

LANDLORD INDIRECT AND ADMINISTRATIVE LIABILITY FOR TRADE MARK AND COPYRIGHT INFRINGEMENT: CHINA

This document is published by Practical Law and can be found at: global.practicallaw.com/6-578-8294
Request a free trial and demonstration at: global.practicallaw.com/about/freetrial

This practice note explains the circumstances in which a landlord will be liable, under Chinese law, for trade mark or copyright infringements committed by its tenants. It also looks at the types of liability that arise, the elements for establishing liability and the outcomes of the leading cases in this area, and sets out the legal and procedural stages of an enforcement action.

James Luo, Dennis Qin, Thomas Huang, *Lawjay Partners and Practical Law China*

RESOURCE INFORMATION

RESOURCE ID

6-578-8294

RESOURCE TYPE

Practice note

JURISDICTION

China

CONTENTS

- Scope of this note
- Principles of landlord indirect liability
 - Origins of landlord indirect liability: the Silk Market cases
 - Statutory basis for landlord indirect liability
- Causes of action that give rise to landlord indirect liability
 - Basis of causes of action for landlord indirect liability
- Causes of action by IP type
- The test for establishing landlord indirect liability
 - Three-stage test
 - Underlying act of infringement (stage one)
 - Relationship that gives rise to landlord indirect liability (stage two)
 - Landlord's knowledge (stage three)
- Who is open to a claim for landlord indirect liability?
 - Registered owners
 - Management companies
 - Service providers (trade mark infringements)
- Infringer occupies and conducts business from the commercial retail establishment
 - If infringer has no business license the landlord may be liable for the infringement
- Administrative direct liability
 - Legal framework of administrative liability
- Landlord indirect liability in practice: outcomes of court decisions
- Enforcement: stage by stage
 - Market survey
 - Notarised purchases (first round)
 - Sending cease and desist letter
 - Notarised purchases (second round)
 - Conduct administrative raid (optional)
 - Filing civil actions
 - Settlement
 - Follow-up actions

SCOPE OF THIS NOTE

This practice note explains the circumstances in which a landlord will be liable, under Chinese law, for trade mark or copyright infringements committed by its tenants. It looks at the types of liability that arise and the legal framework of each liability. It explains the elements for establishing liability and the outcomes of the leading cases in this area. It also sets out the legal and procedural stages of an enforcement action including an example of how to file a civil action.

Landlords and property managers are vulnerable to two types of liability:

- Landlord indirect liability (see [Principles of landlord indirect liability](#)).
- Administrative direct liability (see [Administrative liability: direct liability](#)).

PRINCIPLES OF LANDLORD INDIRECT LIABILITY

Landlord indirect liability arises from the principle that a third party may be jointly and severally liable towards an intellectual property rights (IPR) owner if that third party is implicated in another party's IPR infringement. This indirect liability is incurred by the landlord of a commercial retail establishment (CRE) who intentionally facilitates or assists in IPR infringement activities carried out by its tenants. The "landlord", for these purposes, is generally the management company of an establishment where counterfeit goods are sold, although it can also be the establishment's registered owner.

The landlord will be jointly and severally liable with its tenant if the landlord knowingly allows the tenant to use the landlord's premises to sell a product that infringes IPR. The provision of certain other services to trade mark infringers (but not copyright or patent infringers), such as warehousing and internet access, can also give rise to indirect liability to the trade mark holder. In addition to damages, a successful claim can also give rise to an injunction to prevent the landlord from allowing future infringements from the premises.

Landlord indirect liability and administrative liability actions form the bulk of civil actions taken against counterfeiters in China. This is because:

- Brick-and-mortar sales of counterfeit goods frequently occur at large shopping malls owned by substantial entities that are easy to identify. Individual vendors of IPR infringing goods are numerous, making enforcement actions costly. IPR litigation often lacks the means to fully compensate IPR holders for the damage the counterfeiting has caused.
- Counterfeiting often involves a multi-stage supply chain in which the individual vendors are fungible and will be replaced, without disrupting the

infringing activity (see [Practice note, Effective anti-counterfeiting enforcement in China: stage by stage: Implementing the strategy and conducting a private investigation: Profile of a counterfeiter](#)).

