some indispensable tips for rights holders when working together with Chinese Customs in the fight against counterfeiting.

Tip 1: ensure the timely recordation of trademarks

Chinese Customs provides two kinds of IP protection service: *ex officio* seizures and interception by application. In order for Customs to make *ex officio* seizures, all of the relevant trademarks must be recorded with it.

Chapter 3 of the measures sets out the conditions under which

Customs can intercept goods on application by the rights holder, while Chapter 4 sets out the regime for *ex officio* seizures. In practice, only a small fraction of customs interceptions are initiated in response to an application by the rights holder. For example, of the 21,073 customs interceptions made in 2010, only 113 of these were as a result of an application by the rights holder, among which were some based on patent infringements.

An *ex officio* seizure has the following advantages compared to interception on application:

- *Ex officio* seizures are carried out by Customs on a daily basis, which lessens the burden on rights holders in investigating and monitoring counterfeiters;
- Article 23 of the measures caps the bond that rights holders must pay for *ex officio* seizures at Rmb100,000, while in the case of interceptions by application, the rights holder must pay the full amount of the goods' value; and
- In the case of *ex officio* seizures, there is no time pressure and it is not compulsory for rights holders to file a lawsuit to seek a court finding of infringement, whereas if Customs intercepts counterfeit goods upon application, the rights holder must rush to file a lawsuit within 20 working days and pay an extra monetary guarantee to the court if it wishes to have the goods detained.

After recordation of the trademarks, the rights holder can enjoy the benefits of *ex officio* actions by Chinese Customs. The recordation procedure is fairly simple and need not be elaborated on here.

Tip 2: support effective training for customs officers

Recordation of the trademark is only the first step. To improve the chances of counterfeit goods being intercepted, regular and effective training of local customs officers is essential.

The necessity of training customs inspectors can be illustrated by two facts. Hitherto, the GAC has recorded approximately 18,500 IP rights, among which over 12,500 were trademarks. It is impossible for inspectors to remember and check so many brands, while the Customs Risk Analysis System (the system used to find suspicious goods) is run based on information provided by inspectors in their daily operations. The second fact concerns the inspection rate. China has become the world's largest trader. With tens of thousands of containers moving in and out of Chinese ports every day, customs inspectors mainly rely on reviewing customs clearance documents, rarely opening containers for inspection. It is said that the inspection rate is below 0.03%, and that inspections are carried out only where there is a suspicion that counterfeit goods will be



found. Although inspectors can access the IP rights database, if they are unfamiliar with the brand and the products, their chances of identifying counterfeit goods are fairly low.

Therefore, besides regular liaisons with senior customs officials at the GAC, rights holders should also visit local customs officers and offer training to the inspectors carrying out field work.

Given that there are so many ports in China, intelligent selection of the location of the training programme can make all the difference. Rights holders should analyse past cases to identify the region(s) where counterfeits are most likely to be produced. Each product or industry tends to be focused on one or more regions. For example, electronic products are mostly produced around Shenzhen; fake luxury goods, such as cosmetics and handbags, are produced by small factories around Guangzhou City; toys are produced in the Shantou region of Guangdong; and a certain town in Ningbo supplies one-third of the electric irons on the world market. Such insights can help rights holders to focus their efforts on the ports from which fake products are most likely to be exported.

It is also useful to analyse data released by Chinese Customs. With regard to batches of seized infringing goods, in 2010 four customs offices (Shenzhen, Guangzhou, Hangzhou and Shanghai) intercepted nearly 17,000 batches of infringing goods – 80% of all intercepted batches. Regarding the amount of seized infringing products, in 2010 six customs offices (Shenzhen, Ningbo, Huangpu, Xiamen, Shanghai and Hangzhou) detained 90% of the infringing goods. Rights holders should not neglect these key offices.

It requires some skill to train inspectors. Rights holders should take care to do more than merely elaborate on the fame or prestige of their brand. More usefully, they should teach inspectors how to distinguish between counterfeit and genuine branded products, including:

- easy ways to identify counterfeits (eg, labels bearing information such as “no manufacture in China”, “never mixed with other brands”, “never exported with package” or “genuine goods only goes to Europe”);
- features of genuine and fake goods;
- sources of counterfeit goods in China;
- the Chinese ports from which counterfeits seized abroad departed; and
- major destinations of counterfeit goods.

Faced with mountains of containers, customs inspectors work on a risk-analysis system, inspecting only those containers that they have identified as suspicious based on the nature of the goods, the destination or the exporter. If the rights holder can contribute any information to help in such identifications, this will greatly facilitate the inspectors' work.

