Focus on China

Increasingly, luxury brand owners are seeing rogue websites based in China, which is the focus of this article. Counterfeiting in China is hard to police, as operators of websites can conceal their identity and whereabouts, and China’s law enforcement and judicial systems for tackling IP crime suffer from weaknesses, such as under-resourcing. In 2005, a survey of 450 members of the American Chamber of Commerce (AmCham) found that piracy is “so pervasive and serious” in China that 35 per cent of them said they were forced to “slow, decrease, or consider decreasing their investments in the country.”

However, as their economy continues to grow, and Chinese consumers become hungrier for luxury brands, China becomes an increasingly important market for many luxury goods companies. Strategies for operating in the Chinese market whilst navigating the prolific counterfeiting problem are more crucial than ever.

The USTR’s “Special 301” Report for 2014 recognizes that China’s judicial, legislative, administrative, and enforcement authorities are in the midst of wide-ranging legal reform as part of efforts to enhance the protection and enforcement of IPR in China. Some of these reforms are identified below. However, China remains on the USTR’s Priority Watch List, and they estimate that products from China accounted for 93 per cent of the value of IP-infringing products seized by U.S. customs in 2013. Given the scope of the problem, careful vigilance will be needed to ensure that IP reforms in China lead to concrete improvements in brand protection.

What options do brand owners have to fight counterfeiting of goods?

It is important that brand owners review all options in order to deploy a well-structured but flexible strategy to tackling the wealth of online fakes.

The cornerstone for any anti-counterfeiting strategy is an online monitoring programme. There are long term gains from keeping ongoing records of the websites whose illicit activities can be targeted. Once the targets are identified, “cease and desist” notices should then be sent to the relevant players who are helping the websites to stay online, either by providing infrastructure or revenue streams. These include Internet Services Providers (ISPs), domain name registrars and advertisers. Where possible, such notices should also be sent to the website owners themselves, ideally written in the local language. Brand owners should set out in any cease and desist notice the rights that have been infringed, including both trademark and copyright. There may even be a health and safety infringement that can be raised — for example, in the case of counterfeit make-up or electronics goods. It can be helpful to conduct a test purchase too so that evidence of sale can be proven.

In respect of legitimate online marketplaces and social media websites, complaints of IP infringement can usually be made directly to the website itself using an online form. Websites such as eBay and Facebook and Chinese sites, such as Alibaba and Taobao.com, tend to act quickly against the sale of counterfeit products through their websites.

In addition to monitoring, a practical and effective method of protecting brand identities in China is by registering the trademark using the Chinese character-equivalent of the brand name in question. For international companies who do not have trademark registration in China, enforcing IP rights online becomes particularly difficult, as courts may not recognise the company as having rights to protect. It has also become common for rogue third parties, using China’s first-to-file system, to register the Chinese-character version of a famous brand name before the brand itself is able to register. The owner of that brand, even international brands with established reputations, may then be forced to fork out money to buy their mark from those “squatters” on it.

Establishing links in China, not just with law firms but also with law enforcement agencies and local and national
governmental organisations can also be a good way to raise awareness of problems caused to the brand by counterfeiters. If litigation were to become necessary, having pre-established relationships with local players could come into its own. More widely, it can be beneficial to work together with other companies who are facing the same issues with the counterfeiting of their goods. If coordinated action can be taken, this can make the issue higher profile and lead to more involvement on the part of the Chinese authorities in finding a solution.

Other possible options that may be worth exploring are to work with customs officers in relevant jurisdictions to help train them on spotting counterfeit product, and to speak with authorities in the brand owner’s home jurisdiction who may be able to assist on a political level. One of the most active governments in this area is the U.S. government, whose Immigration and Customs Enforcement department (ICE) has an IP Center devoted to tackling online and real-world counterfeiting. Litigation in China’s courts is also an option, but can be a slow and expensive process, which may be unfruitful.

Is the tide turning?

In 2012, the Supreme Court of the People’s Republic of China released a white paper on Intellectual Property Protection by Chinese Courts in 2011. The paper acknowledges the increasing importance of the judiciary’s protection of IP rights in assisting the growth and modernization of the Chinese economy. It also highlights the use of criminal enforcement mechanisms to deter IP infringement, particularly in the sale of counterfeit goods in cases involving foreign parties. The paper reveals not only an attempt to crack down on IP infringers but also reflects a concern for international opinion on China’s track record for poor IP enforcement. It was also announced in 2014 that the Chinese government plans to introduce three specialist IP Courts in China, with the aim of helping ease the backlog of outstanding cases in China and hopefully leading to better IP enforcement.

In May 2014, a new Chinese trademark law came into effect, which should make registration fairer, especially for foreign companies. One of the key changes is that anyone registering trademarks will now have to show that their filing is being made in “good faith” -- in other words that the trademark is registered by the lawful owner. There is also a plan to increase regulatory oversight of trademark filings and impose penalties on rogue trademark agencies and bad faith oppositions to existing trademarks.

In a further new development, leading companies in China, such as Taobao, owned by the Alibaba Group, are taking steps to fight counterfeiters. In 2014, a Memorandum of Understanding (MoU) was signed between Alibaba and the China-Britain Business Council. This is one of many MoUs that Alibaba has signed recently: another was signed in 2013 with Louis Vuitton. The purpose of the MoUs is to establish cooperation mechanisms for IP protection and combating online counterfeit transactions. A report released by the World Intellectual Property Organization (WIPO) in 2014 demonstrated other steps Alibaba is taking to deter counterfeiters, such as working closely with criminal enforcement, and imposing penalties on vendors when counterfeiting is discovered.

Reality

Although in recent years attempts have been made to improve the problem of online counterfeiting practices in China, it remains widespread. The laws regulating the infringement of IP rights have not been strong enough and there is no robust enforcement mechanism. To effectively tackle the scale of IP infringement requires more involvement from the Chinese government. Many of the website operators committing IP infringement are sophisticated criminal gangs who can only be dealt with by a vigorous prosecution system. As long as these sorts of systems are missing, luxury brands from around the world will continue to face extreme hardship enforcing their rights and fighting counterfeiting practices in China.

There are increasing efforts by the Chinese government to enforce and protect IP rights more strongly. Working with law enforcement on the ground in China and keeping lines of communication open with other brands facing similar issues and interested third parties, such as ISPs and online platforms, such as Alibaba, is one possible solution to the problem of counterfeiting. However, alongside this, more fundamental methods of enforcing IP rights, such as sending regular cease and desist notices, should be used to establish an evidence trail, which could be used by law enforcement in future. For brand owners facing these problems in China, persevering with forceful but flexible strategies is the best way to see long term results.

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