

GREATER CHINA: PROBLEMS AND PROSPECTS IN CROSS-BORDER IP ENFORCEMENT ISSUES

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1. INTRODUCTION

IP rights holders looking at Asia-Pacific enforcement budgets often have to make hard decisions about where to take action.

Following on the heels of general economic trends, many manufacturing operations have packed up and gone across the Taiwan Strait to Mainland China. While many of these companies likely operate legitimately, anti-counterfeiting investigations and seizures in China have been increasingly turning up Taiwanese managers, quality control and technical experts, investors, or other personnel behind the infringements. For several years, international anti-piracy groups have been urging rights holders to attack the financing of fakes at their sources, but there are many obstacles, including the lack of official cross-straits relations and the often complex company relationships at the heart of many infringement networks.

2. UNTANGLING THE WEBS

Investigations into China-based manufacturing operations have often turned up Hong Kong trading companies and tangled networks of offshore holding companies and investor relationships. Unravelling these webs is a necessary part of taking effective action in Greater China.

Fortunately, many of the quasi-legitimate companies (i.e., those that once had a legitimate business, still have legitimate aspects of their business, or which pretend to be legitimate) often leave a fairly easy trail to follow. Offshore obfuscation in some cases may be intended to discourage tax authorities rather than to lead anti-piracy investigations into dead ends. But, after all, why should they bother covering their tracks? Most of those financing cross-border infringement feel they have little to fear. We can identify four main reasons for this. First, most PRC enforcement efforts to date have focused on

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administrative actions that have little deterrent effect, so Taiwanese and other overseas companies and staff caught red-handed running infringing factories don't have much to worry about from PRC authorities. Second, PRC and Taiwan officials do not interact regularly to coordinate their enforcement efforts. Third, PRC and Taiwan authorities periodically have communication or other difficulties in maintaining what links exist between the two. Fourth, rights holders have (for a variety of reasons) generally held back from coordinated cross-border efforts.

Quasi-legitimate companies tend to be the result of discrete successes. A company's growth may be so successful that it takes on the manufacturing facilities, sales offices, internet presence, etc. that grew up as it expanded. Others, particularly those that maintain remnants of their original offices or manufacturing facilities while having moved their actual operations across the straits, seem to exist rather for psychological reasons – especially the desire to hold oneself out as an “international” businessman. Although the old pre-relocation workshop floor in Taiwan may be a bit of a ghost town, there is often enough office activity to try to bring some liability home.

What is the result? Some relatively quick, inexpensive searches can often be made early on through regional corporate research services to figure out some of the basics of the investment structure, the shareholders, and directors and officers. Ascertaining this much would provide some focus and direction for later investigations into assets and the facts of the infringing activity.

For hardcore infringers, the use of investigators is necessary to get a handle on the nature and scope of the group's activities. Still, it can be worthwhile taking their information and combining it with whatever the police or administrative authorities turn up on the day of a raid to try to find links back across the straits. Depending on which side of the straits the raid is held, the information can be re-used, either for action against Taiwan companies, individuals, and assets, or to locate and target PRC-based manufacturing and distribution.

3. PRIVATE CROSS-STRAITS COORDINATION

Once a cross-straits infringement network has been located, something effective must then be done. Arranging for fully coordinated action across jurisdictions may appear to be something of a holy grail for IP

enforcement professionals, but that does not mean it is impossible. Recent enforcement action in the software industry has finally resulted in early examples of successful, synchronized action across the straits. Given the lack of cross-straits dialogue between China and Taiwan enforcement authorities, any success will likely depend largely upon private efforts for the foreseeable future.

However, without extraordinary efforts, patience and *guanxi* to pull together a perfectly coordinated effort, rights holders can still take effective action against a cross-straits or regional operation. Because the speed and timing of enforcement action in China can depend on factors beyond simply a rights holder's legal rights, it may be necessary to first take action in those jurisdictions where one can, working to disrupt the sales and finances of the network.

Combining the information from multiple related jurisdictions is important because it at least allows a more realistic assessment of the infringement network's threat and downstream distribution. Depending on the goods involved, sales methods, sales channels and financing, it is often feasible to put a network under significant stress and make their products more expensive, harder to find, or simply too much trouble for their buyers. In the absence of regional governments fulfilling TRIPS obligations by creating adequate deterrents to future infringing activity and in the absence of a practical cross-straits enforcement dialogue, it is worth keeping in mind that the infringers ultimately are businesspeople who make market-based decisions about what they will stock. Simply put, in the current enforcement climate a rights holder dealing with cross-straits problems can easily enough rationalize anti-piracy efforts that aim simply to drive infringers away from their own products. That said, sometimes you can go beyond "inventory control" to hit infringers where it hurts.

4. TYING A CROSS-STRAITS CASE ACROSS THE STRAIT

Despite many shortcomings in China's existing enforcement mechanisms, there are fortunately some options for concrete action that can be taken against cross-straits infringement financing, management and expertise.

Keeping in mind that cross-border cases present challenges with regards to evidence, it is very important to establish some form of Taiwan, Hong Kong or other nexus for overseas infringement. One good factor is that in copyright and trademark cases in Taiwan, a company's registered "responsible person" faces personal and criminal liability if the Taiwan company can be directly tied to infringing activity. Another very helpful trend is the abovementioned habit of Taiwan companies with China manufacturing facilities maintaining office space at home and the trappings of successful Taiwan businesses. The latter includes real estate, bank accounts, luxury cars and other attachable assets.

