IPR Enforcement Strategies for Brand Protection in China

An IP Management Perspective to Brand Protection in China

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Despite vigorous enforcement of trademark and design rights in China, counterfeiting seems to increase and prosper. Enforcement has become a source of growing frustration for companies present in this market, prompting some to engage in excessive “blind” enforcement, and others to abandon such efforts altogether. Based on the author’s first-hand experience of more than a decade in IP and brand protection in China, the article considers some of the reasons for the perceived failure of IPR enforcement and offers suggestions on how to tailor brand protection strategies for maximum effectiveness and deterrent value.

First, a successful strategy must be built on in-depth understanding of the counterfeiting phenomenon and its challenges. The fact that counterfeiting operations are generally conducted by underground, fly-by-night operations places them beyond the reach of the law. Enforcement occurs upon the brand owner’s own initiative, supported by the goodwill of local authorities. In case the counterfeiting operation is part of a large-scale, well-funded organization or syndicate, a single successful seizure will not solve the problem. Longer term, professional investigation is required to obtain meaningful results in such cases. Local authorities may not always be motivated to support enforcement efforts. In case early detection and seizure is not possible, counterfeit goods must be pursued along their respective distribution channels. This is relatively easy with respect to fashion products, which are sold on markets to a public that seeks a lower price tag. More insidious are counterfeits of products designed, not to replace luxury and high-value goods in the market, but to complement them. Spare parts of vehicles, appliances, etc., made from low quality materials risk making their way into authorized distribution channels and posing serious safety threats. To address these and other challenges facing the brand owner in the Chinese market, it is important to recognize their nature and to devise the appropriate anti-counterfeiting/brand protection strategy.

Second, it is equally important, to have a thorough understanding of Chinese intellectual property (IP) laws and of the political aspects surrounding the IP enforcement system. The article provides a detailed description of the IP rules that can serve as tools for brand protection as well as of the administrative and judicial enforcement avenues. It highlights some of the practical shortcomings of administrative IPR enforcement in China and suggests corrections and improvements.

Finally, the author suggests two ingredients to render a brand protection program more effective. The first is that, in terms of management structure, the in-house organization of brand protection can be simplified by collocating all related functions. The second relates to viewing the goal of enforcement through the proper lens. Rather than expend resources by pursuing each and every infringement, in a mistaken assumption that the goal is eradication of counterfeiting in China, it is preferable to adopt a selective enforcement approach, tailored to the company’s model of appropriation of IP values and consistent with its overall business strategy.
Introduction

Brands and their legal embodiments (trademarks and designs) are valuable economic assets of any company in today’s globalized economy. Brands embody corporate values and stand for the quality and reputation of the related products. This is particularly so for brands associated to luxury and high quality goods. Companies owning such brands are especially sensitive to the issue of counterfeiting and brand protection in China.

China is the world’s factory and the country where most counterfeited luxury brands and goods are made and come from. This explains the need for brand owners to conceive and invest in brand protection policies for the Chinese market. Such need has become even greater now since the surging of consumerism as a driving economic philosophy and policy in China along with the rapid development of an internal demand for luxury goods.

Counterfeiting can be generally defined as the manufacturing of the faithful reproduction of a product and its original markings, to be then sold in the market as an original one but at a far lower price. Counterfeiting pervades the very industrial infrastructure of the Chinese economy and encompasses fashion products as well as electronic, mechanic, chemical and high tech goods. The wealth of entire industrial regions of China is somewhat related to counterfeiting and the subsidiary economy revolving around it. It is not just a coincidence in fact that counterfeiting hubs concentrate in the richest regions of China.

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2. Jessica Lin, Fake Stuff, Ruthledge 2011, pages 2-7; Lisa Carducci, “Behind the China New Consumerism” January 11, 2012: http://www.china.org.cn/opinion/2012-01/11/content_24376660.htm; Some authors are pointing out the tendency of the Chinese consumers to take distance from foreign luxury goods. It is speculated that these recent trends, which have been object of academic studies, may have been induced by government policies, ethnocentrism and improvement of Chinese made products. For contribution on this topic regarding development of Chinese consumerism see also: Zhou and Hui


4. Counterfeiting pervades the very industrial infrastructure of the Chinese economy and encompasses fashion products as well as electronic, mechanic, chemical and high tech goods. The wealth of entire industrial regions of China is somewhat related to counterfeiting and the subsidiary economy revolving around it.

5. These are the provinces of Fujian, Jiangsu and Zhejiang in the south east and Guangdong in the south. Guangdong and Jiangsu are the provinces with the highest GDP according to official statistics in 2011. See the article of Zhang Junman, “Top 10 Largest Economies in China 2011” at http://www.china.org.cn/top10/2012-03/20/content_24929040.htm. See also Kevin Biggs “Protecting against Counterfeits” Insight vol. 25, October 2010.
Particularly hit by counterfeiting are foreign brands, and among them, luxury brands related to consumer products. However, counterfeiting does not hit all brands in the same way. While the continuous infringement of fashion brands result mostly in their dilution and the loss of investments and market share\(^6\), counterfeiting of brands of industrial products such as for instance cosmetics, electric and electronic products and appliances, cars, boats etc. and their components or spare parts respectively, may additionally lead to product malfunctions, unjustified raise of warranty claims and even safety issues, such as injuries and death of their users or third parties/property and to administrative product recalls.\(^7\) The brand owner may often be able to reject warranty claims or defend its case before civil courts or product quality authorities, but there are not only risks of not being able of succeeding in it. Also, while in the process of proving that the defective parts which caused death of injuries was not an original one, there is always the problem of aggressive press and skeptical public opinion. Often, legal or administrative procedures last long time and when the lawsuit is won or the administrative procedure is closed in favor of the brand owner, the public will not care anymore and will only tend to remember the bad headlines at the beginning of the case. It is evident that for this second group of brand owners anti-counterfeiting IPR enforcement is an evil necessity, whereby even one single safety related fake product, component or spare part may enter the market and cause severe legal fallouts, aside from the obvious brand dilution and loss of market share.\(^8\)

Brand owners have engaged with varying degrees of intensity in battling counterfeiting directly on the field in China. Multinationals have been engaging for at least a decade in intensive trademark enforcement and political lobbying in China in order to stop counterfeiting. At the other end, mid-sized foreign enterprises have at best attempted sporadically to stop counterfeiters directly in China.\(^9\) The result however, seems to be the same in most cases. In spite of enforcement, counterfeiting is stronger than before, while financial resources appear to be invested in a hopeless enterprise, hopeless to the point of giving raise to very critical voices from the corporate world, claiming that IPR enforcement against counterfeiters in China is useless and even counterproductive. In particular, on one end we have assisted to an almost frenzied and random increase of IPR enforcement actions especially in the form of administrative raids and seizures of counterfeits based on trademark rights, on the other, to an ever growing

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\(^6\) Recent market studies and investigations have shown that fake clothing can also cause damages to health as well. According to a report of Europol in 2012, poison in children’s clothing is the latest risk emerging from counterfeiters. A recent investigation found formaldehyde in woolen and cotton clothes which was 500 times higher than safe levels should be. The chemical is used to give a permanent press effect to clothes but high levels (20 parts per million) can cause eye, skin and nasal irritation, respiratory problems, asthma and skin cancer (See https://www.europol.europa.eu/sites/default/files/publications/counterfeitproducts.pdf).

\(^7\) A man in Guangzhou, China, was killed in 2009 when his cell phone blew up and severed an artery in his neck (http://www.newser.com/story/49739/exploding-cell-phone-kills-man.html). Half the deaths in traffic accidents in Saudi Arabia are caused by fake car parts – including brakes and tires – that are imported to the Kingdom, according to Judge Ahmad Bin Dhaifallah Al-Ghamdi, chairman of the 11th Administrative Circuit at the Administration Court in Jeddah. He said that incidents caused by the counterfeit parts result in 3,000 out of the Kingdom’s 6,000 annual traffic fatalities and noted the Saudi Authorities seized 8 million fake products in the first half of 2010 available at http://www.saudigazette.com.sa/index.cfm?home.con&contentid=2010101285143).


\(^9\) For many enterprises, especially medium and small sized ones, the first problem in tackling counterfeiting in China was and it is still nowadays the lack of proper IPR portfolios. This problem has been amplified by the corresponding emergence of the phenomenon of IPR grabbing by both Chinese legally operating competitors and counterfeiters. In reality the phenomenon of IPR grabbing has not spared both large and multinational enterprises. The reasons for such situation are multiple and can be summed up in two main categories. The first group of reasons is related to the lack of knowledge of both Chinese legal system and culture. The second group of reasons can be related to economic and legal factors. In any case the result is that counterfeiting cannot be stopped unless and until the brand owner will have recovered its stolen IP rights, which is in practice a very difficult and frustrating enterprise.
frustration among foreign enterprises as to their ability to effectively and durably enforce IP rights in China. In both cases, decisions to act randomly or not to act at all may have been taken without the brand owner going through a phase of reconsideration of the managerial parameters determining effective and successful brand protection strategies. It is evident that there have been conceptual distortions of the function of trademark rights and more in general of IPR enforcement, which have led in turn to a factual erosion of both.

A brand protection strategy shall be the result of a comprehensive and interdisciplinary IP management decision within the company, where financial, commercial and legal considerations are all synthetize in a strategy aiming at the most effective IPR exploitation in function of the business strategy of each single enterprise.

Consequence of such approach is that both the conception of a brand protection strategy in China and the parameters to determine its success will likely result to be different for each enterprise and functional to its specific business strategy. Although foreign brands in China all share common final strategic goal of reducing counterfeiting and use the same enforcement tools, success of an enforcement strategy is only measurable to whether and how much it contributes to the achievement of each company strategic business goals.

Such approach to brand protection as part of the more general IP management of a company should help brand owner refocus their resources and efforts on a more efficient and curtailed IPR enforcement strategy in China. This strategic rethinking of brand protection should help brand owners avoiding both extreme phenomena of reduction or even abandonment of IPR enforcement in China or enforcement at all costs, both the results of the functional erosion of abused enforcement tools and the related psychological frustration and chronological mistrust induced in the brand owner by misplaced enforcement goals.

The present essay attempts to analyze the factors determining the formation of brand protection strategies, the practical effectiveness of the most common anti-counterfeiting strategies in China including a review of their shortcomings and a reflection on the possible corrections to both their strategic and tactical deficiencies.

Part I of this essay will explore some of the major factors influencing the conception and implementation of anti-counterfeiting/brand protection strategies in China by foreign brand owners, especially those related to industrial luxury products. The author will try to show how the conception of a brand protection strategy must be guided by a comprehensive, interdisciplinary approach which is able to consider and synthetize all the relevant economic and legal factors peculiar to the Chinese market and legal system. Some of these important factors, such as for instance the correct categorization of the different types of brands and their functions, the identification of common traits of counterfeiting manifestation, the legal and political aspects of the Chinese trademark and IPR enforcement system, and the awareness and collocation of brand protection issues within the management structure of the brand owner’s company, will be briefly and separately considered and analyzed.

