

CHINA 華牌 BRAND®

COMBATING GI PRODUCT COUNTERFEITING IN CHINA

© 2019 CHINABRAND IP CONSULTING GMBH

Munich, September 2019

CHINABRAND IP CONSULTING GMBH

Grashofstrasse 3 ▪ 80995 Munich, Germany ▪ +49 89 32 12 12 800

info@chinabrand.de ▪ www.chinabrand.de

© 2019 CHINABRAND IP CONSULTING GMBH. All rights reserved.

Grashofstrasse 3

80995 Munich, Germany

+49 89 32 12 12 800

www.chinabrand.de

Content

Introduction.....	4
Protecting GI's in China.....	5
Fighting GI Infringers Sustainably.....	7
Further Information.....	10

Introduction

The production and marketing of fake food has reached a global epidemic level. The label fraud caused by the misuse of geographical indication of origin is one of them: Champagne, for example, which does not come from the Champagne region, or Solingen cutlery, which is produced in southern China. Both are sold not only on the Chinese market, but worldwide. Brand and product piracy concerning geographical indications of origin has also become a global problem.

The situation is getting worse as Chinese companies are increasingly digitizing and selling abroad via the Internet. GI counterfeiters are among them. They offer their products on the globally active Chinese Internet marketplaces such as Alibaba, Taobao, JD.COM or 21food.com, in the countless online shops and on social media platforms such as WeChat, Weibo, Tencent QQ or Xiaohongshu, and send their goods in small consignments via international courier services. There are around 30,000 online shops in China alone, in addition to Social Media platforms, Blogs, Forums or Microblogs, in which purchase recommendations are exchanged.



Offer for Alleged Fake Aceto Balsamico di Modena

Those who want to contain this flood and protect their intellectual property worldwide must not start at the end of the supply chain, but must fight the sources – the producers in China. The Chinese government assists in this fight. Beijing is showing growing awareness of the need to protect intellectual property and has significantly improved the legal basis for prosecuting IPR violations. This has made it easier to successfully combat the abuse of geographical indications in China. This white paper shows what is possible and what matters.

Protecting GI's in China

China launched its intellectual property protection systems late, but quickly improved them. In the 1980's, the country successively enacted the Trademark Law, the Patent Law and the Copyright Law, which together laid the foundation for China's intellectual property legislation. Since then, China has enacted a number of administrative provisions, including the *Provisions on the Protection of Computer Software*, the *Provisions on the Protection of Layout Designs of Integrated Circuits*, and of course the *Provisions on the Protection of Products with Geographical Indications*. The ongoing trade war between the People's Republic of China and the United States will encourage China to further accommodate the EU in terms of GI protection. An agreement is currently being negotiated with the European Union to establish the protection of EU products with geographical designations of origin, which is expected to be signed until the end of 2019.

Only a few geographical indications of origin for wine and spirits have been recognized in China so far: "Cognac", "Champagne", "Napa Valley", "Scottish Whisky" and "Tequila". After the recognition of the appellation "Bordeaux" in general, the official recognition for all geographical indications of origin of Bordeaux is relatively new. Due to the great importance of China for wine exports, the Bordeaux Wine Association has been striving to protect its appellations since 2011.

商品/服务	威士忌酒; 查看详情		
类似群	3301;		
申请/注册号	S915032	申请日期	2007年02月12日
		国际分类	33
申请人名称 (中文)	苏格兰威士忌协会		
申请人名称 (英文)	THE SCOTCH WHISKY ASSOCIATION		
申请人地址 (中文)	英国爱丁堡市EH3 9GL, 李斯特广场2号, 科特迈克尔2号楼1层		
申请人地址 (英文)	1ST FLOOR, QUARTERMILE TWO, 2 LISTER SQUARE, EDINBURGH, EH3 9GL UNITED KINGDOM		
初审公告期号	1109	注册公告期号	1121
初审公告日期	2008年02月27日	注册公告日期	2008年05月28日
专用权期限	2018年05月28日至 2028年05月27日		是否共有商标
国际注册日期		后期指定日期	否
代理/办理机构	北京理奥知识产权代理有限公司		
商标流程	点击查看		
商标状态图标		LIVE/REGISTRATION/Issued and Active	Type of trademark: Collective
		注册	

Collective Trademark of the Scotch Whisky Association

The progressive anchoring of the indication of origin in Chinese law allows the producers to consistently and emphatically take action against its misuse. It will lead to greater safety for producers and ultimately for Chinese consumers. It is understandable that the agreements have caused a positive response from Chinese authorities, especially the responsible *General Administration for Quality Control, Inspection and Quarantine*.