- A successful landlord indirect liability claim can result in an injunction against future infringements on the same premises. If the injunction is not observed, subsequent enforcement actions on the same premises will be easier to conduct.
- Successful landlord indirect liability claims have a deterrent effect on other landlords. As the community of major commercial landlords is much smaller than the community of infringing vendors, the deterrent effect is proportionately greater. This significantly reduces the visibility and availability of infringing goods to the buying public.
- IPR holders can use the fact or the threat of a landlord indirect liability claim to persuade landlords to agree to be bound by a contractual obligation to police their own establishments, or to include two-strike rule clauses in their lease contracts with vendors (that is, clauses that allow the landlord to suspend the vendor's operations on notification of a first infringement and terminate the lease on notification of a second infringement).

For an introduction to criminal and administrative enforcement actions, see [Practice note, Effective anti-counterfeiting enforcement in China: stage by stage](#).

ORIGINS OF LANDLORD INDIRECT LIABILITY: THE SILK MARKET CASES

Landlord indirect liability initially arose from test cases filed by five luxury brand owners against the landlord of the Silk Market in Beijing (北京秀水街市场) in 2005. The cases were filed after the landlord had repeatedly ignored written warnings to stop the sale at the Silk Market of goods that infringed the brand owners' IPR. Beijing No 2 Intermediate People's Court held that the landlord, having been notified of the infringements, must take immediate action to stop them, and that if the landlord failed to do so, the landlord was to be jointly and severally liable with the vendors to compensate the brand owners for their losses and enforcement costs. On appeal, the Beijing High People's Court upheld these decisions. The principle established in this decision was subsequently incorporated into local and then national legislation.

STATUTORY BASIS FOR LANDLORD INDIRECT LIABILITY

Landlord indirect liability for IPR infringement arises from the following legislation:

- [General Principles of the Civil Law of the People's Republic of China 1986](#) (1986 Civil Law Principles).
- [Tort Liability Law of the People's Republic of China 2009](#) (2009 Tort Law).

- *Trademark Law of the People's Republic of China 2013* (2013 Trade Mark Law).
- *Implementing Regulations of the Trademark Law of the People's Republic of China 2014* (2014 Trademark Law Implementing Regulations).

CAUSES OF ACTION THAT GIVE RISE TO LANDLORD INDIRECT LIABILITY

Three causes of action can lead to landlord indirect liability for IPR infringement:

- The landlord is jointly infringing on the civil rights (that is, the IPR) of the IPR holder, together with the vendor of the counterfeit products (Article 130, *1986 Civil Law Principles*).
- The IPR infringement is a tortious act which the landlord has assisted (Article 9, *2009 Tort Law*).
- The landlord intentionally facilitated the infringing activity (Article 57(6), *2013 Trade Mark Law*). Article 75 of the *2014 Trade Mark Law Implementing Regulations* gives some examples of behaviour that would constitute intentional facilitation (for a list of these, see *Service providers (trade mark infringements)*).

BASIS OF CAUSES OF ACTION FOR LANDLORD INDIRECT LIABILITY

Infringement of civil rights

The *1986 Civil Law Principles* applies to all civil rights including IPR. Anyone who participates in the infringement of another's civil right (including an IPR) holds joint and several liability with the infringer (Article 130, *1986 Civil Law Principles*). Assisting others to perform an infringement act is enough to be held jointly and severally liable with the infringer (Article 148, *Opinions of the Supreme People's Court on Certain Issues Concerning the Implementation of the "General Principles of the Civil Law of the People's Republic of China" (Trial) 1988*).

Since the *2009 Tort Law* and the *2013 Trade Mark Law* have come into force, with specific provisions to assist in dealing with IPR infringement, it has become rare for the *1986 Civil Law Principles* to form the basis of landlord indirect liability claims for IPR infringement.

Tortious liability

The infringements of copyrights, patent rights or the exclusive right to use a trade mark constitute tortious acts (Article 2, *2009 Tort Law*). Abetting or assisting such infringement gives rise to joint and several liability with the infringer (Article 9, *2009 Tort Law*).

Although there is no knowledge element in the statute, Chinese courts generally take the view that assistance for these purposes requires the landlord to be aware of the infringing activities (see *Landlord's knowledge (stage three)*).

Since the *2013 Trade Mark Law* has come into force, with specific provisions relating to assisting with the infringement of registered trade marks, the *2009 Tort Law* has generally been used as the basis for landlord indirect liability claims for trade mark and copyright infringement.