Part II of the essay, will focus on analyzing administrative trademark enforcement, the most common form of IPR enforcement strategy in China in light of the factors examined in Part I. In particular, we will highlight the shortcomings of administrative IPR enforcement in China in its present manifestations and suggest corrections and improvements based on a comprehensive IP managerial synthesis of the factors introduced in Part I.

PART I

Conception of an IP management Strategy for Brand Protection in China: The Function of brands and their role in anti-counterfeiting

For a brand owner manufacturing and selling consumer products, and especially luxury consumer products in China, conception and implementation of an IP strategy for brand protection in China should be founded on a comprehensive and inter-company IP management process, whereby a multiplicity of internal and external factors are considered, evaluated and synthetized in an IP exploitation strategy functional to the business model of the company. With respect to brand protection this translates into the process of identification of how a brand works in the Chinese market, how it is understood and appreciated by the consumers in and outside China, how it is understood and unlawfully exploited by counterfeiters and competitors, how it is protected by the local law and how the deriving IP rights can be concretely exploited (enforcement being one of many forms of exploitation) with the ultimate goal of using IP exploitation to support and realize the company business strategy.

One first factor which a brand owner should consider when determining an IP strategy for brand protection is the relation between the brand and the related products, and how the brand influences the behavior of consumers and the selling of the products. Although all luxury consumer products rely on strong brands, the latter will have a different degree of importance in the consumer’s decision to buy a certain product. This will in turn affect how those same branded products will be counterfeited. Through this process of evaluation the brand owner will acquire the information he needs to then decide in which way he can legally protect his brand and the related products in China and exploit them, including by way of their enforcement against counterfeit.

While a brand may be the only value a consumer is after when buying fashion or accessories, this may not be the same when purchasing pharmaceuticals, cosmetic products, a high-tech home appliance or spare parts for a car. For pharmaceuticals as well as for luxury industrial products additional concurring factors aside from the brand dilution and the erosion of the product outer design may come into consideration. Understanding the function and relation of the brand and

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11 There is no legal definition of luxury products. A legal term and definition with a proximity to luxury brands may be that of “well-known” trademarks. However, a luxury brand and product may not necessarily be related to a well-known trademark. For a definition in marketing terminology refers to Wiedmann, Hennigs, Siebels, Measuring Consumers’ Luxury Value Perception: A Cross-Cultural Framework, Academy of Marketing Science Review, Volume 2007/7 available at http://www.amsreview.org/articles/wiedmann07-2007.pdf.

12 In particular, fake Pharmaceuticals, as well as fake car spare parts will directly or indirectly threaten the health of their users with all related legal risks such as civil and criminal liabilities, as well as administrative investigations and recalls, until the brand owner proves the incriminated products are not his own. For examples in the pharmaceutical industry we refer to Bronshtein, Counterfeit
the relevant IP rights with respect to the underlying goods and their market will assist brand owners in conceiving and implementing effective brand protection strategies in China.

Luxury brands in particular confer to their goods a symbolic value and it is this symbolic value that consumers are after in many cases. The possession of a branded bag and a luxury car confers to the owner a “privileged” social status. However, the purchasing behavior and priorities of a consumer vary depending on whether he is buying car’s spare parts, an electronic gadget or a branded leather bag. Correspondingly, the behavior of the counterfeiters varies as well. Counterfeiters act and perceive themselves as businessmen and to a certain extent they will act and think according to the same market rules of the brand owners. For instance, while the majority of counterfeit fashion products are sold to people who could rarely or never afford to buy an original one, fake spare parts of a luxury car are sold to people who already bought an original luxury car! In the case of fake fashion items, consumers are often fully aware they are purchasing and using a fake product, while in the case of luxury industrial products consumers may often not be aware of it. The facts above have in turn an influence on the channel through which both fake and genuine goods are sold. Counterfeit of goods whose brand is the major reason and motivation for the purchase and for which there is an immediately recognizable difference between the price of the original and that of the fake, will be likely found in open markets and in internet, while their original counterparts are to be found in high-street shops. In these cases consumers will normally be aware or at least can become aware of this difference and can willingly decide where to go to buy the genuine or the fake product (although the internet can add to the creation of confusion as to the real origin of a product). For luxury industrial products, electronic or mechanic parts and components are always available at official shops. However, genuine parts also enter the market through other channels than the official one and can be available elsewhere (internet, non-authorized shops, wholesalers and shopping

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14 See Delener, Nejdet, International Counterfeit Marketing: Success Without Risk, Review of Business, St. John’s University, vol. 21, No. 1 (2000): “A product counterfeiter looks for projects to pursue the same as MNEs, but the rules of the game are different. When a MNE does a feasibility study, it takes into account many cost factors, such as marketing and R&D. After the cost factors are analyzed, then the potential profitability of a project can be assessed. Counterfeiters, on the other hand, are not constrained by overhead costs. They find established products and decide whether they can copy them at a minimal cost. Since there is no overhead other than production, human resources and transportation, counterfeiters can undercut the MNEs that spend millions on marketing and R&D.” See also on page 9 of the “Economic Impact of Counterfeiting and Piracy – Executive Summary (2007)” issued by the Organization for the Economic Cooperation and Development (OECD) available at http://www.oecd.org/industry/industryandglobalisation/38707619.pdf.

15 Id. “Prestige, brand image and fashion are important to purchasers of premium brands. Buyers of counterfeit replicas also value image characteristics, and they are trying to gain the image benefits at a bargain price. Several researchers have suggested that individuals buying counterfeit items copy the taste of a snob with low-price acceptability. Thus, price is a salient attribute for individuals choosing a counterfeit product Consumers who knowingly choose counterfeit see themselves as less well off financially and less confident than other consumers. If financial reasons motivate the purchase of counterfeit replicas, these same reasons might be used to encourage consumers not to buy the counterfeits.” See also on page 9 of the “Economic Impact of Counterfeiting and Piracy – Executive Summary (2007)” issued by the Organization for the Economic Cooperation and Development (OECD) available at http://www.oecd.org/industry/industryandglobalisation/38707619.pdf.

16 Id. “To further compound the problem, especially in the case of industrial products, consumers do not realize that they purchased a counterfeit They send the product back to the company whose “name” is on it for a replacement. In the interest of customer service, the company may replace the part or the product. They might not publicly announce that they received a counterfeit for fear of bad publicity (…).” See also on pages 9-10 of “Economic Impact of Counterfeiting and Piracy – Executive Summary (2007)” issued by the Organization for the Economic Cooperation and Development (OECD) available at http://www.oecd.org/industry/industryandglobalisation/38707619.pdf.

17 Daniel C. K. Chow Counterfeiting in the People’s Republic of China Washington University Law Quarterly, Vol. 78, No. 1, p. 10, note 31 (2000): “In certain instances the consumer is aware that the goods he purchased are counterfeit. This tends to occur in cases of clothing, shoes, handbags and other accessories, where product quality is either not of major importance to the product, or where there are not significant differences between the quality of the counterfeit and the genuine product and it is the prestige associated with a certain trademark that the consumer wants (…).”
malls), thus mixing with fake ones in a nebulous entanglement. Furthermore, in the case of technical components and parts where the technical content is predominant over the design component, both the real and the fake products will not be traded directly among consumers. When consumers will have a home appliance or a car repaired or maintained, they will not often see directly the parts and components that will be changed during the technical service. Furthermore, many parts of luxury industrial products find their way into the market only through specific distribution channels operated by professionals and the same will be for their fake counterparts. This is the case for instance of certain “function-specific” parts for cars, bikes, yachts or private jets. In this case counterfeiting will not spread to open markets but will be likely limited to aimed infiltrations of the official supply chain.

In sum, it is methodologically appropriate to consider the phenomenon of counterfeiting by making at least by making at least a general distinction between the types of luxury brands and products. Eventually, the understanding of how the counterfeiting industries work for each group of brands and related products will be an important preliminary step in the conception of an efficient brand protection strategy for China.

1. **Luxury industrial products and brand protection**

In the perception of modern consumers worldwide, it is the brand that makes the most important feature of a fashion item rather than the quality of the product itself. Luxury products such as fashion and accessories, jewels, watches etc. are characterized mostly by their forms and design. They are mostly sold based on their outer appearance and look. In this case, the consumer will not see or likely perceive the technical complexity behind the creation of such products. For such products, the added value for the consumer will be therefore represented mostly and in many cases exclusively by the brand and the outer design. If the brand becomes a value independent from the quality of the product, the result is that consumers will be willingly buying counterfeit of these types of luxury products, because for them it will be more important to acquire the “symbolism” of the brand rather than the quality of the product itself. Considering as we said above, that luxury products are meant to be sold to a “selected” group of people, counterfeiters simply go there to occupy an empty space in the fashion market. This leads also to that apparent paradox by which a brand is not famous until is counterfeited! This can explain why most foreign tourists coming to China, surely more aware and culturally aware of fakes, still prefer to buy counterfeit luxury products, because they are more affordable and symbolically valuable.

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18 See Supra notes 2, 5 and 9
19 See Supra note 9
20 See Supra notes 2, 5 and 9
21 In an interview to Bloomberg TV in May 2012 the CEO of Prada, Mr. Fabrizio Bertelli stated: “Fake goods aren’t totally bad at least it created jobs at some counterfeit factories. We don’t want to be a brand that nobody wants to copy.” (See: https://lawoffashion.com/blog/story/05/26/2012/135). It would be interesting to have him confronted with those in Europe and US who have lost a job in the fashion industry!
22 See Supra note 20. Renee Richardson Gosline: Counterfeit Labels: Good For Luxury Brands? In Forbes Magazine of 02 December 2012 (http://www.forbes.com/2010/02/11/luxury-goods-counterfeit-fakes-chanel-gucci-cmo-network-renee-richardson-gosline.html). The author of this article agrees with the fact that brands in luxury products have a high symbolic value that transcends the quality of the products itself, to the point that middle-class ladies in the US, some of whom could hypothetically afford to buy original designer bags, prefer buying fakes because they will give them the brand without spending a lot of money, thus being willing to buying fakes at apparently respectable “purse parties”.
prepared to recognize fakes than their Asians counterparts, will dedicate at least one day to scurrying around fake product markets to buy loads of branded items to bring back home.

The same is only partly true for luxury industrial goods in which not only the aesthetic element but also their underlying technical complexity is perceivable or openly visible to consumers. In this type of cases, the brand will be more intensely associated with the technical reliability and good performance of the product and not only with its aesthetic and symbolic value. This point is important to understand both the purchasing behavior and the sale organization of such products as well as the corresponding behavior of their counterfeiters. Unlike designer fashion products, not all industrial luxury products of a high technical complexity are counterfeited in mass. For example, although it is true that in China there have been attempts at copying the design of whole Mercedes-Benz or BMWs by Chinese car manufacturers, - some of these cases have even made it to court or have created some media uproar - these were not cases of counterfeiting strictly speaking. These were cases of design patent infringements by Chinese competitors. Counterfeiting of whole cars or boats or airplanes, as we have of sport shoes or designer bags for example, it may be technically unconceivable by the counterfeiter. Counterfeit of whole cars for instance would require huge investments and manufacturing plants which are not available to counterfeiters operating from underground, unregistered and technically unsuitable factories. Their production would be visible and easy to target and this contradicts the basic principle of counterfeiting ventures, i.e. secrecy. In sum, there is no such thing as counterfeit of whole cars or whole airplanes in industrial scales as it exists for fashion items or electronic products.

