



May 14, 2024

Law Enforcement Guidance Office
Intellectual Property Protection
Department
China National Intellectual Property
Administration
No. 6 Xitucheng Road
Haidian District
Beijing 100088
People's Republic of China

Re: Draft Measures for Calculating Illegal Business Volume in Trademark Infringement Cases

Dear Law Enforcement Guidance Office:

The Intellectual Property Owners Association (IPO) appreciates the opportunity to respond to the request for comments on the draft “Measures for Calculating Illegal Business Volume in Trademark Infringement Cases,” published on April 11, 2024.

IPO is an international trade association representing a “big tent” of diverse companies, law firms, service providers and individuals in all industries and fields of technology that own, or are interested in, intellectual property (IP) rights. IPO membership includes over 125 companies and spans over 30 countries. IPO advocates for effective and affordable IP ownership rights and offers a wide array of services, including supporting member interests relating to legislative and international issues; analyzing current IP issues; providing information and educational services; supporting and advocating for diversity, equity, and inclusion in IP and innovation; and disseminating information to the public on the importance of IP rights.

IPO’s vision is the global acceleration of innovation, creativity, and investment necessary to improve lives. The Board of Directors has adopted a strategic objective to foster diverse engagement in the innovation ecosystem and to integrate diversity, equity, and inclusion in all its work to complement IPO’s mission of promoting high quality and enforceable IP rights and predictable legal systems for all industries and technologies.

IPO is grateful for this opportunity to share feedback. IPO appreciates the aim of the China National Intellectual Property Administration (CNIPA) to try to improve the trademark system through this amendment. Our organization hopes that our

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comments below will be helpful during the process of finalizing the Measures for Calculating Illegal Business Volume in Trademark Infringement Cases.

General Comments

As a preliminary comment, IPO is supportive of the steps being taken by CNIPA to provide clarity to trademark owners and trademark professionals when it comes to calculating illegal business volume in trademark cases. Our comments set out below with respect to certain articles are primarily directed to seeking clarity in the measures on particular issues.

There are also some measures where we have provided suggestions for substantive changes. IPO suggests such changes out of a concern that the proposal as currently framed may lead to significant undervaluing of infringement cases, where sellers' prices are often significantly lower than genuine product. Such undervaluing could lead to penalties that do not sufficiently deter infringers and to law enforcement taking on fewer counterfeiting cases.

Comments on Specific Articles

IPO has the following comments on specific articles in the draft measures.

Article 4 – Illegal Business Volume. This article provides that illegal business volume refers to the value of the infringing goods or the total business income of the infringing services involved in the trademark infringement committed by the parties. IPO notes that although this definition would work well in many cases, it may not be suitable in circumstances where the infringing good is a provided as a component of a larger article or system that is sold to customers (such as the component of a car, aircraft, drug delivery system, computer system, or software package) or the infringing service is provided to customers as part of a broader array of services. In such cases, the amount that the infringer can charge to a customer for the larger article or system may be much greater than it could charge if it supplied solely the infringing goods or the infringing service. Similarly, the infringing good or service may have an effect on the value of the larger article or system or broad array of services that is larger and disproportionate to the infringing element's cost relative to the overall cost of the larger article or system or broad array of services. We would therefore recommend that the measures include a provision which clarifies that in such circumstances the illegal business volume can be calculated by taking the portion of the value of the product sold or the services provided that is attributable to the infringing goods or infringing services.

Article 6 – Market Median Price. This article relates to the determination of the market median price. In the scenario where there are multiple merchants selling the same trademarked product in the same market, the retail prices of several merchants will be sampled and the average price will be used to determine the market middle price. It was unclear from the wording of this article, however, what the words "in the same market" mean. For example, these words could be referring to a geographic region in China, the entirety of China, or a geographic region that includes China and other countries. IPO recommends that this article be amended to make it clear what "in the same market" means. We recommend that sales anywhere in China be

considered in this assessment since the owner of a registered trademark has the exclusive right to use such trademark throughout all of China.

Article 9 - Goods Given Away. This article provides for the treatment of goods given away for free by stating that illegal business volume shall be calculated based on the actual purchase price or manufacturing cost of the gifts. It is unclear if the use of the word “or” in this article means that CNIPA has discretion to use either the actual purchase price or the manufacturing cost of the gifts. To be consistent with the calculation of illegal business volume in the case of goods sold, IPO recommends that the calculation be based on the “procurement cost” of the gifted goods, which means (1) the actual arm’s-length purchase price for goods purchased by the infringer or (2) the manufacturing cost for goods manufactured by the infringer as determined according to well-known Cost of Goods Sold accounting principles.

Article 16 – Failure to Prove Actual Illegal Business Volume. This article provides that if the actual illegal business volume cannot be verified according to the previous articles, it will be treated as if there is no illegal business volume. IPO recommends that in such circumstances a person whose trademark rights have been infringed should at least be able to recover a reasonable royalty on the infringing sales, or, if a reasonable royalty is unable to be determined, statutory damages that will sufficiently deter infringers.

Article 18 – Accounting for False Sales Methods. This article provides that the amount of sales of infringing goods increased by false sales methods such as fraudulent sales provided by the parties concerned shall not be included in the illegal business volume. IPO is concerned that this article would allow an infringer to, for the purpose of promoting itself, manufacture fake sales or report inflated sales revenues and then, for the purpose of reducing its liability for trademark infringement, claim that it should not have to account for its fraudulent activity. Given that such a person would have engaged in fraudulent activities for the purpose of promoting the sale of infringing products, IPO recommends that such sales should be included not only in the calculation of illegal business volume, but should be specifically included in the calculation of punitive damages.

IPO thanks CNIPA for its attention to IPO’s comments submitted herein, and welcomes further dialogue and opportunity to provide additional comments. IPO has enclosed this letter as translated herewith.

Sincerely,



Krish Gupta
President