For a landlord to be held liable, the trade mark must:

- Be registered in China.
- Be protected with the exclusive right to the trade mark (Article 2, *2009 Tort Law*).
- Have been duly approved for use on the same class of goods as those alleged to be infringing (Article 56, *2013 Trade Mark Law*).

Intentional facilitation of registered trade mark infringement

It is a form of trade mark infringement by intentionally providing aid to a third party that is infringing a trade mark owner's exclusive right to a registered trade mark, thereby assisting the third party infringer to carry out the infringing act (Article 57(6), *2013 Trade Mark Law*).

This includes providing certain services, including the use of business premises to a trade mark infringer. This note addresses the liability of the premises' registered owner or any management company that manages the premises, but other services including warehousing, transportation, couriering, printing or internet services also fall within the scope of Article 57(6) (see *Service providers (trade mark infringements)*).

This applies specifically to trade marks that have been registered in China and marks that have been duly approved for use on the same class of goods as those alleged to be infringing. Infringement of trade marks that are well known in China but have not been registered will not give rise to liability under Article 57(6). It is also thought that Article 57(6) would only make a landlord liable to the IPR holder where the infringement in question was the sale of counterfeit goods from the landlord's premises, and not the other forms of infringement specified in Article 57 of the *2013 Trade Mark Law* (see *Registered trade mark infringements under the 2013 Trade Mark Law*).

LANDLORD INDIRECT AND ADMINISTRATIVE LIABILITY FOR TRADE MARK AND COPYRIGHT INFRINGEMENT: CHINA

CAUSES OF ACTION BY IP TYPE

The table below summarises these as they apply to the type of IPR that is alleged to have been infringed.

Type of IP right being infringed	Cause of action	Statutory reference	Direct or indirect?
Trade marks that have been registered in China	The landlord is jointly infringing on the holder's IPRs	Article 130, <i>1986 Civil Law Principles</i>	Indirect, with joint and several liability with the infringer
	The infringement is a tortious act in which the landlord has assisted	Article 9, <i>2009 Tort Law</i>	Indirect, with joint and several liability with the infringer
	The landlord intentionally facilitated the infringing activity	Article 57(6), <i>2013 Trade Mark Law</i> , together with Article 9, <i>2009 Tort Law</i>	Indirect, with joint and several liability with the infringer
	The landlord operates a market establishment and has breached local regulations requiring it to prevent counterfeit sales in the establishment it operates	Local regulations, where applicable	Direct, no joint liability with the infringer
Copyright	The landlord is jointly infringing on the holder's IPRs	Article 130, <i>1986 Civil Law Principles</i>	Indirect, with joint and several liability with the infringer
	The infringement is a tortious act in which the IPR holder has assisted	Article 9, <i>2009 Tort Law</i>	Indirect, with joint and several liability with the infringer
	The landlord is a market operator that has breached local regulations requiring it to prevent counterfeit sales in the establishment it manages	Local regulations, where applicable	Direct, no joint liability with the infringer

THE TEST FOR ESTABLISHING LANDLORD INDIRECT LIABILITY

The legislation that gives rise to landlord indirect liability is couched in general terms (see *Causes of action by IP type*), and the civil law legal system of China does not have a doctrine of precedents. Consequently, there is no clear test for establishing a relationship that gives rise to landlord indirect liability under any of the available causes of action.

The test outline below is based on the determinations of judges in cases that have been given guiding case status by the *Supreme People's Court* (SPC) or have been selected as leading cases by the senior judicial authorities of a city or province (such as the Beijing

High People's Court or Liaoning Province High People's Court), as these are generally considered as having persuasive authority (see *Landlord indirect liability in practice: outcomes of court decisions*).

THREE-STAGE TEST

Whether landlord indirect liability arises involves a three-stage test:

- Has an underlying act of infringement been committed?
- Is there a relationship between the landlord and the infringer which is capable of giving rise to landlord indirect liability under the available causes of action?

LANDLORD INDIRECT AND ADMINISTRATIVE LIABILITY FOR TRADE MARK AND COPYRIGHT INFRINGEMENT: CHINA

- If a relationship exists, was the landlord aware of the infringing activity?

To establish liability, the claimant must show that all three stages have been satisfied.

UNDERLYING ACT OF INFRINGEMENT (STAGE ONE)

Landlord indirect liability can only arise if there has been an underlying infringement of IPR that is recognised under Chinese law. With some exceptions, only rights that have been registered in China are recognised by Chinese law. One exception is for copyright, which arises automatically on creation of a work that is capable of protection (see [Practice note, Copyright \(China\): Overview: Requirements for copyright protection](#)).

