

# Criminal IP Enforcement in China

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# TODAY'S OUTLINE

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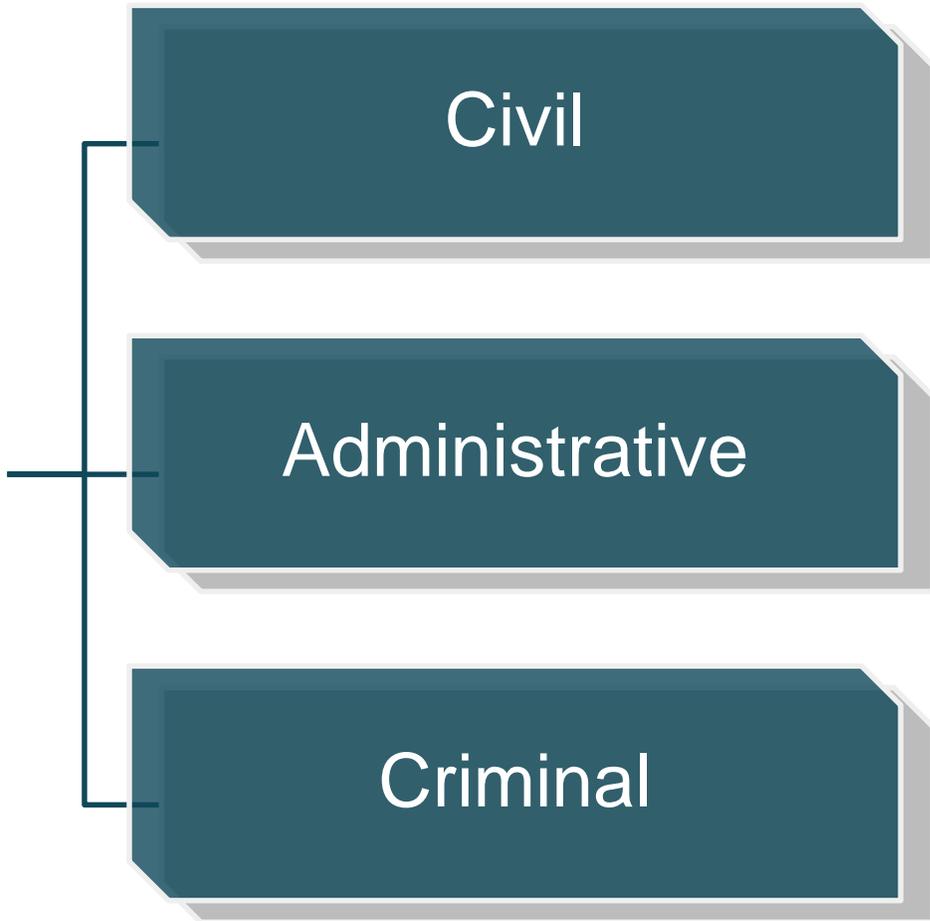
- Introduction
- Trademark
- Patent
- Copyright
- Trade Secret