Another area that is subject to major organizational changes is the protection of geographical indications. New changes were announced at the press conference of the *China National Intellectual Property Administration (CNIPA)* in June 2019. CNIPA is currently working on establishing a *Technical Committee for Protection of GI Products*. It will be responsible for setting

standards and offering guidance for GI protection. CNIPA's objective is to standardize the GI protection system in China: it is recruiting new staff, developing the organizational structure and a standard framework. After the new structures are in place, several existing committees will be abolished. The *National GI Standardization Working Group* that is currently responsible for the revision of GI products, will be merged into the new Technical Committee.

While all of this might sound as usual news from China with an unreadable alphabet soup of organizational names, it actually means quite a big shift in the system of GI protection in China. Previously controlled partly by the *General Administration of Quality Supervision, Inspection and Quarantine* (AQSIQ), partly by the Trademark Office, it will now lie in the responsibility of CNIPA, a strong centralized organization. The consolidation and re-design process of the protection system is not over yet, but it can definitely be expected that GI protection and enforcement will be strengthened in China.

GI infringements will be taken more seriously, too. In the press conference, CNIPA announced that they will work with multiple further Chinese ministries and other authorities to jointly prosecute GI infringement by means of the Social Credit System. A joint statement already exists for joined punishment of serious patent infringement. It is issued by CNIPA and 38 further authorities including the *National Development and Reform Commission*, the *People's Bank of China*, the *Central Propaganda Department*, the *Supreme Court of China*, the *Transportation Ministry*, and others. A similar solution is announced for serious trademark and GI violations. It means that a GI infringer might end up not being able to buy plane or train tickets and being subject to further disadvantages through the Social Credit System.

There are several legal bases for IP protection of GI products in China. While the Trademark Law and the Anti-Unfair Competition Law are the most important parts of Chinese legislation relevant to GI protection, other laws and regulations should also be taken into consideration, such as:

- The Patent Law and the Implementing Regulations of the Patent Law (invention patent, utility model and design patent),
- The Copyright Law and the Implementing Regulations of the Copyright Law,
- The Food Safety Law and the Implementing Regulations of the Food Safety Law,
- The Regulation on the Customs Protection of Intellectual Property Rights,
- The Criminal Law, Art. 219, 220,
- The Advertising Law,
- The Product Quality Law,
- The Law for the Protection of Consumer Rights,
- The General Provisions of the Civil Law, Art. 7, 8, 123,
- The Tort Liability Law,
- The Measures for the Safety Administration of Imported and Exported Food, and
- The Law of the People's Republic of China on Import and Export Commodity Inspection.

Fighting GI Infringers Sustainably

Bad experiences with a counterfeit product always have an effect on the reputation of the original brand company, even though it is not responsible for the counterfeit. The company is closely associated with the counterfeit in the customer's psyche. The trust that the buyer places in the authentic brand is damaged because the brand promise has been broken –albeit by someone else. The consumer does not receive what he has paid for. Counterfeits thus damage the consumer's trust in the quality and performance of a brand. Once destroyed, it is very difficult or even impossible to rebuild this trust. An unpleasant aftertaste remains with the consumer because the legitimate trademark owner has not prevented the counterfeiting.

The fight against Chinese brand and product piracy is sustainable and efficient if it is strategically underpinned and carried out professionally. This requires sensible strategies and combined and coordinated measures. We distinguish between around 20 standard strategies, which we apply and combine on a case-by-case basis. These include preventive and reactive legal measures, dealing with suppliers and distribution channels of counterfeiters, the reporting of counterfeit certificates to the authorities and public relations about quality defects and the deception or endangerment of consumers. The deterring effect of the loss of face suffered by Chinese counterfeiters through publication of their defeats should not be underestimated in China. The so-called radiation strategy (atomic bomb strategy), in which one or two counterfeiters are fought massively and the successes are then made widely known to the counterfeiter scene by means of warning letters and to consumers by means of PR publications, has great impact.

The greatest impact continues to be had by the classic legal approach: focused covert investigations to clarify the facts and secure evidence by qualified IP detectives, the procurement of samples for quality analysis, the notarized purchase of samples for court proceedings, the dispatch of warning letters, the triggering of raids and the conduct of infringement lawsuits. The most important remedies are trademark infringement, unfair competition, copyright infringement and patent infringement proceedings. In addition, there are oppositions against bad faith trademark applications or nullification proceedings against bad faith patents for recipes. Flanking measures such as the recordation of trademarks in Customs IT systems, training of Customs officials or the media-effective destruction of confiscated fakes reinforce the effect of the legal measures.



Destruction of Fake Alcoholic Beverages

With professional preparation, foreign original manufacturers now have a very good chance of winning legal proceedings against trademark and product pirates. The chances of winning IP proceedings in China today are over 80 percent. The Chinese legal system for the protection of intellectual property is now very well developed, and the Chinese state is vigorously pursuing piracy on its own initiative. China has now reached a level of IP protection close to that of Western jurisdictions.

