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PRC – Customs Recordal and Enforcement of IP Rights

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Chinese customs authorities have established regulations and systems to facilitate the recordal and enforcement of intellectual property (IP) rights over goods entering and leaving China.

Although not technically mandatory, as a practical matter, it is critical that a company record its IP rights with Chinese customs in order to enjoy the benefits of this protection.

Further, recordal is a precondition for white-listing of factory suppliers – an increasingly desirable step that can help minimize the risks of delays in shipping out goods from China.

Customs Recordal Application Process

IP Rights Eligible for Recordal

Recordal is available for the following types of IP:

- Trademarks registered in China;
- Any copyright subject matter; and
- Invention patents, utility models and design patents issued by the China National Intellectual Property Administration (“CNIPA”).

Applications for Recordal

This memo covers only the basic application requirements for recordal of trademarks and copyrights. Information on recordal of patents is available on request.

Online Application Process

The General Administration of Customs (“GACC”) introduced a paperless recording system in 2014. Under this system, all application materials must be submitted electronically.

Application Materials

The chart below lists the documents necessary for SIPS to record a trademark or copyright with customs.

	Trademarks	Copyrights
1.	<u>Certificate of Incorporation</u> - A color-scanned copy of the Certificate of Incorporation or an equivalent document confirming the existence of the IP owner (such as a certificate of good standing issued by the Secretary of State)	

2.	<p><u>Power of Attorney</u> - A color-scanned copy of a POA nominating SIPS' Shanghai office to handle recordal matters. To prepare a POA template, we require the signatory's name, position, telephone number, email address, and the date of execution.</p>	
3.	<p><u>Certificate</u> – Color-scanned copies of the relevant trademark registration certificate.</p> <ul style="list-style-type: none"> - If the trademark was extended to China through the Madrid Agreement or Madrid Protocol, then a Certification of Registration from the PRC Trademark Office (“TMO”) must be provided; - Certificates of change of name, renewal, and assignment must be provided where applicable. 	<p><u>Certificate</u> – Color-scanned copies of the relevant copyright registration certificate, with specimen of works attached thereto.</p> <p>Note that applications may be based on registrations issued by copyright authorities located overseas as well as in China.</p>
4.	<p><u>Specimen of Trademark</u> – The specimen may be provided in either JPG or BMP format. SIPS can prepare the specimen if requested.</p>	<p><u>Information about the Work</u>, including:</p> <ul style="list-style-type: none"> - Date of creation; - Name of the work (in Chinese); - Name of the author; - Name of the copyright owner
5.	<p>Recommended</p> <ul style="list-style-type: none"> - Photos of authentic goods and/or their packaging featuring the trademark(s). - A list of authorized suppliers, licensees or other parties that might import or export genuine goods as well as their scope of authorization (the “White List”). <p>NB: The above can be filed at a later date, but this risks authorized goods being detained by local customs offices, pending confirmation that the goods are legitimate.</p> <ul style="list-style-type: none"> - Information to help customs identify infringing products, e.g., photos of authentic and fake goods; information on past infringers or suspected infringers; ports inside or outside China where fakes have been known to pass, etc. 	<p>Recommended</p> <ul style="list-style-type: none"> - A list of authorized suppliers, licensees or other parties that might import or export genuine goods as well as scope of authorization (the “White List”). <p>NB: The above can be filed at a later date, but this risks authorized goods being detained by local customs offices, pending confirmation that the goods are legitimate.</p> <ul style="list-style-type: none"> - Information to help customs identify infringing products, e.g., photos of authentic and fake goods; information on past infringers or suspected infringers; ports inside or outside China where fakes have been known to pass, etc.

It is not necessary to provide notarized or legalized copies of the above documentation.

However, Chinese translations of foreign-language materials must be submitted together with any documents that are in a language other than Chinese. SIPS can provide such translations upon request.