# Part I

## INTRODUCTION

# IP Enforcement in China



# IP-Related Crimes

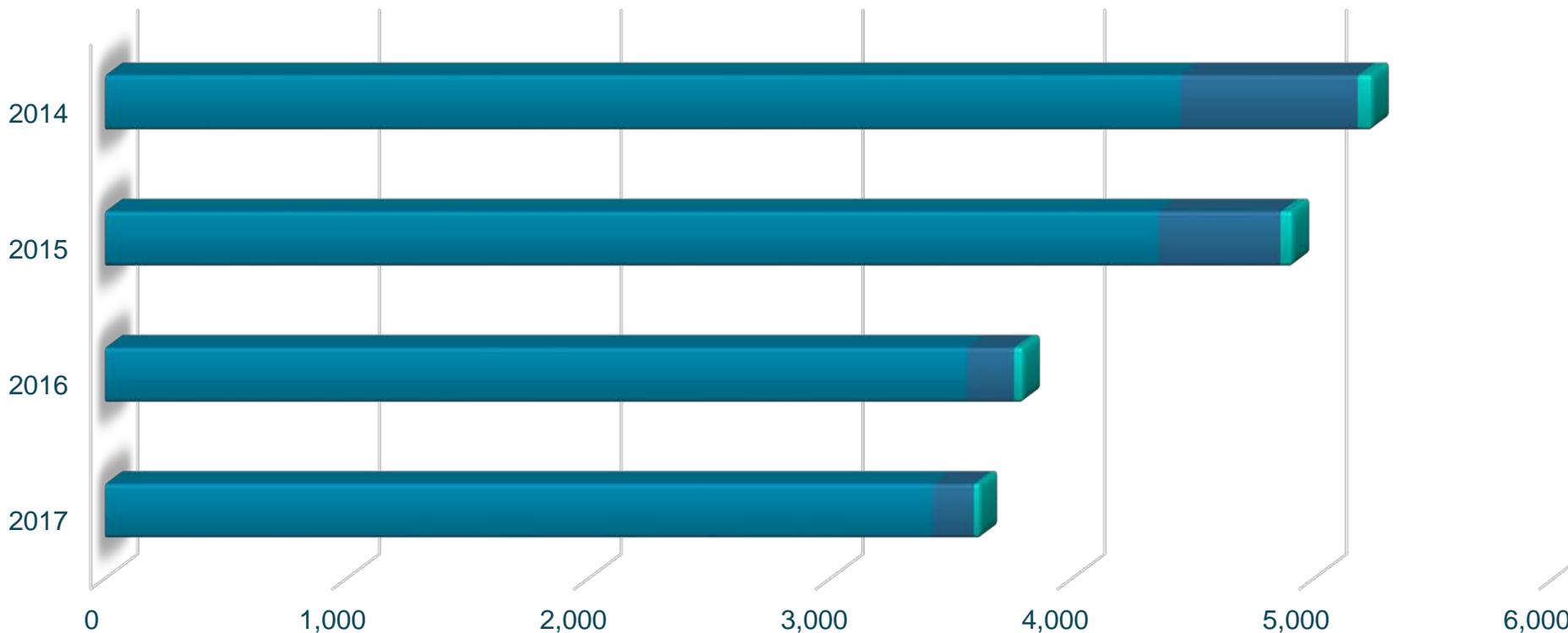
A specific chapter of *the Criminal Law of China* related to IP crimes

- **Three** types of crime related to trademark: Articles 213-215 of the Criminal Law
- **One** type of crime related to patent: Article 216 of the Criminal Law
- **Two** types of crime related to copyright: Articles 217 and 218 of the Criminal Law
- **One** type of crime related to trade secret: Article 219 of the Criminal Law