One key function of coordinating cross-straits IP enforcement is clearing the path for evidence to be admitted into a Taiwan court. Helping somewhat imperfectly in this regard is the *Use and Inspection of Notarizations on Both Sides of the Straits* Notifications, which was signed between the PRC's Association for Relations Across the Taiwan Strait (ARATS) and Taiwan's Straits Exchange Foundation (SEF) in 1993. Under the agreement both sides have agreed to mutually transmit duplicates of certificates for authentication concerning inheritance, adoption, marriage, birth, death, mandates, educational background, residence, relatives under maintenance, and evidence of property rights (including IP). Documents being sent to Taiwan from the PRC need to be sent to the SEF by the Association of Notaries Public of relevant provinces, autonomous regions, or municipalities. However, it is worth noting that the PRC authorities have, from time to time, refused to accept notarized documents submitted through the SEF.

For their part, Taiwan authorities seem determined to make it as hard as possible for PRC passport holders to enter Taiwan. In some cases it may help to plan beforehand for investigators to staff important cross-border cases with at least one non-PRC national to facilitate the possibility of the investigator visiting Taiwan to testify later to prosecutors or in court.

In Taiwan, trademark and copyright infringement cases are covered by criminal law provisions. Patent infringements have been completely decriminalized – the last vestiges of criminal liability were removed for design and new utility model patents in early 2003. All trademark and some copyright infringements are "public crimes" that, technically, do not require a complaint to be filed; however as a practical matter, the

Taiwan police and prosecutors often want a criminal complaint filed by local counsel.

The filing of a supplementary civil action (i.e., a civil action that is supplementary to the criminal case) can be extraordinarily useful. The three basic benefits are: 1) the early access to the full police, prosecutor and court files; 2) greater involvement in the criminal hearings, which can help with regards to getting higher penalties and with laying the foundation for later civil liability; and 3) avoidance of some of the usual court fees charged for purely civil actions. Access to the files and greater participation can be key factors in getting good criminal results because the rights holders' counsel often comes armed with a better grasp of the individual case facts and relevant IP law than many judges and prosecutors, who may be under heavy docket pressures or have little experience handling IP cases.

Although traditionally raids by the Taiwan police have gone after infringing products only, there appears to be a fresh willingness by the courts and police to go after manufacturing equipment, business records and promotional materials. While the Taiwan authorities are not always creative in expanding the scope of a seizure request, it is advisable to come up with a list of things seen by investigators or expected to be at the raid site. This includes computer hard drives and disks, invoices and shipping records, product literature, price quotations, or anything else that might provide some insight into the scope and duration of the infringing activities. In the cross-straits and regional context, it is particularly important to find information showing the interaction with the manufacturing facilities or other related companies to tie in the Taiwan office with the overseas infringing activities. It should be kept in mind that Taiwan's civil discovery rules are quite lax, and so anything that is not taken away by police will probably never see the light of day in later court proceedings.

5. LOCATING AND ATTACHING ASSETS

Asset checks can sometimes be done before a raid takes place, depending to a degree on where the likely defendants are on a spectrum that ranges from companies maintaining "legitimate" registered front companies to individuals operating under nicknames. After finding out where money, real estate or vehicles are, an *ex parte* filing can be made for attachment of the assets. Taiwan courts normally require a bond of

about one-third to one-half of the value of the property being attached. Attachment of assets can often have a useful effect in subsequent negotiations.

Use of a supplementary civil action to get early access to the police and court files has also proved helpful in many cases for obtaining information on some defendants needed for asset checks – the popularity of certain Chinese name combinations sometimes makes this step very helpful. Location of assets can be a key aspect of later decision-making within a case or an anti-counterfeiting campaign, but the short time it takes to file a supplementary civil action is a relatively inexpensive way to kickstart the asset-location process and to size up the case facts. If there are no substantial recorded assets, negotiation of a voluntarily paid settlement or the withdrawal of the civil action are options that may be pursued by the rights holder.

5. CONCLUSION

What may really be needed is a way to establish a cross-straits mechanism to exchange information between IP enforcement authorities and a means to encourage reciprocity for judgments and seizure of an infringer's assets. However, as the relationship between the PRC and Taiwan is not likely to warm to that level anytime soon, it may be helpful for the US, European Union, Japan and representatives of other major rights holders to speak up for the creation of such mechanisms to support the goals of the TRIPS agreement under WTO, the only such agreement to which both the PRC and Taiwan belong. Such a WTO-based mechanism would stand the best chance of avoiding a counterproductive row that would ensue over the requirements for membership in any newly created independent organization.

In the meanwhile, rights holders will need to work at tackling the cross-straits nature of IP infringement if they are going to take on both the manufacturing and financing aspects of the problem. The advantages of taking action in the PRC include the ability to seize sometimes enormous amounts of counterfeit products, balanced against the PRC system's very strong preferences and incentives for administrative raid actions and the problems of ensuring any kind of meaningful follow-up. The advantages of taking action in Taiwan include the ability to sometimes seize serious assets and the relative ease of establishing criminal and/or

civil liability, balanced against the fact that liability for cross-straits acts of infringement may be “discounted” somewhat by judges.

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