



Simone IP Services

China – Perspectives on Online Counterfeiting

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Online IP Infringement

Main Types of Violations

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- ▶ Counterfeiting
- ▶ Other infringing uses of trademarks
 - ▶ To attract eyeballs
- ▶ Copyright
 - ▶ Product pictures copied from IP owner's ads
- ▶ Design patents

Online IP Infringement Where and How?

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- ▶ Trade platforms
- ▶ Stand-alone websites
- ▶ Social media & search engines
- ▶ Emails (spam)

In a Nutshell

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- ▶ Scale of problem and trends
- ▶ Legal and practical challenges
- ▶ Best practices
- ▶ Solutions
- ▶ Bad faith trademark registrations and e-commerce

Scale of Problem & Trends

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- ▶ 2015 data
 - ▶ China represented 88% of value of fake goods seized by US Customs
 - ▶ 37.25% of goods purchased by China Consumer Association were fake
 - ▶ Xinhua estimated \$45 billion in sales of fakes on Alibaba alone
- ▶ IP owner perspectives:
 - ▶ Problem enormous, but hard to estimate losses
 - ▶ Enforcement using traditional tools cost-ineffective
 - ▶ Online markets are critical to future growth

Enforcement Data (2014)

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▶ Customs

- ▶ 240,000 shipments (up 14%) with 92 million units seized (up 21%)
- ▶ The problem with small parcels

▶ AIC

- ▶ 67,500 counterfeit and other TM infringement cases
- ▶ Decrease of 15,600 cases or 19% from 2013
- ▶ Value of cases: RMB 998 million (US \$161 million)

Enforcement Data (2014)

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- ▶ PSB (police):
 - ▶ Handled 28,000 IP infringement and product quality cases
 - ▶ 32,000 suspects; case value of RMB 17.78 billion (US\$ 2.86 billion)
- ▶ Criminal Courts
 - ▶ 4,447 TM counterfeiting cases and 735 copyright cases, up 4.4%
 - ▶ 3,966 product quality cases, up 61.55%
 - ▶ Difference of 20,000 cases compared to PSB statistics above

Chinese Government's Current Work Plan

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- ▶ Campaigns
- ▶ Pilot programs
- ▶ Public black-list database
- ▶ E-commerce Law
- ▶ Alibaba White Paper
- ▶ Social credit system

Legal & Practical Challenges

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- ▶ Criminal enforcement
 - ▶ Numerical thresholds (RMB 50-150,000 or US\$ 7- 21,000)
 - ▶ High cost of investigating
 - ▶ Authorities and IP owners only able to deal with small number of cases
- ▶ Administrative enforcement
 - ▶ Investigative powers limited
 - ▶ Penalty powers limited
 - ▶ Cooperation with police
- ▶ Civil enforcement
 - ▶ Actual recovery of infringer profits difficult
 - ▶ Access to evidence
 - ▶ Settlements hard to achieve

Legal & Practical Challenges

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- ▶ Too many targets
- ▶ Infringer advantages: anonymity and low enforcement risks
- ▶ Unclear legal standards for intermediary liability
- ▶ Government's roadmap for progress unclear
- ▶ Lack of government cooperation on cross-border cases
- ▶ Lack of templates for successful programs

IP Owners Should:

- ▶ Allocate more resources and attention
- ▶ Integrate take-down and bricks & mortar enforcement programs
- ▶ Adopt more sophisticated and experimental strategies
- ▶ Increase engagement with other stakeholders

Best Practices for Trade Platforms

- ▶ Adopt core principles:
 - ▶ Good faith
 - ▶ Low/no tolerance
 - ▶ Proactivity
- ▶ Match problem with needed measures, resources, technology
- ▶ Empathize with both MNCs and SMEs
- ▶ Deeper measures where problem is extreme
- ▶ Sophisticated use of filters

Best Practices for Trade Platforms

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- ▶ Random purchases and surveys – critical for
 - ▶ Tailoring solutions
 - ▶ Identifying hidden infringements
- ▶ Focus on repeat offenders
 - ▶ Create real consequences – even after one offense
 - ▶ Examples of measures that can be applied:
 - ▶ Verification of identify and goods
 - ▶ Bonds and fines
 - ▶ Close monitoring
 - ▶ Referrals to police and other authorities
 - ▶ Filters / bans / warnings

Best Practices for Trade Platforms

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- ▶ Accelerate take-downs
- ▶ Fault-tolerant take-down process
- ▶ Respond aggressively to bad faith counter-notices

Best Practices for Trade Platforms

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- ▶ Support criminal, civil & administrative complaints
- ▶ Provide information on prior transactions, identity, etc.
- ▶ New measures to resolve disputes with IP owners
 - ▶ Mediation (already in piloted for patents)

Suggestions for Government

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- ▶ Better assess economic impact and trends
- ▶ Impose clearer duty of care on intermediaries
 - ▶ Require proactive measures where conditions warrant
 - ▶ Measures needed to ensure duty is not ignored
- ▶ Regulatory controls
- ▶ Pilot programs
- ▶ Promote cooperation among stakeholders
- ▶ Enforcement remedies: fresh look at deep reforms...

Criminal Enforcement Reforms

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- ▶ More cases at lower cost
- ▶ Reduce or eliminate thresholds
- ▶ More focus on e-evidence
- ▶ Fewer people sent to jail, more settlements
- ▶ Taiwan example

Civil Enforcement Reforms

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- ▶ Allow access by IP owners to e-evidence
- ▶ Facilitate John Doe actions
- ▶ Judicial interpretation clarifying duties of care
- ▶ Support settlements and cooperation
 - ▶ E.g., Silk Market cases in 2009

Administrative Enforcement Reforms

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- ▶ Clarify role of administrative enforcement, generally
 - ▶ Will administrative enforcers police directly?
 - ▶ Mere supervision of ISPs?
 - ▶ Focus only on health & safety and consumer protection?
- ▶ Regulatory
 - ▶ Enforce existing rules on company registration, tax, etc.
 - ▶ AIC verification / inspection of take-down targets
 - ▶ Supervision of take-down and other IP protection work
- ▶ Investigations
 - ▶ Access to e-evidence

Suggestion: Pilot Program for Shenzhen and Guangzhou

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- ▶ Guangzhou single biggest location for online traders
- ▶ Shenzhen: main base for e-traders and factories of IT fakes

E-commerce and Bad Faith Trademark Registration

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- ▶ Piracy is rife for brands big and small
- ▶ Inhibits market access for foreign companies
- ▶ Latest TM Law revision laudable but left many gaps
- ▶ Suggest addressing gaps ASAP:
 - ▶ Accelerate research and consultation with industry
 - ▶ Draft SPC provisions - last draft issued October 2014
 - ▶ Build on recent TMO decisions based solely on Art. 7
 - ▶ Whole Foods and others

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