For information on registering intellectual property in China, see [Checklist, Registering copyrighted software or works: China](#).

For information on what constitutes an infringement of IPR, see Practice notes:

- [Patents \(China\): Overview: Costs: Filing and prosecution costs](#).
- [Copyright \(China\): Overview: Infringement acts and remedies](#).
- [Trade marks \(China\): Overview: Nature of trade mark right](#).

Registered trade mark infringements under the 2013 Trade Mark Law

The prohibition on providing services (including the use of business premises) to a registered trade mark infringer could encompass all types of infringement as set out in Article 57 of the [2013 Trade Mark Law](#). This includes use, production, sale and, recursively, the provision of business premises to the registered trade mark infringer (that is, extending liability up the premises ownership chain).

However, landlord indirect liability under the 2013 Trade Mark Law will generally only arise if the infringement in question was specifically the act of selling goods which infringe the exclusive right to a registered trademark. The other classes of infringement set out in Article 57 of the 2013 Trade Mark Law have not been held to be capable of forming the basis of a claim for landlord indirect liability under Article 57(6). Articles 57(1) to (5) and (7) comprise acts that are committed by direct infringers and encompass the infringement on others' exclusive rights to a registered trade mark.

RELATIONSHIP THAT GIVES RISE TO LANDLORD INDIRECT LIABILITY (STAGE TWO)

To establish that such a relationship exists, the IPR holder must prove each of the following:

- The entity that is alleged to be jointly and severally liable with the infringer provides premises and/

or management services of a CRE to the infringer (Article 9, [2009 Tort Law](#) and Article 57(6), [2013 Trade Mark Law](#)). The act of providing premises or management services must have been intentional by further proving knowledge of the infringement.

- The infringer occupies and conducts commercial retail business from a fixed space within the CRE (see [Infringer occupies and conducts business from the CRE](#)). If the infringer does not occupy a fixed space within the CRE, it would be difficult to hold the landlord liable, as he does not exercise management and control over the infringer. The infringer's identity might not be known to the landlord.
- The vendor is engaged in the sale of a product infringing upon another party's IPR that is protected under Chinese law, by being protected by a trade mark that is registered in China and is the mark registered for the class of goods that has been allegedly infringed.

LANDLORD'S KNOWLEDGE (STAGE THREE)

To establish landlord indirect liability for trade mark infringement the IPR holder must show that the landlord intentionally assisted the infringement. The [1986 Civil Law Principles](#) and [2009 Tort Law](#) do not expressly state that a landlord must be aware of the infringing activity. However, in practice, the courts have implied a knowledge requirement into these provisions. Under all three causes of action, the IPR holder therefore must establish that:

- The landlord knows that the vendor is engaged in the sale of goods that infringe upon the copyright, patent or registered trade mark (as applicable) of another party's IPR.
- Despite this knowledge, the landlord continues to do whatever it was doing to assist commission of the infringement under the relevant cause of action. For example, it might continue to allow the infringer to trade from the CRE.

This can be proved if:

- The landlord had been given a written notice that the infringing activities were occurring on the premises that it managed and a request to stop such activities was given within a reasonable period of time. This establishes the landlord's knowledge of infringement.
- The infringing activities continued after such notice was received in the establishment. This proves the landlord's facilitation of infringement.

(Article 9, [2009 Tort Law](#) and Article 57(6), [2013 Trade Mark Law](#).)

It is also helpful to demonstrate other ways in which the landlord has facilitated the infringing activities, such as issuing receipts (see [Notarised purchases \(first round\)](#)).

WHO IS OPEN TO A CLAIM FOR LANDLORD INDIRECT LIABILITY?

The following persons are considered to be providing premises for the purposes of a claim for landlord indirect liability under the available causes of action (see *Causes of action by IP type*):

- The owner of the CRE.
- A management company that has been contracted to manage the CRE.
- In relation to trade mark infringements, a person that provides certain services to infringers.

REGISTERED OWNERS

If the registered owner of the CRE manages the premises itself and leases out units directly to vendors, then the real estate owner itself is the landlord for the purposes of a landlord liability claim.

The evidence required to establish registered ownership is:

- Internal company registration records at the local AIC.
- Property certificate issued by the local housing and land administrative authority.