In the case of luxury industrial goods with high and complex technological content, counterfeiting will concern only their spare parts or components. As already stated above, a person buying a certain luxury car or motorbike will not only consider the “brand” added value, or its design and aesthetic elements, but also the product’s mechanical reliability and safety. The same can be said for other types of products such as of luxury home appliances, yachts, private airplanes ad to a lesser extent electronic communication devices. This is because of the inherent nature and usage of these types of products. However, among spare parts a clear distinction must be drawn in order to understand the behavior of the counterfeiters. On one side there are spare parts or components of cars, bikes, boats, plains or home appliances in which the aesthetic value prevails over the technical one. In those cases the consumer will be motivated to buy by this aesthetic value rather than by safety or performance considerations. A typical example is tire rims in cars. Tire rims have a high volume market, because these are parts of a car easily changeable and have a strong impact on the overall visual effect of the vehicle. There is

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23 To a certain extent this could be true also for fashion items. By fashion products the first impulse of a buyer will be that of buying the brand added value rather than the product quality. It may be in a later moment, after the fake products has started showing its poor quality, that the consumer becomes more aware of the “technical complexity” behind such types of products as well. However, the consumer of these products often knows and accepts the risk that he is investing money on a product with lower quality than the original one. This perception again seems to be relatable to a misperception of the technical complexity behind the manufacturing of fashion products.


25 Mercedes-Benz published statement that the “Nobell” manufactured by Shijiazhuang Shuanghuan is just a duplication of Benz Smart; GM claimed damages from Chery (one of biggest Chinese auto manufacturers) by proving Chery QQ pirates the exact design of GM Spark (however, the Chinese court granted compensation on basis of unfair competition); Apple also issued statements by claiming HTC and other electronic communication manufacturers pirate their designs.
therefore a strong incentive for the counterfeiters to manufacture these products in large quantities for a continuous output, considering also the relatively smaller amount of technical knowledge required to copy tire rims. In this case the buyer may be aware that the product is not genuine but he is not concerned with safety because he perceives that this is not a safety related part. In this respect, the brand and the design or often the design alone, will constitute the added value of the product, same as in the case of a pair of designer shoes or bags.

On the other hand, there are spare parts and technical components of luxury industrial products which have technical functions and are related to the proper performance of the product and the safety of the users, such as it is always the case of mechanic or electronic spare parts for all kinds of transportation means (cars, busses, motorbikes, bikes, airplanes, boats etc.), as well as for home appliances, and even some parts of mobile phones and other media devices for consumers use (i.e. batteries and chargers). In this case, the buyer will not be driven to the purchase only by the “brand” value of the product, but also by performance and performance/price related values. The writer’s experience with the counterfeiting of spare parts of luxury industrial products has shown that when buying function related spare parts consumers will indeed understand that the part they need to replace is indeed technically related to the performance of the product. However, this perception in relation to the level of knowledge of the technical functions of that part by each consumer may lead to different purchasing behavior when the consumer is given the choice between genuine and fake. In practice, the misperception of the technical function of a spare part can lead to different behaviors. In some cases, the economic and monetary factor will prevail over technical considerations and saving money will be the major drive for the consumer to consciously buy a fake part. In other cases, the uncertainty about the technical risks related to buying a fake parts may push the same buyer to privilege safety and performance over saving money and then to purchase a more expensive genuine part. Also, in this category of products there are many cases in which a consumer believes that he is buying indeed a genuine product, while in reality the product is a counterfeit. This is often the case for spare parts or product components with middle to low technical content, etc.

The correct understanding of these distinctions will be most helpful to the brand owner when confronted with the task of setting up a strategy to fight back counterfeiting in China. However, this is not the only set of knowledge a brand owner should have in order to conceive and implement suitable and effective brand protection strategies in China. The acquisition of it is just a necessary step. Once awareness of these factors is acquired, they will have to be considered in

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26 His Perception may be however wrong. For instance, tire rims are also a safety related part. Cracks in their alloy or plastic parts may lead also to break downs with possible consequences on the tire itself and the stability of the vehicle drive.

27 The awareness concerning product quality is also present in the buyer of fashion products. The buyer knows that he is buying a product of likely inferior quality. By many it is even suggested that a buyer of fake products will likely change his behavior and will not buy fake anymore, and will rather develop a bond to the original and if affordable will next time buy the latter rather than the former. However, the difference remains that by fashion products, the issue of performance is in most cases outweighed by that of possessing the brand, because the risk of buying low quality products is off-set by the fact or the perception of saving money. In sum, a consumer could likely spend two times 30 Euros to buy two fakes, but may never plan to spend 300 Euro only one time to buy the corresponding original. Again, many of those who buy fake designer bags are unlikely able to buy the original ones, while by luxury industrial products the problem of counterfeit does not directly concern the product when purchased but its components and spare parts once these are needed for replacement. This makes counterfeiting a more serious economic threat to this second group of cases by being likely to cause more direct economic damages. An example: If you buy a fake designer bag and its handle breaks down after a few days, you will not go to the official shop to claim a warranty. You will maybe decide to buy another fake one. However, if a fake spark plug causes the luxury car to go on fire, the manufacturer will surely have to face a warranty claim or a product quality/liability claim and will have to decide whether to accept it or not without often knowing that the replaced spark plug was a fake part not covered by warranty.
light of other important ones peculiar to the Chinese market, before coming to the final decision as to which IP rights to acquire and enforce to maximize brand protection.

Once traditional counterfeiting was relegated only to export towards Europe and the US. Driven by the rapid and steady growth of an inland market, due also to the economic crisis in the Western hemisphere, counterfeit products have now found their way into China, hitting now and for the first time Chinese brands as well. Protecting a brand against counterfeiting coming from China requires foreign brand owners to understand the continuously changing economic, social and technological landscape of China, while at the same time to be able to identify proper internal company structures and processes in order to curtail enforcement strategies aimed at maximizing the economic value of trademark and design assets in support and execution of the company’s business strategy.

In sum this should compel brand owners to acquire and analyze field experience as to how counterfeiters operate in the same market environment now defined with the conceptual methodology indicated above.

2. Common Traits of Counterfeiting organization in China

Although the demand and supply of counterfeiting goods varies among different types of products, there are also common structural traits characterizing the organization of counterfeiting enterprises in China, i.e. manufacturing and warehousing are mostly conducted under cover of secrecy, while trading is conducted openly.

Among counterfeiters a general distinction can be drawn according to the financial and organizational forces behind the counterfeiting activities. On one side of the spectrum are individuals or small scale, often family-run types of counterfeiting ventures. These can be both legitimate businesses alternating legal to illegal manufacturing and trading activities, or small underground workshops. These entities may conceive and implement their own counterfeiting business independently or may decide to serve as one of the many manufacturing, warehousing or trading rings in a broader counterfeiting chain. In this latter case, these smaller counterfeiting units will often operate without knowing and having direct contact with the masterminds of the entrusting syndicate.

Distinct from these small-time infringers are counterfeiting organizations and syndicates. This type of infringers are economically supported and organized by financially capable entities and individuals which use a complex network of businesses (some of them underground operations, other legitimately registered companies) to run their large scale counterfeiting ventures. The financial engines behind such counterfeiting organization do not normally involve directly in any of the material activities required for running a counterfeiting business. They will normally create structures or bring together already existing ones which will then take over, often separately or unaware one of the existence of the other, the functions of manufacturing, labeling, trading, distributing, selling etc. With the result that the seller, the last ring of this chain, often does not really know who has made the products he is exhibiting in its market stall or trading in the...
internet. In this way a separate and extemporary intervention on any of the external manifestations of the infringing venture (shutting down domain names, and e-commerce sites, raiding of retailers, factories or warehouses as stand alones) will not be sufficient to bring down the whole organization, due to the fact that each of these units are not fully integrated in and directly related to the masterminds of the counterfeiting ring and can be therefore replaced by others in short time. Such syndicates are often related to criminal organizations or to local economic potentates with strong political relations at local level.

A last group of counterfeiters includes OEMs or their employees without knowledge of their upper management, which in order to maximize profits may decide to sub-contract to illegal ventures the manufacturing of parts and components. This poses an obvious and direct threat to the supply system of the brand owner, by having often sub-standard parts officially supplied as they were made by the contracted OEM.

It must be remarked that each counterfeiter put his personal life and safety in danger and has not only high economic interests in the venture, but also personal freedom at stake. This explains why often thugs and gangster types are involved in counterfeiting operations. It is evident, from at least a sociological and psychological point of view, and based on the writer personal experience, that these psychological and sociological factors cannot be underestimated when conceiving and implementing a brand protection strategy in China. A successful anti-counterfeiting strategy must also counter-balance these human factors by having the brand owner put together a team of well profiled and motivated workers who can emotionally engage in what can be defined without doubt as an intense psychological fight.28

Knowledge of these common traits of the counterfeiting organizations and a human understanding of the infringer’s motivating factors will surely be of help to the brand owner when deciding the most appropriate enforcement strategy.

3. A Hostile Environment: Administrative Obstacles to IPR Enforcement in China

Brand protection in China can be a very frustrating enterprise, both for the brand owners as well as for those professionals trying to help them by providing effective solutions. Frustrating is also for those officials of EU and US governments trying to have China taking concrete steps to overcome and remove everyday obstacles to effective enforcement of trademark and design rights.

28 Doing anti-counterfeiting in China is a dangerous job. There are plenty of war stories among investigators telling about suspicious mobs threatening and chasing them away. Even trying to take pictures of a stall with fake bags in a market can become dangerous and should not be practiced by inexperience neophytes. Following are examples of such cases. On November 4, 2009, counterfeiters of fake Rolex and Longines watches beat the local enforcement officials in Changchun City, Jilin Province, China in order to grab the fake watches back (see the link: http://news.163.com/09/1106/01/SND8AB2700011229.html). The head of a small village in Cangnan county, Zhejiang province is the owner of an underground fake wine workshop. On December 16, 2000, when the local AIC went to the workshop to raid the infringing products, the village head instigated and led the villagers to beat the AIC officials which resulted in two official’s injury (see the link: http://www.people.com.cn/GB/shehui/44/20010104/370087.html). More stories could be told.
One of the typical frustrations of foreign enterprises is that in spite of their continuous enforcement they cannot claim long lasting successes against counterfeiters. Part of this issue is related to the lack of a real will of the Chinese authorities to seriously tackle the problem of counterfeiting both at a political and enforcement level.