Finally, a vivid Powerpoint presentation to catch the eye and the distribution of some small souvenirs bearing the brand owner's logo may also help to enhance the effect of training.

Tip 3: keep up-to-date lists of authorised dealer and suppliers

Mistaken customs interceptions not only discourage inspectors, but also incur an undue burden on customs inspection work.

Unfortunately, Chinese Customs now faces a high volume of mistaken interceptions due to rights holders' failure to update their lists of authorised dealers or original equipment manufacturer (OEM) suppliers in a timely fashion. By mid-2011 the situation had become so serious that in September of that year the GAC issued Announcement 2011/59, which revokes trademark recordings if the rights holder fails to maintain and update its lists of authorised suppliers and dealers.

Some rights holders may have little business in China, making such lists easy to administer. However, it can be trickier for those with dozens or even hundreds of licensees or OEM suppliers in China. Licensees may change from time to time, and the people who issue the licences may be based in different departments or different countries. Managing licences centrally can be difficult, but to prevent mistaken customs interceptions and ensure that genuine goods are released quickly if mistaken interception does occur, it is crucial that rights holders:

- work closely with the purchasing or licensing team to build up an authorisation list and record this immediately with Chinese Customs at the same time as recording the trademark(s);
- review and update the authorisation list regularly (eg, every quarter); and
- in cases of mistaken interception, respond to local customs inspectors as quickly as possible.

Rights holders may access the GAC's database any time by logging onto its IP rights recordation platform. Regretfully, however, in many cases rights holders or their agencies often forget the user name or password assigned to them by the GAC.

Tip 4: respond quickly to every customs request and support Customs fully

Many local customs officers complain about delayed responses or non-responses from some rights holders after the interception of suspected counterfeit goods. This kind of complaint is mostly related to the interception of couriered fake goods.

In some industries, especially for luxury goods (eg, handbags, watches, perfumes), fake goods are exported in small batches via courier. This has become a serious problem now that online transactions are so popular. Chinese Customs is aware of the problem and in 2009 launched a campaign that resulted in the interception of approximately 63,000 batches of goods being sent via courier. In 2010, 83% of interceptions by Customs involved couriers (17,486 out of 21,073 interceptions).

The export of counterfeit goods via courier poses a headache for Customs. Several brands may be involved with one courier, but the number of counterfeits of any one brand can be small – sometimes just a single piece. Some rights holders may think it difficult or troublesome to respond to a request from Customs to identify the counterfeit. However, such inaction put Customs in a difficult position when it comes to winding up the case. Even if it is just one item of counterfeit goods, the rights holder should issue an identification letter and apply for customs seizure. Otherwise, local customs officers may just ignore the brand the next time that they encounter the same courier. In addition, inaction from the rights

holder may send a message to the counterfeiters that it does not care about such small transactions, encouraging them to continue with their illegal business.

Tip 5: be cautious when settling with counterfeiters

Some rights holders like to settle with counterfeiters by accepting monetary compensation and then requesting that Customs release the goods. Although rights holders are entitled to do this, Customs may feel that they are merely being used to make money, and that the rights holders do not really care about their IP rights. In 2010, the regulations were amended to limit brand owners' right to request the release of confiscated goods to the effect that such requests cannot be made if Customs has found the goods to be fake.

Considering the long-term nature of customs procedures, the possible storage fees faced by rights holders and the amount of red tape that can be involved in securing the return of the bond, it may be reasonable for rights holders to settle with counterfeiters, on condition that they agree to destroy the fake goods and pay reasonable damages. However, it is strongly recommended that rights holders first reach agreement with Customs before making any settlement.

Tip 6: engage a private practitioner

Many rights holders have in-house lawyers in China and it can be convenient for these to handle daily correspondence with Customs, such as confirming the status of seized goods, paying bonds and

maintaining the recorded data. Still, it is advisable to engage an experienced and competent Chinese private practitioner to deal with such matters, especially where these need to take place outside the office (eg, checking samples in the field or investigating suspicious exporters). In addition, it can be cost effective and convenient for private practitioners to organise and coordinate customs training by combining several brands together. In any event, proactive interaction with Customs is the key to success, and private practitioners can often draw on rich experience of such interactions.

Conclusion

The mere recordation of trademarks with Chinese Customs is not enough; to enjoy the full benefits of protection, rights holders must interact with Customs and be on hand to give it support. With nearly 20,000 trademark recordations at the GAC, only a fraction of brand owners really benefit from the protection offered by Customs. However, working with Customs is indispensable to a good anti-counterfeiting strategy. [WTR](#)

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