MANAGEMENT COMPANIES

Two kinds of management relationship can give rise to landlord indirect liability for tenants' IPR infringements.

Lessor managers

The commercial retail estate's registered owner leases the property to a management company to operate. The management company, in turn, subleases stalls in the premises to vendors. In this scenario, the management company is the landlord to the vendors and is the party with landlord indirect liability. A typical example is the joint action filed by four luxury brands (Chanel, Prada, Gucci and Burberry) against the Beijing Silk Market in 2012. The action consisted of a total of 56 cases against the Beijing Silk Market management company and the registered owner of the premises, as well as infringing vendors. To establish the existence of a lessor manager relationship, the IPR holder must show that the management company and the shop vendors have entered into a lease contract.

Pure managers

A pure manager is a management company that has no property rights in the CRE and merely provides management services to vendors who directly own their respective stalls and merely contract with the management company to operate the market. A pure manager's liability arises from administrative regulations that oblige it to regulate its vendors to ensure that counterfeit and IPR-infringing goods are not sold in their establishments. For example, a Dalian court

held that a management company providing merely management services will be separately (not jointly) liable for the IPR infringements if it can be shown that the management company did not fulfil its management duties to prevent the sale of counterfeit goods.

The fact that the owner/manager of a CRE does not charge vendors rentals or management fees does not exempt it from its duty to prevent IPR infringement taking place. The duty can exist wherever the owner/manager derives a "substantial benefit" from the vendors. This benefit may be indirect or even non-monetary.

This is reflected in a case decided by the Hefei Intermediate People's Court in December 2014. The court held that the management company of the Baima wholesale market was under a duty to prevent vendors at its establishment from carrying on IPR infringements on the grounds that the management company was deriving a benefit from the vendors, even though:

- it did not charge the vendors any rent.
- it was not paid any management fee by the vendors.
- it did not receive any regular fee from the vendors other than payment for their use of basic utilities.

However, the management company made a number of public statements to the effect that its management of the market was evidence of its effectiveness as a manager. It followed that the continuing development of the market enhanced the branding of the management company and boosted its competitiveness. In addition, the management company directly profited by receiving payments from vendors who placed advertisements at the establishment. The Supreme People's Court ranked this case among China's Top 50 IP Litigation Best Practices Cases of 2014.

SERVICE PROVIDERS (TRADE MARK INFRINGEMENTS)

Providers of certain classes of services to trade mark infringers may be deemed to have committed an act of infringement of the exclusive right to a registered trade mark, specifically:

- Storage.
- Transport.
- Postal services (including couriering).
- Printing.
- Concealment.
- Use of business premises.
- Internet services (including e-billing).
- Other acts or services that assist or facilitate the infringement.

(*Article 75, 2014 Trade Mark Law Implementing Regulations.*)

INFRINGER OCCUPIES AND CONDUCTS BUSINESS FROM THE COMMERCIAL RETAIL ESTABLISHMENT

Typically an IPR holder would need to gather the following as evidence that the infringer occupies and conducts business from the CRE in question:

- Business registration certificate of the owner.
- Lease contract.

The equivalent requirement where an IPR holder is seeking to show that an entity provided services to a vendor (see *Service providers (trade mark infringements)*) is the relevant service contract.

IF INFRINGER HAS NO BUSINESS LICENSE THE LANDLORD MAY BE LIABLE FOR THE INFRINGEMENT

Article 2 of the *State Council's 2003 Measures for Investigating, Punishing and Banning Unlicensed Business Operations* prohibits any individual or entity from engaging in business without a business license. If vendors selling counterfeit goods do not possess valid business licenses to conduct business at the CRE, the CRE's owner or management company (as the case may be) may be held liable for the infringements committed by the vendors.

In two judgments decided by the Zhejiang High Court and the Shenyang Intermediate People's Court in October 2015 and December 2015 respectively, the management company of a CRE was held to be responsible for checking that its tenants were duly licensed to carry on their commercial activities. Any unlicensed activities carried out by the tenants (that is, the sale of counterfeit goods in these two cases) were considered to have been carried out by the management company which was licensed to provide goods and services at the establishment. On this basis, the management company was in both cases held to be liable for the tenants' infringements.

