

Practical Trade Mark Anti-Counterfeiting in the PRC for In-House Practitioners

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Trade mark anti-counterfeiting in the People's Republic of China can often seem akin to bailing out a swimming pool with a thimble. Even companies with vast budgets and a committed local in-house presence remain heavily victimised by counterfeiters in both the retail and wholesale markets. The vast majority of fakes being sold throughout the world, including Australia, are manufactured and exported directly from the PRC, supplied by a legion of underground factories that exist solely to fill foreigners' ongoing and seemingly boundless appetite for cheap branded goods.

Given all this, it might at times seem futile to even attempt to control the problem within China, particularly for those companies not actively present in the PRC, either through their own retail outlets or regional or local licensees, or via manufacturing networks. Nonetheless, in spite of the apparent (and some not so apparent) obstacles, the current IP enforcement regime in the PRC does provide mechanisms that, if exploited properly, can achieve measurable positive results.

Some keys to a successful PRC trade mark anti-counterfeiting program are as follows:

- (1) Preparation of a detailed, coordinated strategy that reflects the current market situation in China, and regular adjustment of that strategy to react to market shifts.
- (2) Management of expectations (both your own, and company management's), particularly when designing strategy and reviewing results.
- (3) Partnering with committed – and trustworthy – local service providers that can assist you in overcoming legal, linguistic and cultural obstacles inherent in the PRC IP Enforcement System.
- (4) Identifying and taking maximum advantage of opportunities to exploit economies of scale by cooperating (directly if possible) with similarly-situated brand owners.
- (5) Building the reputation of your brand amongst PRC officials and practitioners hand-in-hand with the building of it amongst consumers.

PRC Trade Mark Enforcement – The Basics

Designing a proper PRC IP enforcement strategy requires a solid understanding of the basic rules of the game and its players. China's system for enforcement of trade mark rights provides a full range of options for civil, administrative, criminal relief, as well as Customs enforcement. Assuming

you have effectively locked in your trade mark rights (and in some rare cases, even if you have not), you will have the following potential tools at your disposal.

Civil Enforcement

Since its accession to the WTO, China has been modernising its civil litigation system, establishing new regulations providing for such useful tools as the freezing of assets, evidence preservation, and preliminary injunctions. Such enforcement, however, remains a bit of a costly and less-than-ideal proposition, given the traditionally low damage awards meted out by PRC courts and the onerous formalities inherent in the system, such as the acquisition of notarised evidence, and the notarisation and legalisation of foreign-sourced documents. Nonetheless, civil litigation for trade mark enforcement is becoming more and more the norm, and the system will continue to move towards a more Westernised system.

Administrative Enforcement

Long the cornerstone of IP enforcement in the PRC, raid actions via administrative organs such as the Administrations for Industry and Commerce (AICs) and the Quality and Technical Supervision Bureaux (QTSBs) (in the case of trade mark anti-counterfeiting) are still a cost-effective and efficient means of combating ongoing retail, wholesale and manufacturing operations engaged in counterfeiting. There are limitations to the system, however, including low penalties and inherent difficulties in ensuring that corruption and local protectionism do not up-end any initially positive results that may be achieved.

Customs Enforcement

PRC Customs is also a solid potential partner. Tasked with inspecting goods both entering and exiting the PRC to ensure compliance with all

PRC laws and regulations, Customs regularly seizes significant quantities of fakes leaving China, though the recordal of rights is generally a prerequisite to a brand owner obtaining such protection (as is making sure frontline Customs officials actually understand and recognise your IP rights via regular training). Further, the need to pay sometimes quite hefty security bonds may dissuade some companies from taking maximum advantage of the system. Corruption of front-line customs personnel may also hobble the effectiveness of a Customs program.

Criminal Enforcement

Widely viewed by most experts as the best means of bringing rampant counterfeiting to heel, criminal enforcement of trade mark rights in China, for most brands, remains something of a rarity. The primary reasons behind this are:

- (1) A lack of manpower dedicated to IP Enforcement in the Public Security Bureaux (PSBs).
- (2) Too-high thresholds for criminal enforcement under existing guidelines (generally speaking, at about RMB50,000 (about AU\$7,800) for the sale or manufacture of fakes, or RMB30,000 (about AU\$4,700) for the manufacture of more than one brand of fakes).
- (3) A lack of clarity in the precise method of calculating values of seized goods (value of equivalent genuine, value of seized fakes, a mix of those?). Even when criminal punishment is obtained, sentences tend to be quite low and are usually partially or even wholly suspended. The trend, however, is moving in the right direction, with the length of actual custodial sentences and the amount of assessed fines creeping up.

