

WORLD INTELLECTUAL PROPERTY REPORT >>>

News and analysis on IP law, regulation and policy from around the world. For the latest updates, visit www.bna.com

International Information for International Business

VOLUME 30, NUMBER 8 >>> AUGUST 2016

Reproduced with permission from World Intellectual Property Report, 30 WIPR 32, 8/1/16. Copyright © 2016 by The Bureau of National Affairs, Inc. (800-372-1033) <http://www.bna.com>

Trademarks/Enforcement

Seven Steps to Fight Food & Beverage Counterfeits in China



Andrew Sim and Shirley Zhao

By Andrew Sim, partner and Shirley Zhao, associate, Baker & McKenzie, Beijing; email: andrew.sim@bakermckenzie.com, shirley.zhao@bakermckenzie.com

Most foreign brand owners in the food and beverage (F&B) industry recognize and are willing to shoulder the cost of fighting counterfeiters in China. Unfortunately, spending does not always lead to the expected result of reducing counterfeits in the market.

In most cases, F&B businesses take action only when an infringement becomes visible. However, to constantly win battles with the counterfeiters, it takes more than responding passively to visible infringers: rights owners need to be proactive and tackle infringers while they

are still small-scale. Also, when fighting counterfeiters, right owners should also be equipped with the right strategies that fit specific case scenarios to maximize the success rate.

In this article, we set out the seven steps for F&B businesses to fight counterfeits in China. Steps 1 to 3 are universally applicable. Steps 4 to 7 should be applied on a case-by-case basis.

Step 1: Register IP Rights and Establish Product Fame.

A brand owner should register in China as much as possible its IP-related assets before entering the market. In a first-to-file jurisdiction like China, a brand owner who neglects to properly register its rights will mostly fail in its attempt to protect its IP assets from pirates and counterfeiters.

In addition, brand owners should also preserve evidence demonstrating the fame of its products in China. The most helpful form of this evidence include sales figures, advertising expenditures, promotional materials and other business documents. This evidence

can substantially improve the chances of success in the actions described in Steps 5 to 7.

Step 2: Identify the Counterfeiter Early.

Brand owners often rely too heavily on their local distributors to alert them to counterfeiting operations. Once a counterfeiter grows to a sizeable size for a local distributor to notice, the counterfeit activity has usually reached a point where it will be difficult to eliminate, or the elimination requires a substantial investment of money, time and effort. Driven by the huge profits possible, small counterfeiters can quickly evolve into sophisticated business networks capable of maintaining secrecy, a result of a network supported by relatives and close friends, and withstanding efforts to stop them.

As such, businesses should regularly monitor offline and online market platforms, such as popular Chinese e-commerce platforms Taobao.com, JD.com and YHD.com, to identify small-scale counterfeiters before they grow into sophisticated business networks.

Step 3: Investigate the Counterfeiter and Preserve Evidence.

Once a counterfeiter is identified, the brand owner should first conduct a full investigation, including an on-site visit to confirm the counterfeiter's scope of infringement. During this investigation, the brand owner must avail itself of the opportunity to collect the information and evidence the government and judiciary will require for future enforcement actions, including raids.

The brand owner must carefully preserve and notarize the evidence gathered and should include notarized downloads of websites selling the counterfeit products and notarized purchases of counterfeit products. These notarized evidence are particularly important if the brand owner wishes to claim damages in a civil action as discussed in Step 6 below.

Step 4: Send Cease and Desist Letters and Take Down Notices.

Cease and desist letters can be sent to small-scale manufacturers and distributors as a cost-efficient approach to test their position. Some of these small-scale counterfeiters may even agree to stop the infringement outright when contacted. But these letters should not be used when dealing with large-scale and experienced counterfeiters because the letters will simply alert the counterfeiters and imperil future enforcement actions.

Take down notices can be sent to e-commerce platforms and internet service providers. Although often unresponsive in the past, many big name e-commerce businesses are attempting to improve their image by being more responsible in preventing counterfeiters from operating on their websites.

For example, the New York Stock Exchange-listed Alibaba Group, owner of Taobao.com, Tmall.com and 1688.com, has developed an integrated platform to receive IP-related complaints from trademark owners free of charge. Once preliminary infringement evidence,

such as trademark or copyright registration certificates, is uploaded to the platform, Alibaba can usually remove the web pages displaying the infringing goods in one to two weeks.

Step 5: File Administrative Complaints.

A brand owner may file an administrative complaint based on trademark infringement, unfair competition and food safety violations. Compared to court actions, administrative complaints can usually achieve a resolution more quickly. An administrative complaint is the best approach if all the counterfeiting activities occur within one city or province and the brand owner does not intend to pursue damages or a criminal indictment.

Administrative authorities, however, can be inexperienced in handling complicated cases, such as those with multiple legal disputes and parallel actions. For those matters, the brand owner may consider filing a civil action directly (see Step 6 below).

There are several different routes a company can take when pursuing administrative enforcement.