ADMINISTRATIVE DIRECT LIABILITY

Many provinces and municipalities have passed regulations that require commercial landlords and property managers to prevent IPR infringements on premises that they own or manage. In this case, the landlord (or manager) is liable to the IPR holder as specified in the relevant legislation.

This is distinct from landlord indirect liability because it is a right held against the landlord directly and gives rise to separate liability on the landlord's part, which is not joint liability with the infringers (see *Legal framework of administrative liability*).

LEGAL FRAMEWORK OF ADMINISTRATIVE LIABILITY

There are many regulations, both national and local, which impose on landlords and management companies a positive duty to prevent counterfeiting and other IPR infringements taking place at the premises they own or manage. These regulations have been passed to implement the *Opinions of the State Council on Further Intensifying Work Related to the Crackdown on Infringement of Intellectual Property Rights and the Manufacturing and Sales of Counterfeit and Shoddy Goods 2011* (2011 Opinions). These require market operators to "assume their corresponding management responsibilities, and guide and regulate the business operations of their commercial tenants" (Article 1(1), 2011 Opinions).

The 2011 Opinions do not directly create a duty for the landlords or management companies of CREs to prevent commercial tenants from carrying out IPR infringement. However, in municipalities, provinces and localities where regulations have been passed to implement the 2011 Opinions, this duty will exist under the implementing regulation. Examples include the notices issued by the Beijing AIC on 20 July 2004 and the Shanghai AIC on 25 October 2014, which provide that the owners of a market establishment that allows the sale of counterfeits of the well-known brands indicated in these notices "shall be penalised in accordance with law".

LANDLORD INDIRECT LIABILITY IN PRACTICE: OUTCOMES OF COURT DECISIONS

Most of the court decisions on landlord indirect liability were made before the *2013 Trade Mark Law* and *2014 Trade Mark Law Implementing Regulations* (which contain the only express statutory statement of landlord indirect liability for IPR infringement) came into force. As a result, the outcomes of decisions reported below vary widely.

Landlord indirect liability is still in its infancy for copyright infringement actions, particularly those involving retail sales of infringing goods (such as computers running pirated software). Similar relief may become available in future, at least in the e-commerce space. This is because the draft Copyright Law of the People's Republic of China 2014 would hold a network service provider jointly and severally liable with an infringer if it knows or should have known of copyright infringement and fails to stop the infringement, or if it instigates or facilitates the infringement. The draft is expected to be enacted before the tenure of the twelfth NPC standing committee ends in 2018.

ENFORCEMENT: STAGE BY STAGE

A well-planned action against a landlord for liability for IPR infringement involves the following stages:

- Market survey.
- Notarised purchases (first round).
- Issuance of cease and desist letter.
- Notarised purchases (second round).
- Conduct administrative raid (optional).
- Filing of civil actions.
- Settlement.
- Follow-up action.

MARKET SURVEY

The IPR holder should conduct a market survey to:

- Determine the target CREs.
- Determine the infringing vendors.
- Identify the landlord of the target CREs.

Determining the target CREs

Due to the dispersed nature of the sale of counterfeit goods, it is usually impractical to target every single outlet. The purpose of the survey is to identify those CREs where infringements of the brand owner's registered trade mark (or a copyright owner's work) are most serious. Consider the following factors:

- **Number of vendors engaged in infringing activities.** It is easiest to establish knowledge and facilitation by the landlord where the infringement activities in the establishment are widespread (that is, where there are many vendors overtly selling infringing goods to the public).
- **Scale of the infringing activities.** Important sites are those where large quantities of infringing products are being sold, or where counterfeit goods (especially luxury goods) are passed off as originals and are offered at equivalent prices.
- **Ease of obtaining evidence.** This includes evidence of the infringing activities as well as evidence of the landlord's knowledge.

Determining the infringing vendors

Vendors selling goods infringing the relevant IPR must be identified by noting down their stall or outlet numbers (and store names, if available) and other relevant details.

It is not necessary to identify every infringing vendor in the establishment. A maximum of ten infringing vendors is generally sufficient as a target for the first round of notarised purchases of goods. It is desirable that most, if not all of these, "first round vendors"

should remain available during the second round of notarised purchases.

Identifying the landlord of the target

Once the target CRE has been identified, the IPR holder should obtain the CRE's ownership records from the local branch of the **State Administration for Industry and Commerce** (local AIC). The purpose of the records search is to find the identity of:

- The registered owner of the premises in question.
- If it is a different entity, the CRE's management company.

