

## Pitfalls of Not Handling Trademarks Properly When Exporting Items from China



As a result of more than 40 years of continuous improvement and development since the "Open Door Policy" and becoming a WTO member in 2001, China accounts for 28.7% of the

global manufacturing output (according to the United Nations Statistics Division in 2019). However, China has been criticized for not putting enough effort on Intellectual Property (IP) protections considering they are the biggest manufacturing hub in the world. Intellectual Property Right (IPR) infringed products are flooding from Chinese factories.

To respond to this criticism, China has launched various policies and government structures to enhance IPR protections. These policies are created to tackle the changing business and political environment. In general, two government bureaus are responsible for IPR protection in China:

- **China National Intellectual Property Administration (CNIPA)** – they are responsible for IP registration (including trademarks, pattern, and other IP rights) and relevant administrative protection.
- **General Administration of Customs P.R. of China (China Customs)** – frontier for ensuring the goods inflow/ outflow across the country's borders are IPR protected.

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The CCA Newsletter is summary of articles about the Asia Business environment. This issue is about "Pitfalls of Not Handling Trademark Properly when Exporting Items from China". Please follow-us on [Linkedin](#) for more.

### About China Centric Associates

Since 2003, China Centric has assisted 250+ companies and 30+ Private Equity firms to develop and execute customized regional business strategies in China and Asia. We provide Consulting and Project Management, Outsourced Supply Chain Management and Hosted Facility and Administration.

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### Your input is valuable to us

China Centric Associates always welcome your contribution of the [questions and feedback](#) to the subject of this newsletter. You are also welcomed to raise [specific topics](#) that you are interested. Our team members will make response to your request in quickest manner.



## China Customs (IP) Enforcement in Exported Goods

If an IPR owner wishes to have full protection within China, the IPR owner needs to make proper registration at CNIPA. When a shipment goes through a port (seaport, airport, or other land boarder), China Customs may open the shipment for inspection. Additional inspections exceeding the routine checks are conducted if the contents have import/export restrictions, quarantines or tariffs. Custom inspectors will also compare the logo/brand name/trademark information on the contents with the China Customs' database to ensure IPR is not infringed.

Among the millions of shipments, Customs may select to open containers or cargoes for inspection based on the following criteria:

- The IPR Owner reports to the China Customs that their rights are potentially infringed by certain exporters or categories of goods. This usually involves certain investigation and filing formalities in the IPR Registration System for Customs Protection.
- A container or cargo falls under a high risk IPR infringed product category. China Customs has proactively launched a campaign known as "Long Teng (Dragon Rising)". This is an annual launched campaign with a special objective, focusing on the products with high risk for IPR infringement, such as food goods, drugs, cigarettes, watches, clothing, hats and shoes, luggage and bags, toys, electronics and personal care products.
- Random spot checks by China Customs at ports.



## Typical Trademark Issues that Exporters Encounter During Customs Spot Checks at Ports

Many stakeholders of exporting activities, either exporters or oversea importers, do not put enough focus on the importance of IPR management in China and can encounter issues when China Customs performs spot checks before the order is onboard. Unexpected delays of the shipment due to long cargo dwelling for shipment clarification and even fines imposed due to IP infringement can occur.

From CCA's observations, although most of the stakeholders are concerned of IPR, proper IPR management may fall short. The following are three examples that CCA's clients have experienced:

**Case One:** A US Customer sources their Private Label (PL) products from a US Supplier. The US Supplier sub-contracts its manufacturing to a factory in China. The US Supplier provides explicit instructions to the China factory on appropriate product labeling for the US Customer's PL brands. The products are then shipped to the US Supplier, sorted, and delivered to the US Customer. In order to protect the US Customer's IPR, the US Customer made the appropriate PL registrations with CNIPA and listed the authorized suppliers in the Custom's IPR Registration System. In one incident, while the China Factory was exporting a shipment to the US Supplier, a routine inspection was conducted by China Customs where they discovered the PL on the products. Because the China Factory was not an authorized supplier, the shipment was halted, and the US Customer was notified. After lengthy clarifications were made, the case was settled. However, the China Factory was still considered as infringing upon the US Customer's IPR and was fined by the China Customs.

**Case Two:** A US Group has several affiliated subsidiaries across various business segments and products. Most of their products have trademarks registered in the US and other countries but not in China because there was no plan to sell the products domestically in China. The US Group

*purchases products from Chinese suppliers. In a random shipment spot check of the US Group's export, China Customs found the label and information on the US Group's products to be very similar to a registered trademark of a third-party Chinese Company. Under further investigation of the US Group's portfolio, one of their product scope/categories overlapped with the third-party Chinese Company's registered trademarks. Although the US Group claimed that this is not their major product scope and their products are not sold in China, China Customs still determined that the Chinese supplier infringed on the third-party Chinese Company's IPR and the Chinese supplier was fined.*

**Case Three:** *A US Industrial Supplier contracts their manufacturing in China and distributes their products globally. The US Industrial Supplier has their own brand/trademark registered in many countries but not in China. Initially, some of their products were "Made in China", exported, and imported back in China for domestic sale. Because of the quantities of product being exported and re-imported back into China was so low, no issues were raised. However, as the US Industrial Supplier's domestic China sales increased, this model became an issue. Product regulations in China became stricter and questions were raised on how the US Industrial Supplier's products were being imported into China with "Registered Trademarks" abroad but were labeled "Made in China", even though their trademark was not registered in China. This misalignment caused some issues which resulted in the US Industrial supplier to properly trademark their brand with CNIPA.*

### **Proper Trademark Management in China**

CCA finds that many stakeholders do not have enough focus on China's IPR policy, especially in relation to trademark and brand management. Some companies do not have trademark registration plans in China because they have no sales within China, or they neglect this procedure due to cost. Some think that as long as they have the trademark registered in the countries of sale they are protected.

As the cases illustrated above, companies can find themselves in trouble during customs spot checks and other IPR issues or disputes. In order to prevent future problems, it is recommended that the following points are observed:

Proper registration of the trademark in China and filing the manufacturer with the Customs, especially if you are selling domestically.

Even if the products are not domestically selling in China and only sourcing from a China supplier, it is important to properly register your trademark and manufacturer with China Customs to avoid potential export issues.

If there is no plans to register a trademark in China, it is encouraged to complete a search of similar registered trademarks by other companies in China in the same or similar industry to avoid potential issues in China.

Companies shipping products from China are strongly urged to take the necessary precautions to avoid any or disputes of IPR. It is optimal to have trademarks and brands properly registered and controlled by the owner for long term business sustainability.

If you have any questions about IPR or need assistance, please feel free to contact CCA for support.