Local Administrations of Industry and Commerce (AIC)

AIC complaints can be filed based on trademark infringement and unfair competition. Trademark infringement is defined as the unauthorized use of a mark that is either identical or similar to the brand owner's registered mark on identical or similar goods. Unfair competition refers to false advertisements and unauthorized use of product names, packaging or designs that are identical or similar with the brand owner's product names, packaging and designs.

In the complaint, the brand owner may ask the AIC to raid the counterfeiter's premises and seize the counterfeit goods and tools used to manufacture them. As F&B products circulate quickly in the market, information about product logistics and stock locations is essential to guarantee a successful raid. Many AICs can conduct a raid shortly after receiving a complaint if the complaint sufficiently specifies evidence of infringement and the place of the raid.

Other than seizure and confiscation of goods, a successful AIC raid may also lead to substantial fines against the infringer. For trademark infringement, the fines can be up to five times the illegal turnover; and for unfair competition, the fines can be three times the illegal turnover.

Brand owners should be made aware that once a trademark is recognized as well-known, it will enjoy a substantially wider range of protection. Once a product achieves this status, certain features of the product, for example its packaging, can also be protected without being registered as a prior right.

Local Food & Safety Administrations

Sometimes, a brand owner may lack sufficient legal basis to protect its brand under Chinese law. For example, due to late market entry, the brand owner might not have obtained trademark registration in China or it might not be able to produce sufficient evidence to

prove the product's fame in China. Under these circumstances, instead of filing a complaint with the AIC, the brand owner should explore the possibility of filing a complaint with the local food safety administrations (China Food and Drug Administration) alleging that the counterfeiter has violated food safety regulations.

Many counterfeit F&B products do not comply with China's food safety standards. As part of the investigation phase, a brand owner should hire an independent agency to run product quality tests on the counterfeit products. If the test results indicate a violation of the CFDA rules, the brand owner may submit the results as preliminary evidence and request the CFDA to start an investigation.

Violations of the *PRC Food Safety Law* carry harsher penalties than violations of the IP laws. Entities with non-

criminal but severe violations can expect fines up to 30 times the illegal turnover.

Step 6: Civil Action Seeking Injunctive Relief.

The brand owner may file a civil action claiming infringement of IP rights, as well as other causes of actions such as unfair competition. If the court finds in favor of the brand owner, the court may award damages to the brand owner to compensate for losses.

Damages for trademark, copyright and patent infringement are usually determined by the actual damages suffered by the brand owner or by the infringer's illegal turnover generated from the infringing activity. If the damages are difficult to determine, the court will fix damages within the statutory limit (see below).

Basis of claim	Statutory limit
Trademark infringement	RMB3,000,000 (\$460,000)
Patent infringement	RMB1,000,000
Copyright infringement	RMB500,000

The court determines unfair competition damages through the same approach as trademark infringement. In a recent unfair competition dispute involving false advertisement between Guangzhou Pharmaceutical Corporation and Jiaduobao China, the Supreme People's Court granted RMB3,000,000 in damages to GPC after determining that Jiaduobao had violated the *PRC Anti-Unfair Competition Law* prohibition against false advertising.

Before or during the court proceedings, the brand owner is entitled to ask the court to issue preliminary injunctions to preserve evidence, freeze the infringer's assets and stop ongoing infringement. For the brand owner, these preliminary injunctions are vital to preventing additional losses and ensuring recovery of damages awards.

Step 7: Seek Criminal Charges.

Criminal prosecution is the holy grail for many brand owners, as the threat of imprisonment upon conviction offers the strongest deterrence. Further, the Public Security Bureau (PSB) possesses the most wide-reaching investigative powers among the Chinese enforcement authorities. If the investigation reveals evidence of a criminal offense, the brand owner may submit the evidence to the PSB and request a raid and criminal charges against the infringer. Other administrative authorities such as the AICs and the CFDA may also transfer cases to the PSB if an administrative investigation uncovers sufficient evidence of a criminal offense.

Trademark counterfeiting producing illegal turnover in excess of RMB50,000 constitutes a criminal offense. This

offense is limited to unauthorized use of an identical mark on identical goods or services. If the offense is extremely severe, the infringer can be subject to fines and imprisonment of up to seven years.

In addition to trademark counterfeiting, the counterfeiter may also be subject to food safety related criminal liability if it manufactured food and beverage products that do not comply with national food safety standards. If the offense is extremely severe, the counterfeiter can be subject to fines and imprisonment of up to 10 years.

Although the criminal proceeding is generally led by the local PSB and procuratorate, the brand owner often plays an important role.

The procuratorate is similar to a prosecutor in a civil law jurisdiction.

First, the brand owner may need to lobby the relevant administrative authorities to transfer the case to the local PSB or procuratorate. Sometimes, this involves overcoming an administrative authority's inclination to protect local businesses.

Second, once the case is transferred, the brand owner might be the sole source of the evidence used by the PSB or the procuratorate to issue an indictment or to increase penalties.

Third, during a criminal proceeding, the brand owner may pursue a collateral civil action to claim damages.

Given the harsher penalties available, a criminal proceeding is usually the best means available to a brand owner for dealing with repeat counterfeiters and large-scale counterfeit networks.