Protection	Assessment
Trademark protection	Best solution with highest success chances
Administrative action	AIC / TSB (now AMR) Action, based on a registered GI
Unfair competition	Weakest solution, used as a flanking measure or when no registered rights in China Argumentation: misleading of Chinese consumers

Different Types of GI Enforcement

But is it not enough to delete the offers of counterfeit GI products on the Internet? The effect of this strategy is not sustainable because it starts at the end of the supply chain and does not shut down the source. The goal must always be to shut down the source: Close down the factory. If offers are deleted from large marketplaces, the counterfeiters switch to smaller Internet portals or social media. This only shifts sales to other channels, fragments the offer and makes it even harder to fight.

Raids alone have no lasting effect, either. However, they have a frightening and stigmatizing effect and act like a previous conviction in subsequent court proceedings. In the course of a raid, the authorities can confiscate accounting documents and invoices with which entire networks can be uncovered, the volumes of their business determined and claims for damages substantiated. Sometimes the wire-pullers are even arrested, which is very common with fake food that is harmful to the consumers' health. When it comes to food, the Chinese authorities know no mercy. That's why we use lobbying very successfully, especially in the food sector in China. However, solid preparations and professional communication are required.



Raid Action at a Food Counterfeiter Warehouse

With few exceptions, local protectionism hardly plays a role anymore in the prosecution of brand and product piracy; the pressure of persecution by the Chinese state is simply too big today. At best in rural areas it can happen that influential counterfeiters are punished only minimally for their intellectual property right infringements. We avoid this problem by so-called "forum shopping", the deliberate transfer of jurisdiction to neutral IP courts - for example in Beijing, Shanghai or Guangzhou.

Technical protective measures such as holograms, invisible markings or serial numbers can be used on GI products to identify counterfeits and track the original products. They can be used to monitor supply chains and detect infiltrations of illegal copies. However, their implementation is usually time-consuming and cost-intensive because the entire production and distribution system has to be modified through hardware, software, contracts and training. In addition, Chinese counterfeiters today are also very quick to counterfeit the protection technologies.

We analyze and evaluate technical protective measures in workshops together with the specialists and executives of the original manufacturer. We apply an evaluation system that determines values for central criteria such as costs, compatibility, system integration capability or copy protection for each technology. The company-specific weighting of the individual criteria gives each technology a score. The protection technologies with the highest values are particularly interesting for the company.

The basic preventive measure is the registration of appropriate industrial property rights in China and in the central sales markets. It is also important that manufacturers of products with geographical designations of origin are always informed about the current situation with regard to counterfeiting. For this reason, we recommend that regular Internet and trade fair monitorings are carried out.

The cost of effective anti-counterfeiting depends on the size of the case, the cleverness of the counterfeiter and the urgency of the situation. They must always be seen in relation to the long-term massive damage. We recommend that manufacturers of products with geographical indications take joint action through their consortia and share the costs. When calculating the budget, it should also be taken into account that original manufacturers in China now receive relatively high compensation payments.

In organizing the fight against piracy, we recommend that GI consortia set up a task force in which the legal departments, the trademark departments and marketing, as well as external service providers such as trademark lawyers or IP consultants, are involved. Increasingly, the integration of compliance and data security also makes sense.

Chinese subsidiaries can be involved in the fight against counterfeiting, but only to a limited extent and with a sense of proportion. Experience shows that Chinese partners or branch offices are usually overburdened with the technically demanding and complex subject of counterfeiting and can do more harm than good with unprofessional ad hoc measures or inefficient actions. As a result, the parent company quickly loses control of what is happening. Sometimes Chinese partners or employees even cooperate with counterfeiters of GI products or use their knowledge to set up their own business contrary to contractual obligations.

Further Information

Further information about our services to combat counterfeiting of GI products can be found here:

Video: Webinar: Protection of Geographical Indications in China

<https://www.youtube.com/watch?v=VcKPVXhxDIU>

Blog Entry Reorganization of GI Protection in China

<https://en.blog.chinabrand.de/2019/08/05/reorganization-of-gi-protection-in-china/>

Blog Entry Protection of Geographical Indications

<https://en.blog.chinabrand.de/2019/04/30/protection-of-geographical-indications/>

Blog Entry Food Counterfeiting in China

<https://en.blog.chinabrand.de/2019/03/08/food-counterfeiting-in-china/>

Blog Entry Amendments to Chinese Trademark Law: Combating Bad Faith Applications

<https://en.blog.chinabrand.de/2019/06/27/amendments-to-chinese-trademark-law-combatting-bad-faith-applications/>

Blog Entry Counterfeiting as Organized Crime

<https://en.blog.chinabrand.de/2019/06/17/counterfeiting-as-organized-crime/>

Contact and Feedback

Blog: <https://en.blog.chinabrand.de>

LinkedIn: <https://www.linkedin.com/company/chinabrand-consulting/>

CHINABRAND IP CONSULTING GMBH

Grashofstrasse 3, 80995 Munich, Germany

info@chinabrand.de

www.chinabrand.de

+49 89 32 12 12 800