If these are two separate entities, the IPR holder will need to decide whether to file an action against the registered owner of the CRE itself as well as the management company. In such a case, to succeed in an action against the registered owner of the CRE, the IPR holder will need to establish that the registered owner had knowledge of the infringement.

NOTARISED PURCHASES (FIRST ROUND)

The purpose of notarised purchases is to gather evidence of infringing activities by the vendors in the CRE. At least two rounds of purchases should be conducted for each target CRE.

During the first round of notarised purchases, representatives of the IPR holder, accompanied by a notary public, should purchase goods infringing the IPR holder's registered trademark (or copyrighted work) from up to ten vendors at the target CRE.

Receipts for the purchased goods should be obtained. In many large market and CREs in China, official receipts are not issued by individual vendors, but are issued centrally by (or under the supervision of) the establishment's management company. Receipts issued by the management company for the sale of the vendor's infringing goods can be used as evidence that the management company has facilitated the vendors' infringing activity.

Finally, the notary public should provide the corresponding notarisation affidavits or certificates for each of the purchases made.

SENDING CEASE AND DESIST LETTER

After concluding the first round of notarised purchases, a cease and desist letter should be sent to the landlord of the establishment. For examples, see *Standard documents, Cease and desist letter (trade mark infringement): China* and *Cease and desist letter (copyright infringement): China*.

The purpose of the cease and desist letter is to put the landlord on notice of the infringing activities being committed by the vendors at the CRE, which goes towards establishing the landlord's knowledge of the infringement.

The cease and desist letter must contain the following details:

- A list of the outlet numbers (and/or store names) of the infringing vendors.
- The IPR holder's registered trademark(s) (or copyrighted work(s)) infringed.
- Details or description of the infringing goods sold at the establishment.
- Notarised documents evidencing the purchase.
- A demand upon the landlord to cease and prevent all acts of infringements committed by the vendors against the IPR holder's trademark(s) or copyrighted work(s).
- A warning that the landlord's failure to cease or prevent the infringements described will be grounds for the filing of the appropriate court actions against the landlord.

The cease and desist letter should be addressed and sent to both:

- The management company.
- The registered owner of the CRE in question.

If the management company and CRE have multiple offices, copies of the cease and desist letter should be sent to all known locations to ensure proper receipt. Personal delivery is preferred. It is usually also helpful to notarise sending of the cease and desist letters to evidence the proper delivery and receipt.

Once the landlord has received a cease and desist letter, it will be deemed to have knowledge of the infringement activities.

NOTARISED PURCHASES (SECOND ROUND)

Around two weeks after sending the cease and desist letter, the IPR holder should carry out a second round of notarised purchases.

Apart from gathering evidence of infringement, this second round of notarised purchase is used to prove that the landlord has persisted in providing premises and/or management services to the infringers after becoming aware (because of the cease and desist letter) that they are engaged in IPR infringing activities.

The evidence of repeat infringement will be strongest if the goods can be purchased from the same vendors as in the first round, as these will have been explicitly identified in the cease and desist letter (and therefore the landlord will know of their infringing activities). If they are still selling infringing goods at the time of the second round of notarised purchases, this clearly indicates both the landlord's knowledge, and facilitation of, the infringing activities.

If not all of the vendors during the first round are still selling during the second round, purchases can be

made from other vendors. Notarised purchases should ideally be made from a total of ten vendors.

If there are no repeat infringers, the action against the landlord is unlikely to succeed as it would be difficult to establish that the landlord both knew of and facilitated the infringement. The IPR holder could of course continue in its actions against the vendors individually, but success in such actions would not result in an injunction being issued against the landlord, only the vendors in question. This is rarely worth doing.

CONDUCT ADMINISTRATIVE RAID (OPTIONAL)

Before filing civil actions, the IPR holder may consider requesting the local AIC to conduct an administrative raid on the establishment. Administrative raids, when requested, are acted on quickly and require no payment of any fee or guaranty bond.

Conducting an AIC raid provides the following benefits:

- Counterfeit and infringing goods sold in the establishment may be seized (and destroyed).
- An administrative injunction may be issued against infringing vendors.
- Vendors selling infringing goods may be imposed with administrative penalties.