While the central government in Beijing has since long stepped up its actions improving IP laws and its guiding policies, everyday trademark enforcement and anti-counterfeiting actions in China still pass through the hands of local enforcement authorities, which not only are physically far from Beijing, but are also and more often inclined to serve local economic and political interests, than following national policies and the rule of law. Trademark enforcement authorities, including local judges and trademark administrative enforcement officials, are in fact appointed by the local governments and municipalities. At the same time, representatives of the latter detain interests in local economic activities which may directly or indirectly profit of the “business” generated by counterfeiters, in spite of the fact that the law prohibits them from doing that. Counterfeiting is in fact a business which creates “satellite industries” of lawful nature, and benefit the local economy and labor market. This makes many local governments, especially those at municipal and district level, reluctant to implement anti-counterfeiting policies for fear of damaging local economies and the labor market. The result is that enforcement often depends not much on the policies and agenda of the central government in Beijing, but on that of the single local governments and their leaders.

In this legally, economically and socially complex environment, it is indeed difficult for foreign trademark owners to decide which objectives are achievable and which legal means are most suitable to reduce the impact of counterfeiting. A better knowledge of the Chinese IP system and its founding principles can be of great help in overcoming obstacles of political nature and shaping a more effective anti-counterfeiting strategy.

29 Since2006, Mr. Li, former Sanya AIC official opened a company called Qingdao Co., Ltd. to produce “Hainan Tequ” wine which is very similar to the name and packing of “Haikou Daqu” manufactured by a famous local company “Yedao Co., Ltd.” in Hainan (See http://bbs.news.163.com/bbs/shishi/4108010.html). Former secretary of Tangxia village committee Mr. Liao was charged with the crime of illegally protecting counterfeiters for being the shareholder of the counterfeit cement factory and facilitated the counterfeiting activities (see http://news.ifeng.com/gundong/detail_2012_11/23/19477183_0.shtml). Also, the mayor of Fengjiang Town, Guangdong province committed crimes by providing place, equipment and protection for cigarette counterfeiters under the pretext of attracting investment. As a return, he obtained over 80,000 RMB (about 13,000 USD) per months as dividend from the illicit profit of the counterfeiters (See http://finance.sina.com.cn/x/46941.html).

30 It is regulated in Article 53. 14 of China Public Servants law that: “Public servants shall observe discipline and are not allowed to commit any of the following acts: (…) 14) engaging or participating in profit-making activities, and concurrently holding a post in an enterprise or other profit-making organizations (…) “ Therefore, as public officials no AIC officials have the right to involve in profit-making activities in China, otherwise they will incur in administrative and criminal liabilities.

31 Daniel C. K. Chow Counterfeiting in the People’s Republic of China Washington University Law Quarterly, Vol. 78, No.1, pp. 27-18 (2000). Local authorities in charge of trademark enforcement (AIC) are also in charge of local commercial activities and business promotion and investments. AICs often invest consistent sums in the construction and decoration of buildings used then by local markets where also counterfeiters will be sold. The same AICs will charge and collect lease and management fees from the same counterfeiters for their space in the market. It is evident that to a certain extent AICs may have economic stakes in the operation of these markets.

32 In October, 2012, Mr. Deng, former leader of No. 2 economic inspection team of Dongguan city, Guangdong province, China, was sentenced to two years and a half imprisonment for illegally releasing over 3,000 fake Crocs shoes during the on-spot raids and reducing the penalty for counterfeiters after taking bribes (see http://news.ifeng.com/gundong/detail_2012_10/09/18112194_0.shtml). On June 28 2012, former deputy director of Chengdong AIC bureau, Wenling city, Zhejiang province, Mr. REN Hong Bing, was sentenced to ten-year-imprisonment for protecting counterfeiters in Wenling city after taking bribes (see http://www.jcrb.com/sykd/201207/t20120701_894449.html). Motived by economic benefit (tax and other revenue), Wuling AIC (Shandong Province) refused to raid a local counterfeit cement factory even upon several requests of the infringed entities (see http://bbs.city.tianya.cn/tianyacity/content/80/1/588733.shtml).
Brand protection and enforcement of IP rights in China

Brand owners should be familiar with the types of IP rights which are used to protect brands in China, in order to be able to decide how and when to enforce them. Knowledge of IP rights should be rather deep because only a very deep legal knowledge, coupled with the information about the type of product and brand functions can help the company IP manager to identify for each case and type of product the appropriate right to activate and enforce. The rights that come into questions in the field of anti-counterfeiting are trademarks and design patents. In the opinion of writer copyright infringement is a form of piracy but not a form of counterfeiting strictly speaking. For this reason we will not consider copyright in this article.  

a) Trademarks and Design Patents

Generally speaking, brands in China are protected by trademarks. Trademarks are IP rights protecting the distinctive nature of a brand and are meant to allow consumers to recognize the origin of the product upon which the trademark is used. A counterfeit product will exploit this recognition function of a trademark in order to induce the consumer to believe that the product he is selling is a genuine one.

A brand can also be incorporated in a design patent when the brand is expressed also by the aesthetic value of a product’ shape, or a color pattern joined with a shape or a color pattern alone. Although designs are patents protecting the aesthetic value of an industrial product and not the recognition of its origins (trademarks), certain products shapes and/or patterns can nonetheless acquire a symbolic value of the quality and origin of the product. Examples of design patents embodying brand values are LV pattern in Louis Vuitton bags, the shape of the front grille of a BMW, the bottle of Coca Cola, Alessi kitchenware, etc. This is actually the case for most luxury goods, considering the fact that their added value is the brand itself, being it embodied in a trademark and/or the very characterizing features of the product’s outer design.

Both trademarks and design patents are exclusive rights, i.e. the use and implementation of them is exclusively reserved to the right holder and use by third parties is allowed only with the consent of the right holder (licenses).

The brand function of many products or parts of them may be protected by both trademark and designs. A typical example is the tire rim of a car. In the middle of the rim there will be the logo of the car maker, which will be protected by a trademark. The special design of the rim will be then protected by a design patent. Another example is a designer bag. The buckle or a pendant shaped as the company brand will be protectable as a trademark, while the bag outer shape or

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33 See Supra note 3.
34 Article 8 of China Trademark Law that “Any visually perceptible signs (…) which are capable of distinguishing goods of natural person, legal person, or other organization from those of another, can be registered as trademarks (…)”
35 Article 2.4 of China Patent Law stipulates that: “Designs shall mean, with respect to a product, new designs of the shape, pattern, the combination thereof, or the combination of the color with shape and pattern, which create an aesthetic feeling and are fit for industrial application.”
36 Article 3 of China Trademark Law stipulates that: “A trademark registrant shall be entitled to the exclusive right to use the registered trademark and such right shall be protected by law (...), Article 11 of China Patent Law provides that: “After a design patent right is granted, no organization or individual may exploit the patent without licensing from the patentee (...)”
shape and colors will be protectable as a design patent. The mentioned IP rights will operate independently from each other but they can have a cumulated effect for the benefit of the right holder. For instance, a counterfeiter maybe aware that the logo in the middle of the tire rim or impressed on a designer bag constitutes a trademark infringement, and will therefore remove it and produce and sell a tire rim or a bag without the maker’s mark. In case the maker does not have a design patent for that rim or bag shape, he will not be able to stop the counterfeiter from producing those rims and bag shapes. However, among the car and designer bag lovers, those rims and that bag shapes will be immediately recognized as that of the original maker’s and they will be willing to buy them even without the brand appearing as a trademark, because the shape of the product alone has also acquired a branding function.

Design protection, especially for luxury goods, it is a very effective form of protection complementary to that of a trademark. It will extend the overall scope of protection of its brand image by creating an area of legal exclusivity encompassing the name of the brand and its shape/color, thus allowing not only to enforce the trademark against full counterfeits, but also against those attempts of counterfeiters to avoid trademark enforcement by reproducing only the outer design of the product only. This remark is particularly important for all those luxury products whose outer shape and design (including patterns and colors) has become part of the brand image of the company itself, as exemplified above.

This article will focus on trademark enforcement, while we shall continue to make references to design patent enforcement when this will help our explanations.

b) Trademark Enforcement System

China has a dual-enforcement system. IP rights in China, including trademarks and design patents can be enforced before a civil court (People’s Court) or a specialized administrative organ. Among the major differences between the two types of enforcement, is the fact that economic damages derived from a trademark or a design patent infringement can only be claimed before a civil court.

In order to issue an injunction, civil courts require the applicant to pay a deposit, while the infringer will be in many cases notified and invited to a hearing and file opposition to the injunction. Furthermore, the applicant must follow up the injunctive order with the filing of a civil lawsuit (within 15 days from the injunction) in order to keep the seizure legally binding. All this takes time and it is costly. Counterfeiters are fast to disappear, considering that they normally are not legally registered enterprises with sizeable assets, but “underground” operations. A civil injunction will normally arrive when they have already disappeared and moved to another area. The whole process would end up in high costs without any concrete results for the brand owner.

37 However, according to current effective trademark and patent law of China, both AIC and Patent administrative department could carry out mediation regarding the amount of damages upon request of the interested parties. Article 53 of China Trademark law provides that: “(…)The administrative department for industry and commerce that handles the matter may, according to the parties’ request, conduct mediation in respect to the amount of damages for infringement of the exclusive right to use the trademark…”; Article 60 of China Patent Law stipulates that: “(…) The department of administration of patent-related work shall, upon request of the parties concerned, carry out mediation concerning the amount of compensation for the patent right infringement (…)”. 
In sum, injunctions from a civil court in China are normally more suited to traditional forms of patent and trademark infringements, rather than anti-counterfeiting.

This is why against counterfeiters trademarks are normally enforced through administrative raids rather than civil judicial process. While it is very difficult to obtain injunctive orders from civil courts, it is an accepted practice of the administrative enforcement authorities to conduct raids without advanced notice to the infringer upon request of the right holder. Although administrative organs have the power to order the destruction of the counterfeiting manufacturing tools, this rarely happens in practice. In order for a trademark holder to obtain administrative-led enforcement against a counterfeiters' factory or warehouse with seizure and destruction of counterfeits, the trademark holder is normally required to provide sighting information of the infringing entity to the administrative organs. This is done by resorting to detectives who often supply free sightings to manufacturers, requesting money afterwards to help the manufacturers file applications with the administrative enforcement organs for the raiding of the sighted targets. The administrative enforcement officials territorially competent, after a brief verification of the evidence supplied by the investigator on behalf of the trademark owner, and the validity of the activated trademarks, will conduct a raid of the target (sometimes even on the same day of the request for action). At the end of the raiding procedure, after receiving a further confirmation from the trademark owner of the counterfeited nature of the seized goods (so called “verification” statement), the seized goods will be destroyed and the counterfeiter will be fined (normally a rather small monetary fine).