Both individual and non-individual (e.g., company) can be held criminally liable

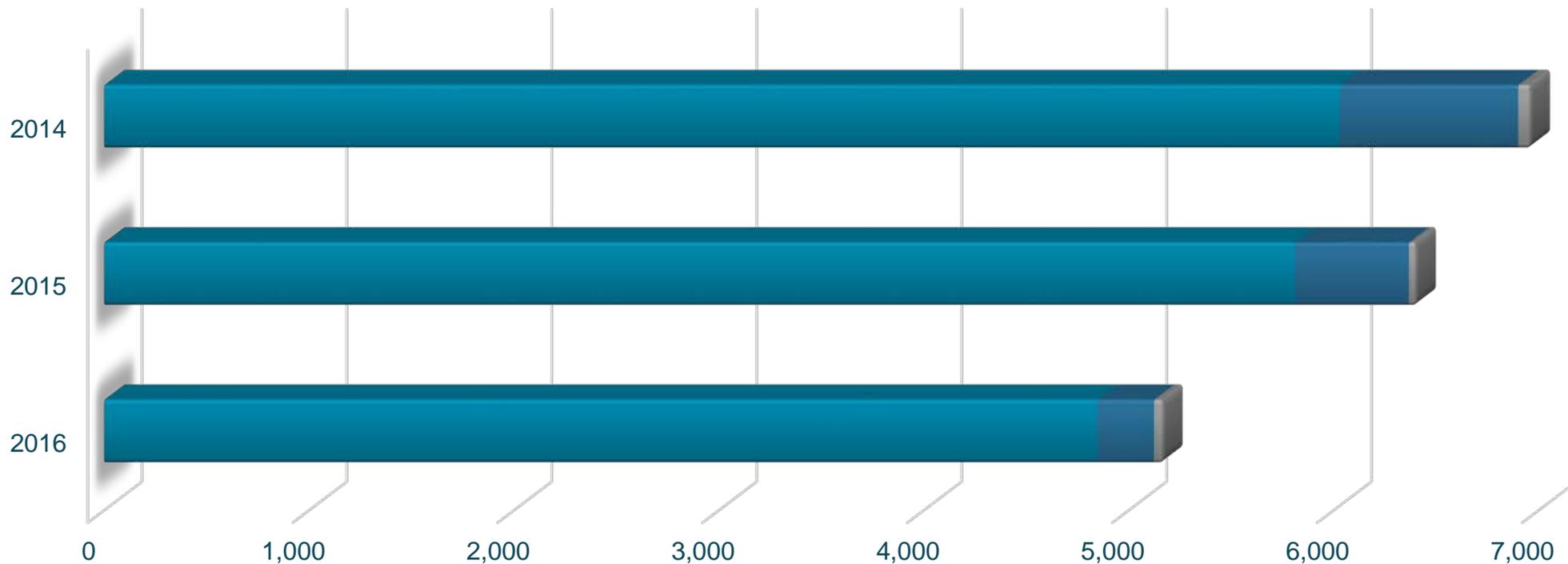
- Article 220 provides criminal liabilities for non-individual

# Number of Criminal Prosecutions Filed



	2017	2016	2015	2014
■ Trademark	3,425	3,565	4,358	4,447
■ Copyright	169	195	504	735
■ Patent & Trade Secret	27	39	51	60

# Number of Suspects Criminalized



	2016	2015	2014
■ Trademark	4,847	5,811	6,030
■ Copyright	276	556	870
■ Patent	1	0	0
■ Trade Secret	43	35	59

## Part II

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### TRADEMARK

# General

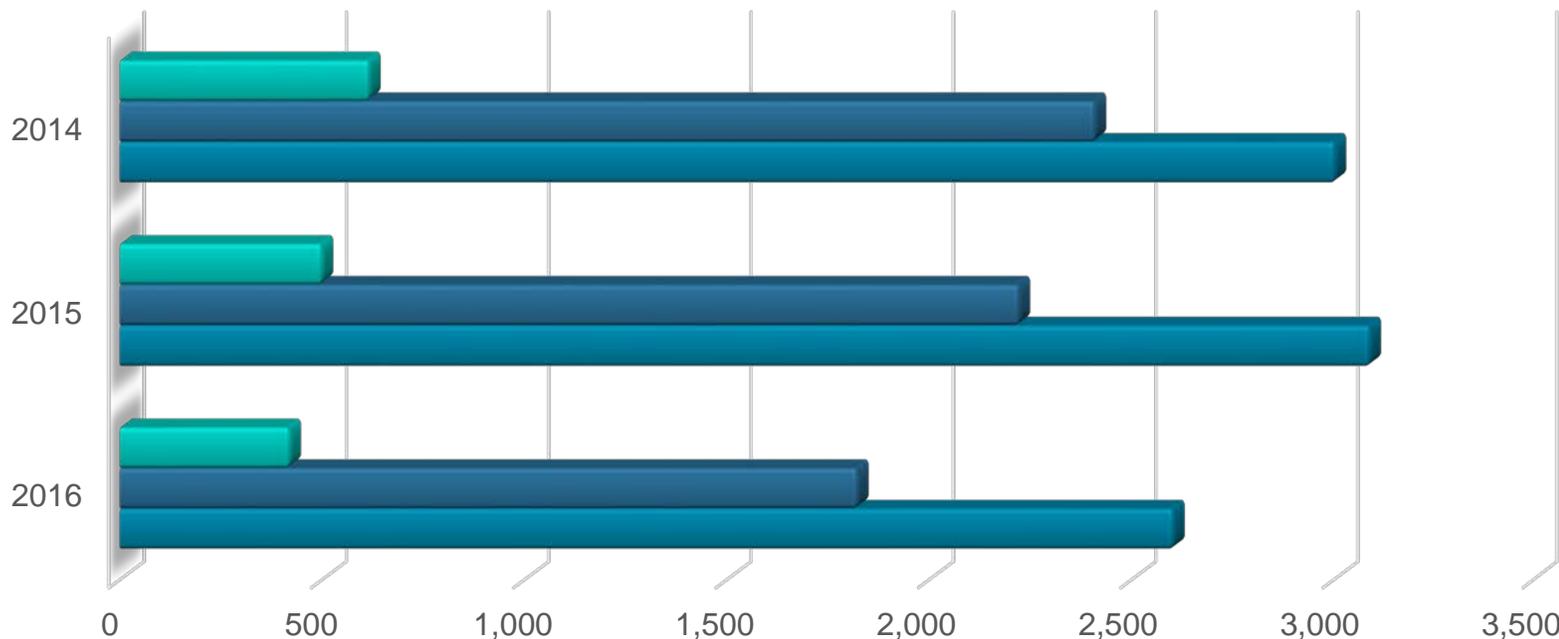
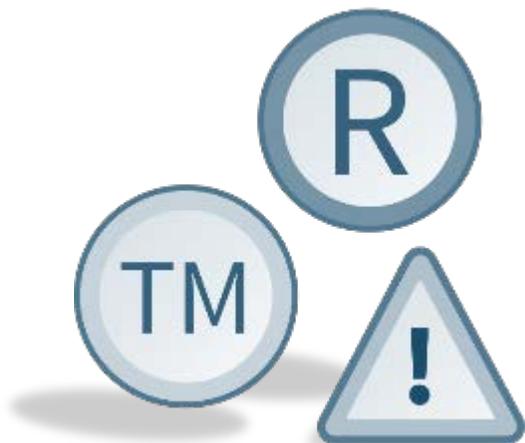
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**MOST** of China IP criminal enforcements are trademark-related