These administrative rulings against infringers play a useful part in the long-term trademark protection strategy of a brand owner. Where an administrative penalty ruling had been rendered against a vendor, it can be used as evidence against him if he is again found to have committed trademark infringement. A heavier punishment will be imposed on a person against whom a court judgment or administrative decision had been rendered for having committed trademark infringement at least twice within a period of five years (*Article 60, 2013 Trade Mark Law*).

Where the CRE has been raided by the AIC in the past, and vendors of notarised purchases had themselves been the subject of a past administrative penalty, it is worth obtaining a copy of the relevant administrative penalty decision. It may be used as evidence against such vendors to establish a higher penalty in the civil cases to be filed against them.

FILING CIVIL ACTIONS

The primary objective of commencing litigation is to seek a permanent injunction against the landlord (usually the management company) ordering it to prevent subsequent infringements of the IPR in question, rather than to pursue liability of the particular vendors of the establishment.

What actions should the IPR holder file?

The IPR holder should file a number of civil actions equal to the total number of repeat infringers (that is, vendors that sold infringing goods in both the first and

second rounds of notarised purchases). The IPR holder needs to file two types of civil action:

- **Individual actions.** The IPR holder should file a separate civil action against all but one of the repeat infringers, naming the management company as co-defendant in each of these. Each of these separate actions is only in respect of the specific infringements conducted by the repeat infringer in question.
- **A catch-all action.** The IPR holder should also file a separate civil action against just the management company. This action is in respect of all infringements not covered under the individual actions (that is, the infringements conducted by the remaining repeat infringer and the infringements by each of the first-time infringers).

For example, if in the second round of notarised purchases 10 infringing vendors are identified, only five of whom are repeat infringers, the IPR holder should file five civil actions as follows. The five repeat-infringing vendors are referred to individually below as Vendors A, B, C, D and E, and the five first time infringers are referred to as Vendors F, G, H, I and J.

- Action 1: Defendants: Management company and Vendor A in respect of Vendor A's repeat infringement.
- Action 2: Defendants: Management company and Vendor B in respect of Vendor B's repeat infringement.
- Action 3: Defendants: Management company and Vendor C in respect of Vendor C's repeat infringement.
- Action 4: Defendants: Management company and Vendor D in respect of Vendor D's repeat infringement.
- Action 5: Defendant: Management company only in respect of Vendor E's repeat infringements and Vendors F, G, H, I and J's first-time infringements.

In all of these civil actions, the management company is a party on the basis of its joint and several liability for infringement (for more details of this, see [Statutory basis for landlord indirect liability](#)).

In the individual actions, the management company is made a co-defendant with each individual vendor so that the management company will be jointly and severally liable for the infringements committed by that vendor.

In the catch-all action, the repeat infringer (that is, Vendor E) is not attached as a defendant, but the evidence that it has continued to make infringing sales is used to establish the landlord's knowledge and facilitation of all of the infringements taking place on its premises (including those conducted by the first time infringers).

Actions against management company and real property owner

It is also possible for an IPR holder to file an action to hold the registered owner of the real premises contributorily liable (see [Identifying the landlord of the target](#)). The basis for such an action would be that the owner as well as the management company had knowingly facilitated the infringing activities.

Although cases have been commenced on this basis, no court has yet found the registered owner of the premises where the infringements occurred to be liable on these grounds.

It is unlikely that a cease and desist letter would be enough on its own to evidence the owner's knowledge and facilitation of the infringement. A better approach is to conduct a case against the management company and vendors first and then serve a copy of the judgment in that case on the owner.

SETTLEMENT

The IPR holder should consider settling landlord liability claims, as defendants can often be persuaded to enter into agreements that ultimately will afford the IPR holder better protection in the long run in consideration of reducing their liability.

A well-drafted settlement agreement between the claimant IPR holder and the defendant management company should contain:

- The agreed compensation and terms of payment.
- Identification and description of the trademarks (or copyrighted works) of the IPR holder.
- Undertakings from the management company:
 - to monitor its vendors and take effective measures to prevent the infringement of the IP holder's rights; and
 - to revise and incorporate into its lease contracts with all vendors a "two-strike rule" empowering the management company to suspend the operations of a vendor after a first offence and terminate the lease after a second offence, and prescribing the amount penalty for each offence.

FOLLOW-UP ACTIONS

After obtaining a favourable judgment, the IPR holder should provide a copy of the judgment to the landlords (that is, both registered owners and management companies) of other market or CREs in the city or province where the infringements took place as a deterrent to future infringements.