A downsize of this modus operandi is that not all administrative or police organs are willing to take action, for the political and economic reasons highlighted in the preceding paragraph. In extreme cases, the enforcement authorities will leak the information of an upcoming raid to the targets, giving them sufficient time to disappear once the officials will later arrive on the spot for the seizure of the infringing goods. The choice of the proper enforcing organ will play therefore a determinant role in the success of an enforcement raid. An administrative raid with its low monetary fines, often results in a mere temporary eradication of the infringing venture. Such actions may not constitute a sufficient deterrent for the raided counterfeiters. The latter

38 Article 53 of China Trademark Law provides that: “[…] If the matter is handled by an administrative department for industry and commerce and the department determines that infringement was committed, it shall order an immediate cessation of such infringement and shall confiscate and destroy the infringing goods and tools specifically used to produce the infringing goods and to counterfeit the labels of registered trademarks […].”

39 AIC practice requires that the applicant must prove that the manufacturing tools can exclusively be used for the manufacturing of the counterfeits. In practice, only the molds with the impression of the infringed trademark may be destroyed, while molds or other manufacturing tools will remain unaffected because they could also produce licit products.

40 All these information are based on the direct experience of the writer serving as investigator managers for foreign multinationals in China.


42 Article 41(1) of the WTO-Trade-related Aspects of Intellectual Property Rights (TRIPS) mandates that the legal consequences of IP infringement must “constitute a deterrent to further infringements”. It is regulated in Article 4 of Interpretation of the Supreme People’s Court on Certain Issues Concerning the Specific Application of Procuratorate on Certain Issues Concerning the Specific Application of Law in Handling Criminal Cases of Infringement of Intellectual Property Rights (II) that: “For crimes of intellectual property rights infringement […] the amount of the fine, in general, shall be not less than one time but not more than five times the illegal gains, or determined in accordance with the standard of not less than 50% but not more than one time the turnover of unlawful business operation.” In practice these values are difficult to be determined due to the very nature of counterfeiting business and by the lack of will of the enforcing authorities. Although China is party to the TRIPS, the administrative and criminal fines issued by the trademark enforcing authorities are so low that they hardly can be define as a “deterrent” in the sense and spirit of art. 41 TRIPS. See also Bronstein, Counterfeit Pharmaceuticals in China: Could Changes Bring Stronger Protection for Intellectual Property Rights and Human Health? Pacific Rim Law & Policy Journal Association, Vol. 17, No. 2 p. 456 (2008) and Simone, China- Anti-counterfeiting – New Challenges and Directions, European Communities Trade Mark Association, 26th Annual Meeting in DEAUVILLE (2007) (http://118.26.57.17:81/1Q2W3E4R5T6Y7U8I9O0P1Z2X3C4V5B/www.ecta.org/IMG/pdf/Simone_Text_1_.pdf).
will have already put such raids into account as a business risk and will be often ready to overcome their negative consequences, by resuming business few days later (sometimes even in the very same location), and by doubling the counterfeit output to make good of the loss.

Like in the trademark administrative enforcement, design patent enforcement before administrative organ could lead to an administrative order to destroy the manufacturing machines, with the beneficial effect of destroying the most significant asset of the infringer, putting him immediately out of business. This would be indeed a very good reason for a right holder to privilege design enforcement, were it not for the fact that both civil and administrative enforcement requires the notification of the infringer and this obviously reduces the appeal to enforce design patents instead of trademarks. This is definitely a shortcoming of the Chinese legal system and a correction of the same could make this type of enforcement more effective. However, design can be a very good complementary right to attack an infringer and increase his legal and economic exposure.

Trademarks can be enforced under criminal law through the intervention of the territorially competent Public Security Bureau (PSB). The procedure is the same as in case of administrative enforcement. The difference is that the quantities of sighted goods in a factory and/or warehouse must be really large in order to warrant the intervention of the police. In the Chinese legal system, an act of counterfeiting is not per se a criminal conduct until its dimensions in terms of quantity of goods and illegal revenues involved reaches given statutory thresholds. Police raids are less frequent because infringers carefully organize production and storage so as to avoid accumulating large quantities of counterfeit products in the same place for a long time. Even if a factory produces large quantities, it may organize production so that delivery is done continuously in small batches (often at night or after PSB office hours), so as to reduce the time window in which a large number of finished goods could be found in the factory and/or warehouse.

Aside from that, criminal enforcement is also not as harsh in practice as it appears to be in the written law. Rarely criminals really spend long time in prison. Local PSB officers may even actively seek to help infringers. Nonetheless, there have been recent cases in which counterfeiters have been severely convicted to unusually high terms of imprisonment.

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43 Article 41 of “Measures for the Enforcement of the Patent Administrative Law of China” of 2006 provides that: “Where the patent administrative authorities affirm the act of patent infringement, makes the resolution and orders the infringing party to immediately cease the infringement, the following measures to stop the infringement shall be taken: (1) in case that the infringing party manufactures patent infringing products, the patent administrative authorities shall order the infringing party to immediately cease the manufacturing, destroy the equipment or molds exclusively used for manufacturing infringing products, and not to sell and use the infringing products that have not been sold or not to market such products in any other forms; where the infringing products are difficult to be preserved, the infringing party shall be ordered to destroy them (...)”.

44 Daniel C. K. Chow Anti-Counterfeiting Strategies of Multi-National Companies in China: How a Flawed Approach is Making Counterfeiting Worse, Georgetown Journal of International Law, Vol. 41, No. 4, pp. 757-758 (2010). Also the author has personal experience of cases in which the Police has tried to mediate between the brand owner and the investigated counterfeiter, in order to have the criminal proceedings dropped upon payment of a monetary compensation by the counterfeiters.

45 In October, 2012, Mr. Deng, former leader of No. 2 economic inspection team of Dongguan city, Guangdong province, China, was sentenced to two years and a half imprisonment for illegally releasing over 3,000 fake Crocs shoes during the on-spot raids and reducing the penalty for counterfeiters after taking bribes (see http://news.ifeng.com/gundong/detail_2012_10/09/18112194_0.shtml).

46 Chinese and US authorities have collaborated for the first time to shut down a major counterfeiting operation in the province of Guangdong. The goods included knock-off handbags that appeared to be brands like Coach, Hermes and Louis Vuitton. Authorities arrested 73 people who were planning to distribute almost a million bags to the Middle East and the United States (http://www.globalpost.com/dispatch/news/regions/asia-pacific/china/121120/china-counterfeit-bags-illegal-crackdown).
However, it remains to be seen whether the counterfeiters will indeed serve these terms fully and more importantly whether such decisions were dictated only by internal political reasons specific to that single court and judge, or whether they are the precedents of a newly setting judicial trend in China.

Generally, for a brand owner with a comprehensive IP portfolio, more effective and comprehensive enforcement strategies could be conceived by properly coupling and timing the enforcement of different sets of IP rights existing on the same product before different enforcement authorities. For instance, in some cases, especially when the infringer is a registered legal entity and not just an underground venture or where valuable and complex or expensive manufacturing tools are involved, following up a raid with judicial enforcement of the trademark or enforcement of the parallel design patent rights will surely add a beneficial deterring effect to the original administrative raid.

5. Brand Protection Inside the Company

Another factor which may influence the effectiveness of brand protection strategies in the mid-long term is that of the collocation of brand protection within the corporate structure. In some cases brand protection may be perceived as an issue of corporate security and brand protection managers will be selected in that area. Other companies have brand protection gravitating closer to the legal affairs. This latter approach shows in the view of the writer a better understanding of brand protection and IP rights.

Brand protection involves IP rights. IP rights are company assets and should be protected and exploited in function of the realization of the company business models. Although both corporate security and the legal department of a company are well entitled to play a supporting role in the development and execution of the company brand protection strategy, the ultimate responsibility could be better referred in the final instance to the direct responsibility of the company IP management.

IP managers are those in the best position to determine which IP rights deserve enforcement. With the support legal, technical services and if necessary with corporate security, the IP manager will then select the material mean of protection according to the outlining IP exploitation plan of the company in function of the ultimate business goals of the company.

The result of such a structure should ensure solutions which are mediated between the “enforce against everything and at all cost” strategy and the “No enforcement all” strategy based on the disillusion of having gone through the other extreme for long time without success.

47 In August 2012, the He Yuan Intermediate People’s Court in the southern province of Guangdong, China sentenced Xiao Zhenjiang to life in prison after uncovering $15.7 million worth in fake Hermes bags in his underground factory. His three accomplices were also convicted to seven to ten years in prison and fined $79,000 to $126,000. An element of interest in the Hermes case is the fact that the court criminal judgment has not been granted on trademark law but on product quality law. The court indicted the infringer for manufacturing and selling poor quality and substandard product, without mentioning clearly the existence of a trademark infringement. In other words, this case cannot be legally classified as a case of trademark counterfeit. This again appears to confirm the uniqueness of this case. There will be therefore any guarantee that at the next raid, under similar circumstances as in the case under scrutiny, the authorities will arrive to the same outcome.
PART II
Conception and Implementation of a Brand protection Strategy in China: Concrete example from the experience of Administrative Enforcement of Trademarks

In Part I of this essay we have attempted to identify some of the factors which should be considered by a brand owner when conceiving and organizing suitable strategies of IP rights enforcement against counterfeiters in China. A hostile legal and enforcing environment, an improper understanding and use of both available IP rights and enforcement options, and the resilience and inner organization of counterfeiters on the other side may easily frustrate the effects of ill-conceived and unplanned short term enforcement. It is therefore of importance for a brand owner to understand how a comprehensive approach to brand protection can lead him to appreciate when and how administrative trademark enforcement, the most common and readily available IPR enforcement tool in China, can bring more than short term benefit to his IP portfolio.

In Part II we will concentrate on how the factors introduced in Part I influence the daily enforcement activities of foreign brand owners in China, and how the correct understanding of these same factors can help correcting the shortcomings of administrative trademark enforcement, the most common type of IP enforcement strategy adopted by foreign enterprises in China. This will require us to return and examine again in details the legal tool defined as administrative trademark enforcement. Part I has already provided a description of the practical legal and material operations which characterize administrative IPR enforcement. These concepts are incorporated by reference here in Part II. However, more remain to be explored of administrative trademark enforcement in order to understand its real strengths and shortcomings. Firstly, we must contextualize and then conceptualize trademark administrative enforcement in order to determine its strategic functions. Afterwards, we will highlights its structural shortcomings and propose adjustments and improvements to the same by considering and making use of the factors introduced in Part I of the essay.

1. Administrative Trademark Enforcement in the Context of Political and Economic Development of China

A fact is clear. Counterfeiting cannot be defeated by headlong all-round trademark enforcement alone. This simple truth must be set straight by any brand manager at the beginning of any ant-counterfeiting strategy planning regarding China. Overloading trademark administrative enforcement of political or salvific functions will lead to a short term erosion of the company resources and a failure in the mid-term. Further economic and technologic development of the industrial and commercial infrastructure of China together with the emersion of China’s own world famous brands on one side and radical changes in the political attitude of the enforcing authorities at local level at the other, will be necessary pre-conditions for a final and permanent reduction and eventual marginalization of the economic system based on counterfeiting. If China’s economy will be able to express her own genuine inventors and will be less depending on foreign know-how, there will be less economic grounds for tolerating counterfeiting. The more
people will be employed in legitimate business, the less local economies will depend on submerged illegal enterprises, and the easier will be for the Chinese government to impose its national polices at local level.