Costs

- As the time required to prepare each application can vary greatly, SIPS will normally offer a quotation after gaining an understanding of the work required. But in most cases, the range of costs for filing one application is US\$1,000 to \$1,500. Where multiple applications are being filed at the same time, the costs will typically range from \$500 to \$800 per application.
- Applications to white-list authorized suppliers will normally be charged on a time-spent basis. But if a large number of requests are expected, SIPS can offer a fixed fee.

Timing

- It normally takes the GACC **30** working days to process an application for customs recordal.
- Recordals are valid for up to **10** years, provided that the underlying IP rights do not expire within this time. It is critical that trademark renewal applications are filed with the TMO as early as possible; i.e., 12 months prior to their scheduled expiration.

In the case of trademarks, customs will not accept renewal applications for recordals unless they see evidence that the TMO has approved the renewal of the recorded trademark, a process which now takes six to 12 months, and occasionally longer. Delays in renewing trademark registrations may result in the lapse of customs recordals. While a fresh application for recordal can be filed, this will typically result in higher costs and a gap in protection against infringements.

Change of Agent

- Where SIPS is assuming responsibility for IP rights already recorded with the GACC via another agent, an application must be filed to change the agent to SIPS. This can be done through a simple online application process which typically takes five working days to complete.
- The cost of filing an application to change an agent is normally \$200. No official fees are charged by the GACC for changing agents.

Customs Enforcement

- Although recordal is technically not a prerequisite for customs seizure, in practice it is the only reliable way to ensure the benefits of protection on a sustained basis.
- As elsewhere, customs in China will proactively inspect less than five percent of all container shipments and an even smaller percentage of courier shipments. This hit rate can be increased through training, as well as by periodic visits to those customs offices in cities where infringing goods are commonly transited.
- If customs detects suspected infringing goods, they will detain the goods and ask the IP owner to quickly confirm that the goods are indeed fake. Under relevant regulations, verification must be given within three working days of receipt of the notice from customs, although some customs offices require a response within just a day.
- If the owners confirm that the shipments are genuine, customs will release the goods. If the owner confirms that the goods infringing, then customs will detain the goods subject to

immediate payment of a bond (see below for bond calculation method).

- Customs will conduct only limited investigations into the circumstances behind most infringements. However, if the quantity of goods is high or if the infringer is a repeat offender, they may conduct deeper inquiries, sometimes in cooperation with local police. For more serious cases, the entire file may be transferred to the police for formal investigation and eventual prosecution.
- Customs must make an infringement determination within 30 working days after the initial detention of the goods. If customs deems the goods to be infringing, it normally will destroy or donate them to charities with the infringing elements removed. In rare cases, they may be auctioned off. IP owners also have the option to purchase the goods.
- The vast majority of cases are handled by customs alone, and result in confiscation of the goods and on occasion a small fine. Criminal actions are rare and are best promoted through active lobbying by the IP owner.
- Civil actions are possible on the back of a customs seizure. But the exporters of counterfeits are often very small companies with little or no assets, and thus an asset check is recommended before proceeding.
- SIPS' service fees for processing a customs case will normally range from US\$300 for very simple cases to up to US\$1,500 for more complex matters. Additional costs will be incurred if SIPS is required to have the suspected fakes photographed at customs for verification purposes. A fee cap of US\$1,500 is normal for all but the most complex matters. SIPS can also agree to a fixed fee for all cases, should the volume of cases permit.

Bonds

- IP owners are required to post a bond before Customs takes an enforcement action. The total amount is typically calculated as follows:
 - 100% of the declared value of the goods if less than RMB 20,000 (~US\$3,100)
 - 50% if the declared value is between RMB 20,000 – 200,000 (~US\$3,000 - \$31,000)
 - RMB 100,000 (~US\$15,400) if the declared value is over RMB 200,000 (~US\$31,000)
- Customs will forego bond requirements for individual cases if the IP owner has applied for a general bond. The minimum amount of the general bond is RMB 200,000 (~US\$ 31,100). Documents required for setting up general bond include:
 - Application form;
 - Letter of guarantee issued by a PRC licensed bank (for each year); and
 - Detail list of disposal / storage fee in the previous year, if any.