**THREE** types of crime: all related to registered trademark

# Statistics



	2016	2015	2014
■ Illegally manufacturing or selling illegally manufactured identifications of registered trademarks	420	500	617
■ Selling goods bearing counterfeited registered trademarks	1,823	2,222	2,410
■ Counterfeiting registered trademarks	2,604	3,089	3,003

# Law

## Article 213:

### Crime of counterfeiting registered trademarks

- Whoever, without permission from the owner of a **registered trademark**, uses a trademark which is identical with the **registered trademark** on the same kind of commodities shall, if the circumstances are serious, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined; if the circumstances are especially serious, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined.

## Article 214:

### Crime of selling goods bearing counterfeited registered trademarks

- Whoever knowingly sells commodities bearing counterfeit **registered trademarks** shall, if the amount of sales is relatively large, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined; if the amount of sales is huge, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined.



## Article 215:

### Crime of illegally manufacturing or selling illegally manufactured identifications of registered trademarks

- Whoever forges or without authorization of another makes representations of the person's **registered trademarks** or sells such representations shall, if the circumstances are serious, be sentenced to fixed-term imprisonment of not more than three years, criminal detention or public surveillance and shall also, or shall only, be fined; if the circumstances are especially serious, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined.



# PART III

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## PATENT

### *Infringement of patents*

ure of \_\_\_\_\_

which are alleged to be infringement  
loss by reason of purchasing and selling  
person or persons purchasing and using such  
ties that A will sell  
ure and test

# General

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Criminal prosecution and criminalization  
are very **RARELY** seen

Only **ONE** person was convicted during  
2014-2016

# Law

## Article 216: Crime of counterfeiting patent

- Whoever counterfeits the patent of another shall, if the circumstances are serious, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined.





PART IV

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COPYRIGHT

# General



copyright

“Criminal prosecution and criminalization are more commonly seen than patent and trade secret cases, but less than trademark cases”

# Law

## Article 217:

### Crime of infringing on copyright

- Whoever, for the purpose of making profits, commits any of the following acts of infringement on copyright shall, if the amount of illegal gains is relatively large, or if there are other serious circumstances, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined; if the amount of illegal gains is huge or if there are other especially serious circumstances, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined: (1) reproducing or distributing a written work, musical work, motion picture, television programme or other visual works, computer software or other works without permission of the copyright owner; (2) publishing a book of which the exclusive right of publication is enjoyed by another person; (3) reproducing or distributing an audio or video recording produced by another person without permission of the producer; or (4) producing or selling a work of fine art with forged signature of another painter.