However, ignoring or tolerating counterfeiting while waiting for epochal changes which may still last decades before taking place will be a mistake for foreign brand owners, with incalculable negative consequences. A passive stance towards counterfeiting would result in a quick dilution of their brands maybe to the benefit of more careful competitors, loss of profit, jobs, market share, unjustified warranty costs and exposure to civil and even criminal liabilities for those cases in which counterfeits have been the cause of damages to property and to people. Renouncing daily brand protection is not an option, especially now that China is not only the world’s factory but is becoming also the world’s market. In this context, enforcement of IP rights against counterfeiters is not at issue. At issue is instead the determination by the brand owner of the real economic and commercial reasons to justify enforcement as an IP management tool instead of resorting to other alternative forms of economic protection. At issue is also the implementation of IP management strategy to help the brand owner to choose in each case the most suitable rights to be enforced and the method of their enforcement.

As already described in Part I, administrative enforcement of IP rights, and in particular, of trademark rights in China is based on a set of legal provisions in the various IP laws, empowering special administrative organs (AICs for trademarks and Patent Bureau for design and patent rights), to enforce IP rights through raids and seizures, *inaudita altera parte*. This has become the most common and most used form of enforcement in China against counterfeiters. It is rather inexpensive and it is fast. Most of all, administrative enforcement is carried out, especially in case of trademarks, without knowledge of the infringer, which will then normally be caught red-handed! The most common brand protection strategy adopted by foreign enterprises in China focuses on stemming the counterfeiting tide by actual and continuous enforcement, i.e. hitting counterfeiters by having administrative, and to a lesser extent, criminal enforcement organs raid their factories and warehouses, in order to seize counterfeits, destroy manufacturing tools and, in case of criminal procedures, have the counterfeiters convicted and jailed. These actions are also supposed to act as a deterrent on the infringers. The deterring effect is definitely higher in criminal enforcement raids, while it is often very low or non-existent in case of administrative raids. This type of enforcement is normally realized through the cooperation of brand owners with a plethora of investigators which provide free sightings of counterfeiting activities ready to be raided. Generally, statistical data show that the massive increase of administrative trademark enforcement in its most common form described above, along with more cooperative enforcement authorities, appear not to have any beneficial impact on counterfeiting in China. Short term administrative enforcement nonetheless, the counterfeiting business is objectively on the rise. Some experts even suggest that short term enforcement may be counterproductive and make the problem even worse.

48 This is particularly the case in which administrative seizures of infringing products hit factories belonging to a wider and well organized infringing network. In this counterfeiting constellation, it is very likely that the raided factory will be either replaced by another one, will be quickly relocated to a neighboring area, or it may even resume the infringing business within a few days from the enforcement.

Although this latter position may reflect indeed a perception many brand owners have when confronted with the frustration of seeing that all their efforts cannot in fact alone “eradicate” counterfeiting, it does not render justice to the real function of administrative enforcement of IP rights. In general, there is a tendency in both brand owners and brand protection professionals to give administrative trademark enforcement the function of eradicating counterfeiting. Consequently, the fact that counterfeiting is more rampant than ever, is attributed also and in good part to a failure of administrative enforcement of IP rights in China to achieve this target. The author is of the view that this conception of administrative trademark enforcement in China is methodologically incorrect and if taken as the main parameter to judge the efficacy of a brand owners’ IP strategy, will lead the same brand owner to make of it a wrong use.

Administrative enforcement in China is not a State policy, as brand owners are not governmental or diplomatic organs. IP enforcement is a legal action allowed by a sovereign state to private individuals and companies (including foreigners) to protect mutually recognized private rights. As such, enforcement has just a mere economic and legal function, whose implementation and success should be measured according to the same parameters we use to determine enforcement of other rights, like in case of contract violations or general tort. Therefore, short term administrative enforcement should not be conceived and enacted by a company with the aim of eradicating the plague of counterfeiting. Such goal setting would be disproportionate to the legal and economic function of IP rights. The enforcement of IP rights against counterfeiters should not be therefore put at the same level of national legislations and IP policies and consequently should not be evaluated and measured according to whether or not, and in which measure it contributes to achieve the public policy goals of a sovereign State, i.e. the eradication of counterfeiting and the technological development of China.

The determination of whether short term IP enforcement against counterfeiters is effective can therefore be measured only in terms of the economic benefits it may bring to the single brand owner with respect to its specific products, market and business strategy. In other words, we should not load IPR daily and practical administrative enforcement of too much political significance, and we should rather look and evaluate its efficacy as an IP management tool based on whether it helps or not to achieve the business strategy of the right holder. The administrative enforcement of trademark rights in China against counterfeiters should be therefore conceived and organized in accordance with the company strategic IP management goals, which in turn must be functional to the overall brand business strategy of the right holder.

Without entering into further details concerning IP management of trademark rights, it suffice to say for the purpose of this article, that given the multiplicity of economic and commercial functions of IP rights, their enforcement will be often dictated by reasons peculiar to a single brand owner, or at most to a group of brand owners operating in the same market. This leads to observe that the success of a strategy based on administrative trademark enforcement in anti-counterfeiting arena cannot be measured in general terms applicable to all enterprises in China. A certain type of enforcement beneficial for a certain group of products, may not be necessary so for others. In Part I we had highlighted this point by making a generalized
distinction between types of luxury brands according to the intensity by which a brand influence the purchasing behavior of the relevant consumer group for each specific product.

On the other hand, there are some traits of trademark enforcement that are common to all type of products due to the fact that unlike its commercial functions, the forms of legal protection of trademarks are limited in their form and are common to all brand owners. The analysis of these common traits and shortcomings is nonetheless necessary to identify at least a number of corrective tools which may be easily usable and adaptable by all type of products manufacturers to adjust and make a more efficient use of them against counterfeiters.

2. Common Recurring Features and Shortcomings of Administrative (or short-term) Trademark Enforcement in China

Foreign brand owners, small-middle sized companies as well as multinationals, may not have sufficient resources for employing own investigative teams to uncover IPR infringements throughout China on a 24/7 base. Even if they were to create such in-house investigative team, this would not likely be able to cover both in geographic and quantitative terms all possible manifestations of counterfeiting of all the company brands. This awareness has two main consequences. One is that brand protection must be concentrated on certain regions and on certain IP rights and products and not all of them. The other one reflects in itself the need of outsourcing investigative and raiding activities to external detectives and law firms. These traits are common to all industries in China and characterize the typical modus operandi of brand owners when approaching and using administrative trademark enforcement as their major brand protection strategy.

Also, it is observed that the decision of brand owners to distribute the available financial resources to protect their brands in relation to certain regions and in function of certain products rather than others is often dictated not only by a consciously planned IP management strategy, but also by the unavoidable necessity, inherent to such system, to delegate more and more such determinations to a plurality of independent private investigators on the field. This will obviously bring to a distorted implementation of an already existing IP strategy or worse, to the conception and implementation of the same by subjects outside the company, resulting in turn in a loss of complete and direct control by the brand owner over the enforcement of his IP rights. This is indeed the major shortcoming of this most common manifestation of administrative trademark enforcement, and to this problem brand owners must find effective remedies through radical changes.

2.1. The Role of Private Investigators in the Shaping of Brand Protection Strategies

Swelling numbers of investigative companies roam the country to find factories manufacturing and warehouses stockpiling counterfeit goods. Many of these detectives specialize in certain types of products and in certain given regions. They often rely on local informants and on their personal and direct familiarity and relations with local enforcement authorities. This is so for the
fashion as well as for the luxury industrial products. In practice, investigators “monopolize the field work”. This allows them to select and control the “sightings” of ongoing infringing activities and to choose if and how to inform involved brand owners about them.

Brand owners are aware of the risks and benefits of this working methodology. They will try to be selective in the choice of sightings they receive daily from all sorts of investigative sources, in order to reduce the risk of paying for “fake” and worthless sightings. Most decision making processes will be based on economic considerations, such as the market value of the sighted parts and the costs of the raid. In order to increase the selectiveness of the entrusted raids, brand owners will try to work only with “proven” and long term partners on the field. The advantage of this approach is that by working with a plurality of investigators, and by accepting some flexibility about the quality of sightings, brand owners can secure high enforcement figures, which are one of the more tangible, although often fallacious, parameters for measuring the “tactical”, if not the strategic success of the company brand protection strategy.

However, this operational modus presents risks. The immediate risk is that of a fossilization of the brand protection strategy on the concept of raiding for high quantities at low costs. Collateral to this risk is the fact that the intensification of frenzied and extemporary administrative enforcement will not allow the development of comprehensive and long term strategies. In particular, brand owners may find difficult to stop, reflect and develop more effective economic parameters to measure the success of their brand protection strategies. If we add to this the fact that the function of anti-counterfeiting enforcement is misunderstood as a “policing”, rather than an IP exploitation tool, there is a possibility that the function of the legal tools of administrative trademark enforcement be worn out and vilified, thus reducing its practical efficacy.

In practice, enforcement focused more on the quantity rather than the quality of the raids, may be detrimental to the IP portfolio of the brand owner, and to broader and long term economic and commercial strategies. For example, based on the above equation, there may be the risk that, the raiding of a shop selling one fake part of a luxury industrial product with safety related functions for the user, may be rejected because the value and number of the pieces to be seized would not justify the raid-related expenses. This alone shows that while enforcing may not have in itself many other alternatives, the issue of improvement must move now from that to how to strategize enforcement so as to make it more efficient and functional to the business strategy of the brand owner. In particular, brand owners should strive to be more selective about their IP strategy targets and dictate them to the investigators rather than having the contrary happens. Some manufacturers already do that by involving selected investigators partners and sharing technical information and data, so as to stimulate and enable investigators to go and look for the products the brand owners want to find out. On the other hand, many brand owners are reluctant to part with know-how, information and IP management strategies with partners which are never fully to be relied upon in the mid-long term. This is especially so in those markets

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All these remarks are based principally on the decennial personal experience of the author in the various industries, and especially in the mechanic and automotive anti-counterfeiting field. Additionally see Supra note 2.
where investigators work for competitor brand owners as well, and therefore there is no
guarantee of confidentiality.

In order to reduce this shortcoming of administrative enforcement in China, brand owner should
carefully evaluate all relevant factors concerning their products, markets and related IP rights in
order to conceive a proper IP management strategy before even entering the enforcement arena.
Only in this way they will create efficient guidelines to manage the administrative enforcement
tools with which they will be unavoidably confronted once they will start implementing their
brand protection strategy.