Some Practical Tips for Anti-Counterfeiting in China

Recognising the basic PRC IPR enforcement vehicles, as well as their pluses and minuses, does not even get one halfway to formulating a PRC IP enforcement program. To really succeed (and “succeed” is used in the most relative sense here), a pragmatic approach that takes into account the day-to-day realities of the enforcement system, warts and all, needs to be adopted. The following are a few simple points in-house IP counsel should keep in mind when formulating that approach.

(1) Strategy, Strategy, Strategy

Given the scale of the problem, as well as its notoriety, most trade mark owners feel compelled to

take some form of action in the PRC. Nonetheless, once legal fees for the registration and renewal of trade mark rights, recordal of those rights with Customs and the like are added up, it is likely a significant portion of the budget has already been eaten up, potentially leaving quite limited resources for handling actual enforcement matters.

In order to “assist” in spending the meagre remains of a PRC IP budget, there are a number of local and foreign investigation companies, many staffed by ex-PSB, TSB or AIC officials, who regularly monitor the retail and wholesale markets and hunt for factories churning out fakes. Sightings promising seizures of a given quantity of fakes from a wholesale market in some obscure village regularly land in the email inboxes of IPR counsel around the world. Nevertheless, it is very difficult for counsel in Sydney to know whether it is better to raid a factory suspected of manufacturing 500 pieces of fakes of his company’s product in Dongguan, as compared to a warehouse supplying a wholesale operation in Baiyun that has 350 pieces on hand. Maybe neither is a good choice, and it is better to simply ignore them both because the investigator in question is simply not to be trusted.

Absent (1), a detailed sense of the overall situation (vis-à-vis both fakes and genuine products) in China for your brand; (2) a clear vision of what you **would like** to accomplish versus what you actually **can** accomplish with your PRC-dedicated budget; and (3) a stable of trustworthy, motivated enforcement partners, you could well be flailing in the dark, paying for dud sightings from investigators more intent on their own profit than on protecting your company’s rights. Accordingly, preparation of a detailed strategy hand-in-hand with your business people and service providers on the ground is the only way to avoid, or at least minimise, the usual landmines inherent in remote-controlling an IP enforcement program in China from overseas.

(2) Management of Expectations and Involvement of Key Players

China is different. It is different from the United States, different from Australia, and even vastly different from Hong Kong. This should not be viewed as an excuse; but it should be understood as a fact. China differs not only legally and linguistically, though. Importantly in this context, it differs widely from most Western and many Asian countries in regards to the general perception of the sanctity or inviolability of intellectual property rights. In China, if a mark (be it the

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mark of a foreign company or a Chinese company) is successful and attracts consumers' attention, many (most?) manufacturers in the PRC see little wrong with using the mark on their own goods, registering identical or similar marks, registering design patents encompassing the marks, and the like. This, combined with an ambivalent attitude on the part of PRC authorities about brand protection, a result of being pulled in opposite directions by the demands of foreign brand owners versus local PRC counterfeiting operations employing hundreds of thousands of workers and keeping enormous sums of capital flowing into the Chinese economy, results in a problem of truly disastrous proportions.

Given the scale of the problem, it is important to manage the expectations of those involved in strategy and execution – particularly of the business people with whom you work and to whom you may well answer – regarding what can and what cannot be expected of a PRC anti-counterfeiting program. This is best accomplished by ensuring that those business people are involved in the development of strategy, are encouraged, to the extent possible, to take an active role in IP enforcement within China (even if only as eyes and ears), and are kept in the loop on developments – both positive and negative – as they occur.

Make clear, as well, that PRC authorities are never going to be as keen to protect your IP rights as you are, and that given the scale of the problem, as well as the legions of other brand owners competing with you for the limited enforcement resources provided by PRC authorities, the results achieved in China will likely not compare favourably with those gained in other more developed jurisdictions. With this context in place, and a solid, pragmatic strategy setting achievable targets outlined up front, the fight in China will not seem quite so hopeless, and successes, even small ones, can actually be relished a bit.

(3) Identification of Trustworthy Local Partners

As stated above, there is a continually growing number of local service providers in the PRC competing for the budgets of foreign brand owners. As a result of a number of factors, including fierce competition amongst these service providers, the PRC IP enforcement market has developed away from conducting in-depth “investigations” towards a focus on the purchase of sightings from willing informants, quite often employees of the self-same operations manufacturing or selling fakes. This means that brand owners are generally only privy to the information investigators and informants

are able to access from willing informants, and information on targets which may not have much, if any, rational relation to the goals identified in their PRC anti-counterfeiting strategy.