## Article 218:

### Crime of selling infringing duplicate works

- Whoever, for the purpose of making profits, knowingly sells works reproduced by infringing on the copyright of the owners as mentioned in Article 217 of this Law shall, if the amount of illegal gains is huge, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined.



# PART V

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## TRADE SECRET AND PROTECTION TIPS

# General



Important tool to guard against theft of important confidential information

- technical information
- business information

Commonly seen during employee mobility

- former employee joins a competitor
- former employee establishes a competing business

Criminal proceeding is generally more powerful than administrative proceeding and civil action

- the investigative authority has broader power to investigate and collect infringing evidence
- tougher deterrence and punishment: criminal cases can lead to sentences of up to 7 years' imprisonment and fines

# Law

## Article 219:

### Crime of infringing on trade secrets

- Whoever commits any of the following acts of infringing on business secrets and thus causes heavy losses to the obligee shall be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined; if the consequences are especially serious, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined: (1) obtaining an obligee's business secrets by stealing, luring, coercion or any other illegitimate means; (2) disclosing, using or allowing another to use the business secrets obtained from the obligee by the means mentioned in the preceding paragraph; or (3) in violation of the agreement on or against the obligee's demand for keeping business secrets, disclosing, using or allowing another person to use the business secrets he has.
- Whoever obtains, uses or discloses another's business secrets, which he clearly knows or ought to know falls under the categories of the acts listed in the preceding paragraph, shall be deemed an offender who infringes on business secrets.