2.2 Low deterring effects of Administrative Raids

Another misconception of short term type of administrative enforcement based mostly on
quantitative parameters is that regarding the deterring value of such enforcement tool. Short
term enforcement is mostly characterized by administrative trademark enforcement in the form
of raids and seizures of counterfeit goods. It rarely extends to criminal enforcement due to both
legal and political difficulties to have the police involved on enforcement requests from a private
party (the brand owner). Administrative raids and seizures are easy to obtain and trademark
administrative officials in charge of anti-counterfeiting are generally keen to initiate raids upon
request of the right holders, if the latter can bring a prima facie evidence of the infringement.
This evidence is normally the result of the sighting of the local investigator, which in most cases
is the one subject negotiating the raid and seizure with the local authority on behalf of the brand
owner.

However, administrative raids, so easy to be obtained, may have a very low deterring force due
to the very limited legal consequences for the infringers and the often and openly displayed
reluctance of local enforcement officials to take measures against counterfeiters for political or
personal reasons. The major effect of an administrative raid is that of leading to a temporary
shut-down of the infringer’s factory and a monetary fine which is normally of a low, symbolic
amount. In many cases, such measure will cause but a temporary economic setback for the
infringer, and this lack of deterrent explains why infringement repetition is so common among
counterfeiters. As any business man, counterfeiters already take into account raids as
business-related risks. The loss of an order will be likely made good in few weeks by taking over
more order and having the illegally employed local workforce make double shifts!

Administrative organs in charge of anti-counterfeiting actions have a limited range of legal tools
to punish and deter infringers, as we have explained in Part I. Also, administrative enforcement
organs may raid counterfeiters but, for local protectionism reasons, may decide not to be harsh
on them even when counterfeiters are caught repeating infringing acts. It is important that the

51 Police is normally engaged in anti-counterfeiting campaigns organized directly by the central or provincial governments. Police is an
arm of the state in charge of public security and as such intervenes only in those cases initiated upon requests from private companies
or individuals only where both the minimum quantitative requirements of the criminal law as well as the interest and prerogatives of
the sovereign State are in danger. Enforcement of IP rights is on the other hand a legal instrument concerning the protection of
commercial rights and it is not normally concerned with public or state security. This explains why, aside from both legal or political
unwillingness of the police enforcement units to be involved in anti-counterfeiting due to local protectionism, there is a more
compelling institutional reason that helps us to explain why police raids are rare in the anti-counterfeiting arena and constitute an
exception to the rule that IP rights are protected in first instance by either civil or administrative law and enforcement organs.
brand owner is not persuaded to use administrative enforcement of IP rights in China only for deterring infringers and accumulating seized goods figures. Other, also very important factors must lead the decision of whether and when to request administrative raids.

3. Strategic Adjustments to the shortcomings inherent to administrative enforcement

Intense enforcement activities through sightings from local investigators require investment of financial resources. At the same time brand owners may not be able to retain full control of both the enforcement agenda and its effectiveness. This compels brand owners to emplace processes and criteria which will allow an optimization of and gain effective control over their IP rights enforcement agenda in China. On the other end, more professional and ethical service providers in the Chinese market can also contribute to an improvement of enforcement quality in China by overcoming the shortcomings of the present system as described above, which have recently reached in some instances new qualitative lows.  

3.1. Increase the “Legal” and “IP-Management” involvement during the conception of a brand protection strategy

From the company point of view, resorting to administrative enforcement derived from sightings reported by external investigators, although a valuable resource, it is also a source of concerns, especially regarding the direction and control of such activities, their being genuine and their effectiveness. That is why all brand owners understand the importance of these sources of enforcement to be subjected to a reviewing process. The practical difference between a successful and an unsuccessful brand protection strategy will then depend on whether and how the brand owner can control and manage the needed work of external partners. It is believed by the author that a successful approach to this managerial question lies first in the degree of awareness, knowledge and use of the legal as well as managerial resources of the company to support brand policy. The more the brand owner will be able to integrate the more traditional control criteria based on the relation between available resources/seized quantities with IP management, the better he will be positioned in gaining control over and direct its brand protection strategy rather than the contrary. In particular, when taking the decision of whether to authorize unsolicited sightings from independent Chinese investigators, the brand owner should not be guided solely by the natural urge of stopping each and every newly discovered infringing activity. This approach will lead even the most well-financed brand protection team to quickly use up financial resources in a very short time, or to require ever increasing ones without

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52 Many local Chinese investigators and law firms are literally inundating the mailboxes of foreign company in China soliciting business for obviously bogus sightings. The author is witnessing an ever increasing number of these cases, which follow a typical identical pattern. A local Chinese firm or investigator select a certain type of product, go online in popular e-commerce websites and identify likely counterfeits of all major foreign brands for that kind of product (they will judge this by comparing the price offered with the official sales price abroad for that same product). They will the write a letter to each of them soliciting further investigations and possible raids. What is interesting, and here is the scum, these letters are phrased so that at first you might have the impression they have obtained the information through an investigator who had physically visited the proposed target. However, this fiction is evident to the eyes of an expert and it is easy for what they do not say about the infringement, to understand that their only source was the e-commerce website. It is a scum which looks similar to another one running already for a few years here in China, concerning letters from domain name registrars to foreign brand owners informing them that there is a company asking them to register a domain with the trade name or trademark of the addressee, and that they give the addressee of the solicitation the possibility to registered that domain in advance of the third party company. The author know by experience that in almost all these cases there is actually no third company involved, and the letter just aims at pressing the addressee to take a quick decision to entrust the sender’s registrar to apply for a domain.
the palpable feeling of having really come close to tackle the problem, and with the doubt always present of having indeed chosen the wrong cases.

In a more comprehensive and legally founded approach, the first issue that a brand owner should determine when deciding whether to raid a counterfeiter’s factory, warehouse or shop is which types of IP rights and the related product should be protected in a given instance or at a more strategic level. It is a pure IP management decision, in that it determines firstly what IP rights are involved in an infringement and which of them, and in which form they need to be protected in order to value these rights and thus effectively participating through their enforcement to the implementation of the overall business strategy of the company. In practice, counterfeiting may interest trademarks and designs, trademarks and copyrights, copyrights and designs, or all of them at the same time. Although trademark rights may be an easy choice because of their relatively easy enforceability, it may be questionable whether their enforcement in a certain case constellation will really produce an economic benefit to the company and the brand. It will be then the duty of the brand owner to determine the commercial value of each single IP right which is infringed and whether enforcing a trademark rather than a design or a copyright for instance will be the best solution in the specific case in particular, and also for the whole IP portfolio in general. It is observed for instance, that brand owners tend to renounce to design patent enforcement, when there is no evident trademark involved in a counterfeit. The result of this will not only be that many counterfeits of a certain protected product design will flood the markets, but also the design patent will lose its economic and brand-related value. This loss of values will often have immediate negative impact on those Chinese companies which pay royalties for legally using that same design in China. Also, it will neutralize the product identifying effect of the design among the relevant consumers of that certain product and will make them not interested to buy it due to its loss of uniqueness. This will in turn lead to an overall brand dilution which will affect the related trademarks. We take again the example of the tire rims, which we have used already in Part I for explaining this same issue from a conceptual point of view. Lovers of luxury car brands will be very familiar with alloy tire rims design of their favorite car models. They will be able to identify the origin of the rim from its design without need for them to see the maker logo at the center of the rim itself. They can say that that is a BMW rim or an Audi rim etc. It is evident that the protection of a tire rim design in these cases should be as legally and economically justified as in the case in which the rim showed the maker trademark as well. The same can apply to a designer bag as described above.

Even before playing a role on the tactical level. Such principle of IP management is the same that guides a company’s decision as to which products deserve which IP protection. A brand protection strategy with its case by case enforcement choices is nothing but the concrete application of the principles informing the general IP management strategy of the company. That is why the field choice of which product/right should be protected is nothing but the reflection of the strategic principles which had moved the brand owner to choose a certain IP right to protect that certain product (i.e. a reflection of its chosen appropriation model).

Moving forward, once then the suitable rights are chosen, the brand owner will have to select the more appropriate type of enforcement procedure. As already stated, in most cases, a brand
owner will, rightly, chose trademark or design administrative enforcement (raids with seizures *inaudita altera parte*). However, other options may be available as alternative or complementary measures to administrative enforcement. The choice of these options, as that of the right to enforce, will also be a reflection of the general principles of the company IP management and selected IP appropriation and exploitation model. Some considerations on this point will be made in the following paragraphs.

In conclusion, these are just few examples of how important it is for a brand owner to have an understanding of his IP rights in function to his brands and products and also of the Chinese legal system, which are all factors, mentioned in Part I above.

3.2. **Determination of Strategic Aims to Justify Administrative Enforcement**

As already stated, resorting to administrative trademark enforcement may have in many cases a low deterring effect. Therefore, there must be additional reasons to justify the financial effort. For industrial luxury products, such reasons may be the avoidance of indirect financial burdens derived by non-enforcement, such as risks of recalls, of lawsuits based on injuries caused by faulty fake parts, swelling of unjustified warranty claims etc. Not all parts and products will present the same number of risks and will have different degree of risks. It will be the duty of the brand owner to determine internal guidelines to identify the different risks and their degree of impact for each product susceptible of being counterfeited. In this way, the administrative raid will not be used only for deterring the infringer, but also to selectively take out of the market those products which may cause collateral economic damages such as increasing warranty or product liability claims, and preserve the brand/quality image in relation to safety or high performance related parts.

In sum, administrative raids upon trademark or design rights should be used as an emergency legal tool to prevent certain fake products from entering the market, thus avoiding not only or exclusively a direct economic loss, but also indirect economic losses including those related to product safety and product performance, as well as brand dilution. Administrative enforcement of IP rights shall not be used exclusively as a deterrent per se. The deterring effect can be in fact higher if the counterfeiters will not expect enforcement.

At the same time, it must be the brand owner to decide and implement a brand protection agenda and use the local investigators as an additional resource, while taking measures to limit their influence on his enforcement agenda as suggested in the paragraphs above.

3.3. **Control of the implementation of enforcement Strategies**

As already mentioned above, many raids are conducted upon initiative of local investigators which will also take over the administrative enforcement and therefore will directly liaise with administrative enforcement officials. This results often in the brand owner becoming a passive receiver whose brand protection agenda is virtually dictated by company outsiders. In such
extreme cases, brand owners must try to regain a certain control over the practical implementation of the conceived brand strategy. Increase direct cooperation with the Chinese enforcement authorities, such as Chinese customs, may help to reduce the dependency on local investigators and increase the number of raids deriving from official authorities. This can be done through participation in lobbying organizations in China\textsuperscript{53}, or by direct involvement with enforcement authorities in key areas where most important brands/products counterfeit come from. This may also reduce the risk of having local authorities refuse raids or to be too lenient with infringers and even increase the quality and the engagement of administrative enforcement. This is actually an established practice by multinationals, while it often remains an unexplored option by most middle sized and small enterprises, the main reasons for this being financial and cultural ones. A downside of such an approach is that in many cases authorities may still not be won over to the brand owner side. Eventually, sightings generated by official seizures may not be necessarily of the type and quantity wished by the brand owner. In sum, adopting such a tactic alone does not cure the problem of the manufacturer regaining direct control over the shaping and implementation of his brand protection strategy.