Moreover, given the nature of the raids themselves, often conducted in remote locations, far from the prying eyes of the brand owner that ordered the raid to begin with, there exists a constant temptation to exploit the situation to the investigator's – and sometimes to the enforcement official's – own benefit. Stories of identical photos being provided as evidence of multiple raid actions conducted months apart are just one such example of this.

Given these realities, a smart brand owner will put mechanisms in place up front to protect itself from these pitfalls. Screening of service providers, use of trusted contacts to obtain reliable referrals, strict preparation and limitation of authorisations to service providers curtailing their ability to act independently, impromptu site visits to raided locations or unannounced inspections of seized materials at storage facilities and the like can all work to counteract the flaws and temptations inherent in this type of work.

(4) Joint Actions with Other Brand Owners

As bad as any one company's PRC counterfeiting problems might seem, brand owners can at least take comfort in the fact that theirs is not the only brand being ripped off. Given this, and assuming that brands can be identified with whom partnering might make sense, joint actions are an increasingly common occurrence amongst trade mark owners in the PRC. These actions permit companies to stretch a limited anti-counterfeiting budget. This is particularly true in the case of companies that do not have dedicated in-house staff on the ground in China, where joint action may permit you to gain a measure of confidence from better-resourced and perhaps even more knowledgeable partners. There are downsides to such arrangements, however, including the following:

- (1) Budgets more limited than even yours amongst potential partners.
- (2) A lack of clearly-defined goals or motivations, or a clear disparity in objectives.
- (3) Little or no overlap in products to be seized (larger issue in manufacturing context).

One area where joint action has been particularly successful is in relation to Landlord Liability actions that seek to hold market owners/managers

responsible for the unlawful activities of their tenants after having been put on sufficient notice of that activity. Given the large number of targets in play, and the deep pockets of most landlords, flush with monthly rental revenues from a host of tenants, costs for pressing these actions can quickly spiral out of control. Concerted action taken by a number of brand owners whose marks are being actively ripped off in a given market allows for division of labour as well as division of costs, making these actions much more cost effective.

Building Your Brand's Reputation Amongst PRC Enforcement Authorities

China has one of the world's fastest growing middle classes. Chinese consumers have a unique affinity for and understanding of brand power, and are clearly eager to show off their newly-acquired affluence via a conspicuous consumption of foreign goods bearing popular trade marks. Still, rampant capitalism alone will not ensure the success of a brand in China. Focused marketing aimed at the needs and desires of Chinese consumers will undoubtedly be a key differentiator between those brands which succeed wildly, and those which merely limp along.

Perhaps not surprisingly, the same can be said in relation to brand protection. As already outlined above, PRC authorities lack the resources, manpower, and in many cases, the motivation to respond aggressively to IPR complaints brought by foreign companies. Moreover, given the large number of brand owners all working hard to obtain the assistance of these authorities, and the willingness of some of these brand owners' representatives to engage in less-than-ethical conduct to secure those services (as well as a bit more profit for themselves), it can be difficult to catch the eye of an overtaxed enforcement official.

Accordingly, some effort must be made to foster the goodwill of those officials upon whom brands will be relying to protect their IP rights. The primary means of engendering this goodwill is via prompt and detailed responses to requests for assistance from PRC authorities. If Customs goes to the trouble of seizing 250 pieces of fakes of a company's product, failure to take action against those fakes will send a clear signal to those officials: Brand X does not care about counterfeits. Conversely, swift action against those goods and an expression of appreciation will act to reinforce the positive image the officials have of your brand and your reliability as a partner.

As well, China is still a country very focused on relationships, and usually, the winner in a dispute is the party with more powerful allies in government. Accordingly, lobbying of officials in key locations on a regular basis is also an important element of ensuring your brand's reputation. Investigators, attorneys, and business people in China should be relied upon as sources of contact with government officials, hopefully before, but particularly when unique challenges arise.

Ensuring those relations are built on an honest and straight-forward foundation is also key. Payment of a bribe to an official by a company's investigator to ensure a favourable decision in a given case may buy success in that matter, but it can also mark a brand owner as a company willing to pay such fees, ensuring that the hand of corrupt officials may appear before a raid action, and disposing honest officials against that company.

Conclusion

China can well and truly be considered a mixed bag in relation to the enforcement of intellectual property rights. Success is not guaranteed, and indeed, disappointment is to be expected. This is even true in the case of companies with a large PRC presence and a huge anti-counterfeiting budget.

That does not mean, however, that success is unattainable, as long as you realistically define "success" for your company. A keen understanding of the market (both the market for your products and for fakes of your product), preparation of a realistic strategy outlining achievable goals (supported, of course, by a sufficient budget), and selection of trustworthy service providers and similarly-affected industry partners will put any brand owner a long way down the road to gaining the upper hand in the fight against counterfeits of their brand in China.

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