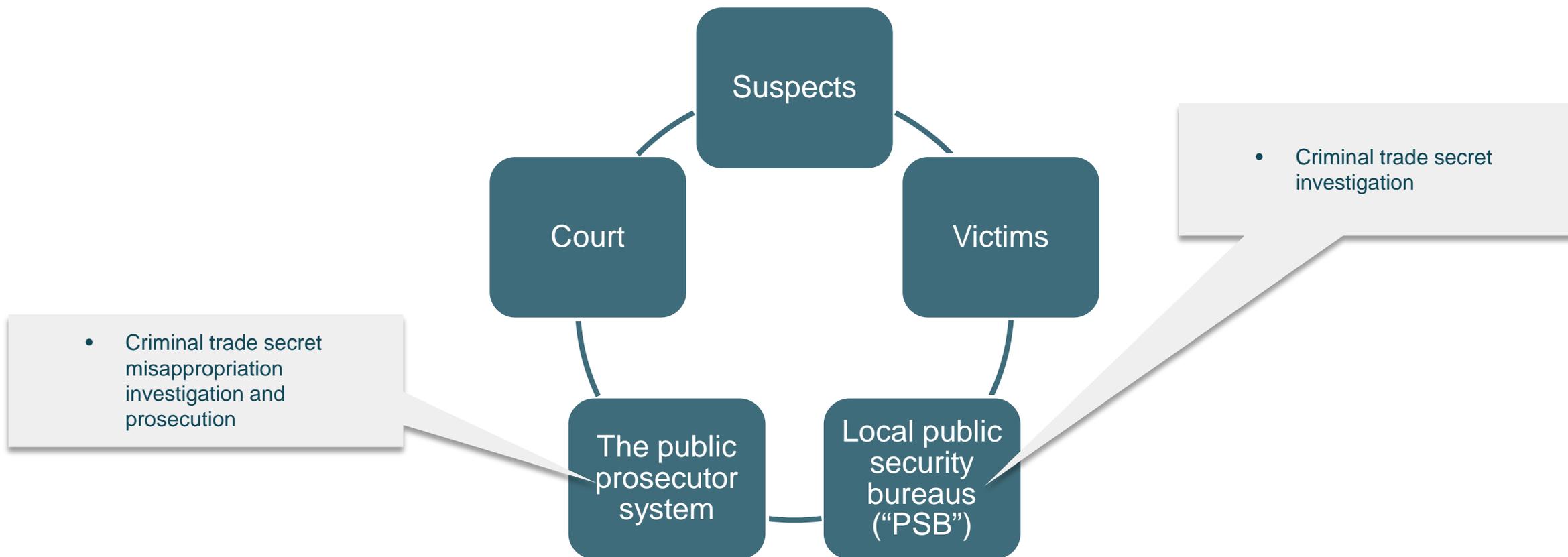
# Elements of a Trade Secret

"Business secrets" as mentioned in this Article refers to technology information or business information which is unknown to the public, can bring about economic benefits to the obligee, is of practical use and with regard to which the obligee has adopted secret-keeping measures.

Minor difference with Anti-Unfair Competition Law (2017): deleting the element of "practical use" in 2017 amendment, and "Trade secret" defined:

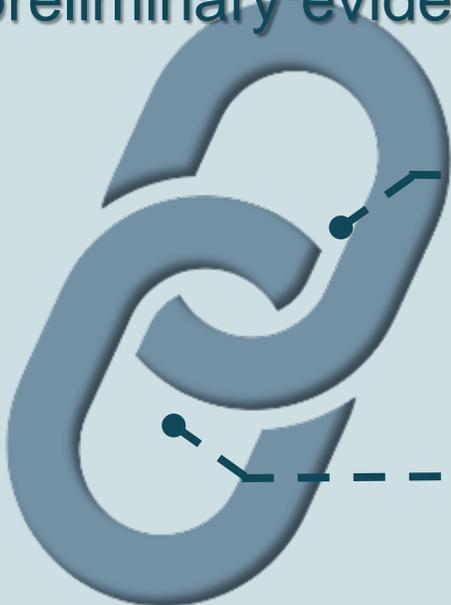
- "Technical information" or "business information;"
- which is unknown to the public;
- have commercial value; and
- for which the rights holder has adopted secret-protection measures.

# Parties



## When PSB Will Build a Case

To persuade PSB to build a case, victim should provide preliminary evidence of a trade secret theft case, notably include:



To provide prima facie evidence proving losses incurred are higher than RMB 500,000 (US\$73,500)

To provide prima facie evidence the information taken is a “trade secret”

- retaining a third-party to conduct the appraisal might be necessary

Normally NOT easy to have a criminal case built in China

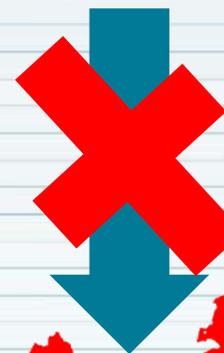
# Interplay between Different Enforcement Proceedings



Some victims prefer resorting to criminal procedure first, and then file civil action based on the evidence collected from the criminal proceeding



U.S.-style discovery



It is normally **difficult** to obtain the evidence from the opposing party

# Case Study: SI v. Sino Legend

SI Group contacted the Shanghai PSB to initiate a criminal investigation against the former employee. The PSB eventually terminated its investigation for “lack of evidence.”

As a result of PSB’s decision to terminate the criminal investigation, SI Group filed two civil actions against Sino Legend and the former employee before the Shanghai Court.

SI Group re-filed these cases.

Sino Legend counter sued SI Group for trade secret misappropriation in Shanghai.

SI Group, Inc. of Schenectady, New York filed a complaint at the ITC and sought permanent exclusion orders and cease and desist order pursuant to Section 337. The complaint alleges that the Sino Legend entities in China unlawfully import into the U.S. certain rubber resins made using misappropriated SI Group trade secrets obtained from a former employee of SI Group.

November 26, 2008

Early February 2010

March 24, 2011

January 2012

May 21, 2012



# Multi-jurisdiction and Multi-forum Trade Secret Suits

In this increasingly globalized world, problems and solutions no longer stopped at national borders, nor limited to a single jurisdiction.

Multi-jurisdiction and multi-forum trade secret suits more frequently seen than ever.

It is also critical to understand the interplay between Chinese proceedings and related proceedings in other countries. For larger competitor vs. competitor suits, trade secret legal actions are often initiated as coordinated, global attacks requiring a coordinated response.