Therefore, brand owners must find operational models which will result in the effective implementation of their own conceived brand protection strategy in China without having local investigators or authorities take over control of such implementation. For those companies which cannot afford employing their own investigative team, a suitable alternative would be that of partnering with experienced professionals which can field a dedicated team of investigators in exclusive relation with the specific brand owner. This specially created enforcement arm, unlike the work derived from unsolicited sightings, can function as an extension of the in-house structure and will be the executive arm (a sort of elite troop) under direct control of the brand owner. This special force will be used to carry out the core tasks selected by the brand owner in execution of his enforcement strategy. The main difficulty in realizing this system is that only few professional operators in China can offer the required professionalism, confidentiality and dedication standards and can accept to work in an exclusive type of relation. This remains however, the most practicable and recommendable solution for the brand owner to regain direct and full control over his brand protection strategy, although it may come at a price. Also, this operative model will not mean the exclusion of other providers. Their contribution to the company strategy can still be valuable. However, the creation of such an elite enforcement unit will correct and rebalance the influence of local investigators in the form actually known in China.

\textsuperscript{53} For example, the most authoritative of such organizations in China is the Quality Brand Protection Committee (QBPC). See www.qbpc.org.cn.
4. Other Forms of Brand Enforcement

In sum, the use of these correctors may help brand owners improving the quality of short term strategies based on administrative trademark enforcement.

Aside, from that, the function of an IP management strategy in relation to brand protection is also that of selecting and coupling administrative trademark enforcement with other forms of IP protection and exploitation with the aim of creating an efficient enforcement system curtailed in the IP management strategy of the company. Below is a short review of some other legal tools that could be used in alternative or to complement administrative enforcement of trademark rights.

4.1. Criminal enforcement

Criminal enforcement of trademark rights has a much stronger deterring effect compared to that of administrative enforcement and has more chances to achieve a permanent or at least a long term eradication of a specific infringement manifestation. Certain criminal cases, those which make it to national news may see this effect both temporarily and territorially amplified by the media coverage and by being taken as precedents to inform the conduct of public security officers nationwide in similar cases.

This said, it remain to be seen under which circumstances PSB will be willing and able to intervene. A legal condition for PSB intervention and criminal enforcement is laid down by the criminal law and the relevant implementing regulations. The principle adopted by the criminal law is not that of “criminalizing” the conduct of intentionally “counterfeiting” a registered trademark of others, but rather that of “quantification” of such conduct. In other words counterfeiting in itself is not a criminal offence, while counterfeiting of certain quantities or for at least a certain monetary value can surge to a criminal conduct susceptible of criminal enforcement and punishment.

Counterfeitors are aware of these rules and will often adapt their counterfeiting structure so as to avoid or reduce the risk of criminal infringement. This leads for instance to night production and shipping, when the IP offices of PSB are closed. In other cases, manufacturing schedules and storage organization will be set up and managed so as to avoid criminal enforcement and the risk of being caught by the police in the act of counterfeiting. Another obstacle which may be encountered while attempting to obtain criminal enforcement is that enforcement authorities,

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54 See Articles 213, 214 and 215 of the Criminal Code of China. Also, it is regulated in Article 2 of SPC Interpretation on Certain Issues Concerning the Application of Law in Handling Criminal Cases Involving Infringement of Intellectual Property Rights that: “1. The intentional sale of goods bearing counterfeit registered trademarks shall fall under the provision of Article 214 of the Criminal Law indicating that “the amount is relatively large” in cases where the sales amount is not less than RMB 50,000, and the seller shall be convicted of selling goods bearing counterfeit registered trademarks and sentenced to fixed-term imprisonment of not more than three years, or criminal detention with the concurrent imposition of a fine, or shall be subject to a fine alone. 2. If the sales amount is not less than RMB 250,000, the sale shall fall under the provision of Article 214 of the Criminal Law indicating that “the amount is substantial” and the seller shall be convicted of selling goods bearing counterfeit registered trademarks and sentenced to fixed-term imprisonment of not less than three years and not more than seven years, with the concurrent imposition of a fine.” Indicating from the above, the 50,000RMB is the threshold mentioned by Article 214 of China Criminal law.
especially in cases started directly by the brand owner, will be reluctant to act for the already mentioned local political factors or due to corruption.

In spite of the obstacles, brand owners should consider investing resources in trying to obtain criminal enforcement. This is surely the case for fashion brands, if it is considered that trademark protection in relation to types of products has primarily and almost exclusively the function of preventing brand dilution and to reduce direct economic losses. In this way resources will be better allocated to longer and deeper field investigations, rather than dispersed in piecemeal administrative enforcement. Also, considering that the vast majority of counterfeiting of these types of products involves a plurality of brands, unlike for more complex industrial products, joint criminal actions are surely an economically attractive and efficient alternative option to administrative enforcement. The same may not work for most industrial products. In these cases, multiple brands infringements occur only for certain types of products with lower technical content and similar design. Regarding parts with a design peculiar to a brand only simultaneous infringement of several brands for those parts will not likely occur, thus eliminating the viability of joint criminal efforts by brand owners on critical parts.

4.2. **Cumulative Enforcement Strategy**

Civil litigation is a good tool to complement and reinforce administrative trademark enforcement especially where this could lead the counterfeiter to embark on costly defenses and sure defeat. In this respect, civil enforcement should not be actually a casual consequence of the administrative raid, but the real reason upon which an administrative enforcement is decided and enacted. It is during the investigation of the infringement that elements should emerge which will convince the brand owner to prepare for a civil lawsuit anticipated by an administrative raid. The raid in this case would work as a pathfinder; collect information and evidence which will then be fully exploited in the civil lawsuit. In this way the deterring force of the raid will be boosted by the following civil litigation.

Ancillary civil litigation or administrative procedures should be sought whenever this may bring about additional burdens to the infringers. If an investigation reveals evidence which would support non-IP claims, this should be considered as an additional deterring action. In sum, cumulating administrative and civil proceedings, although this may require higher financial investment, will surely reach positive and more durable effects than administrative raids alone. Such tactics should be more often employed against recurring infringers or against counterfeiters which, for the size of their investments and activities, are likely to become repeating infringers.

As already stated in the previous paragraphs, a comprehensive brand protections strategy in China should also consider the possibility of joining administrative enforcement of trademark to that of copyright and design patents available to the brand owner to the same product. This can be coupled with the choice of different procedures as indicated above. The ultimate goal of these “cumulative enforcement” strategies is to optimize the exploitation of the available IP portfolio to the benefit of all registered IP rights, while at the same time to increase the deterring

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55 See Supra note 46.
effect of mere administrative enforcement of trademarks upon infringers, thus dissuading them from infringing that brand again.

4.3. Recourse to civil litigation outside China

A reaction to the frustration of obtaining durable results by short term enforcement in China may be well one of the reasons that persuaded Coach, a US luxury bag manufacturer, to seek trademark enforcement against Chinese counterfeiters in the US. On November 2, 2012, Coach, Inc. announced that it had obtained a default judgment of $257 million in a lawsuit filed in Illinois Federal Court against individuals and businesses that operate websites selling counterfeit Coach’s merchandise. The judgment also awards Coach the ownership of 573 internet domain names, which are the websites from which defendants conducted their illegal operations.

There is little doubt that the headlines related to this case may be striking at first. Surely they will attract the attention of an American or a European reader. However, what kind of legal and economic impact will a multi-million dollars judgment in the US have on Chinese counterfeiters?

The positive effect of such cases may actually be felt more on the long term, even though there is no such evidence at present when you look at stats or just stroll in one of the many fake goods markets in China. We can however hypothesize that an increment in the number of such judgments in US and hopefully in the EU, together with effective and concrete collection of damages with economic ruin of importers and traders caught in the net, may with the time make such trading less attractive. In turn it may make more difficult for the Chinese exporters to find willing partners abroad. Such civil actions in US and EU may also help educate the public about this problem.

On the other end, filing of expensive lawsuits in the US or the EU against entities which may never be caught or pay the awarded damages may result in a costly but futile exercise. Such approach in fact only scratches the surface of the outer layer of the counterfeiting system. Most of all, and in spite of big headlines in the West, it will have no strong deterring effect on the real counterfeiters which will continue unscathed to infringe Coach brand in China and send them abroad, maybe at the double to recover the temporary slow-down due to the shut-down of a few hundred domain names. The manufacturer, distributors and the syndicates behind the infringement in China will remain out of reach of such judgment. They will quickly find many traders and importers available to take the risks and their business will resume. In this context, it is very questionable whether the resources spent for the legal action in the US would be better allocated to going after the infringers in China.

Also, even of this approach may indeed have a long term positive effect of reducing import avenues for counterfeiting goods it will not solve the problem in its entirety. The economic crisis has already reduced sales of luxury goods in US and EU, while the real deal now has moved to Asia. China is headed to become the second largest luxury good market in the world by 2015 and stopping counterfeits here is as important as stopping them from arriving in the US and the

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56 Liana Cafolla, China Luxury, A Plus 24 (October 2007).
EU. The same can be said about Japan and Korea. Therefore, litigating in the US as Coach has done in the cited case may be a viable option only and as long as it does not take away resources from enforcing directly where the source of the problem is.

Conclusions

Brand protection or anti-counterfeiting in China is an evil necessity. Like it or not, brand owners must invest financial and human resources to tackle the problem at its own roots and bring the fight in the counterfeiters’ homes.

The question therefore is not of whether it is worth enforcing trademark and other IP rights in China, but how to do that efficiently. This requires brand owners to set realistic goals and make good use of their IP portfolios to maximize their value appropriation model. Each company must measure such value in function of its business strategy, its products and brands. There is therefore no perfect universal receipt for success. Each company will have to measure the efficacy of its brand protection strategy in China by comparison with its IP appropriation and exploitation model in function of its business strategic goals.

In practice, brand owners will have to properly select and manage the appropriate IP tools to maximize their protection against counterfeiters and choose wisely when and how to employ them. Although administrative trademark enforcement is the most common manifestation of a brand protection strategy in China, it may not always be the most efficient. Its shortcomings will have then to be corrected so that the tool efficiency will be maximized, while alternative tools and IP rights may also be effectively employed together or in alternative to administrative trademark enforcement.

It is also important that brand owners realize that IPR enforcement has a very limited legal and economic function and shall not be employed to reach goals which are beyond its legal nature. Fighting counterfeiting is a State policy matter. Confusing trademark enforcement with eradication of counterfeiting would always result in a failure of any brand protection strategy. Therefore, strategic goals of a brand strategy by a private company must be confined to IP management and measured to the chosen IP exploitation model and the business goals of the company.