# Multi-jurisdiction and Multi-forum Trade Secret Suits

## Challenges of parallel proceedings across the globe



# TRADE SECRET MATRIX

Define	Mitigate Trade Secret Risk		Prepare for Incidents	*	Incident Response
trade secrets and other confidential information	<b>Limit Access</b>	<b>Verify Compliance</b>	identify team & resources <ul style="list-style-type: none"> <li>• management</li> <li>• legal, IT, HR, PR, security, etc. functions</li> <li>• forensics</li> <li>• gov't contacts</li> <li>• investor relations</li> <li>• PR</li> </ul>	<b>BREACH</b>	implement plan
	secure networks, devices, data, documents, locations, and other property	security audits and other monitoring			secure critical information to mitigate loss/preserve evidence
protections afforded by law or contract	policies & procedures <ul style="list-style-type: none"> <li>• IT</li> <li>• security</li> <li>• privacy</li> <li>• HR</li> <li>• risk managers</li> <li>• Procurement</li> </ul>	hire/exit procedures <ul style="list-style-type: none"> <li>• interviews</li> <li>• end access</li> <li>• retrieve devices</li> <li>• agreements</li> </ul>	check & secure insurance coverage develop incident response plan consider best practices-related communications; brokered by government	<b>SUSPECTED</b>	critical decisions <ul style="list-style-type: none"> <li>• investigate</li> <li>• hold back comp and benefits</li> <li>• file civil litigation</li> <li>• engage law enforcement               <ul style="list-style-type: none"> <li>— investigation</li> <li>— prosecution</li> <li>— intelligence sharing</li> </ul> </li> <li>• engage diplomatic and trade officials</li> <li>• notify insurers</li> <li>• disclose               <ul style="list-style-type: none"> <li>— shareholders</li> <li>— customers</li> <li>— other companies</li> </ul> </li> </ul>
	Training	business changes <ul style="list-style-type: none"> <li>• M&amp;A due diligence</li> <li>• integration procedures</li> <li>• flip side on dispositions</li> <li>• joint ventures</li> </ul>			<b>BREACH</b>
	agreements <ul style="list-style-type: none"> <li>• vendors/ contractors</li> <li>• employment</li> <li>• executive</li> <li>• benefit plans</li> <li>• Acquisitions</li> </ul>				

# Protecting Trade Secrets in China

1

Establish a system for managing confidential information in and provided to Chinese subsidiaries and joint ventures

- Exercise care when sharing trade secrets with employees, subsidiaries, joint ventures, vendors, suppliers, or other third parties
- A signed confidentiality agreement in advance
- An acknowledgement of receipt of confidential information that identifies in detail the disclosed confidential information
- A summary description is not likely to provide sufficient protection

# Protecting Trade Secrets in China

Include trade secret-related rules and protections in all contracts

- Companies doing business in China or with Chinese entities or employees should negotiate and set forth trade secret-related rules and protections in their contracting practices and procedures
- Decide and specify in advance on issues such as who owns trade secrets at the time of contracting, and who will own trade secrets in the event either party undertakes additional research and development following the date the contract is executed
- Confidentiality agreements of unlimited duration OK

# Protecting Trade Secrets in China

## 3

Establish trade secret-related rules and protections in the company's employment management

- Employment agreements may incorporate non-compete provisions of limited duration binding the employee during and after the employment term
- The scope of the non-compete must be reasonable, for example, in terms of the applicable business scope, the geographic region and duration (usually up to two years)
- Reasonable monthly compensation agreed upon in advance and paid.
- Companies should also take protective measures to ensure that their employees maintain confidentiality
- Companies should conduct exit interviews with all departing employees to flag potential issues as early as possible

# Protecting Trade Secrets in China

## Conduct exit review

- Know where the employee goes
- Remind the obligations of non-compete and confidentiality
- Remind return of IP
  - Any compensation for the IP developed?
  - Remuneration for the service invention per the Patent Law?

## Collect and store the devices and the documents

- record for chain of custody

NOT THE END

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IF YOU HAVE ANY QUESTION...

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