

ANTI-COUNTERFEITING STRATEGIES IN CHINA

打假冒伪劣的策略在中国

Paul Jones

Jones & Co. 钟保禄律师事务所 Джоунс и Ко.

www.jonesco-law.ca

Strafford Publications - Intellectual Property: The China Threat
February 19, 2008

COUNTERFEITING

- Recent reports suggest counterfeiting problem in China unchanged
- Range of products: electronics, pharmaceuticals, household appliances, auto parts, optical media and entertainment products, luxury accessories, personal care products and computer peripherals.

COUNTERFEITING

- Counterfeiting is profitable when:
 - Consumers are prepared to accept a fake of lower quality – “ROLEX” watches
 - Consumers cannot easily determine the quality of the goods – pharmaceuticals, personal care products
 - Cost of the development of good is very high relative to the cost of production – software
 - There are high tariffs or taxes – liquor, tobacco

COUNTERFEITING

“... a tumultuous period in which the rigid hierarchies of colonial times finally dissolved, replaced by the more fluid social order of a democratic commercial society. Self-fashioning and self-advancement slowly became a viable way of life...”

Stephen Mihm, *A Nation of Counterfeiters*, p.24

ANTI-COUNTERFEITING

- China has IP laws that meet international standards
- Chinese courts do enforce IP rights, and particularly IP rights held by foreign parties
- To a large extent the threat to IP from counterfeiters can be costed and managed

ANTI-COUNTERFEITING

- Monitoring
 - Inside and outside of China – some are now shipping labels and product separately for assembly in other countries.
 - Trade shows, eBay, small commodities markets in key areas of China, wholesalers, key retailers, places where legitimate products are made and sold

ANTI-COUNTERFEITING

- Don't forget internal monitoring
 - Implement plant security measures
 - Use non-competition covenants for the partner and for key personnel, and provide for specific and adequate compensation for the covenants (if there is appropriate compensation these provisions are enforced in China, even against employees)
 - In supplier's plants have a representative on site

ANTI-COUNTERFEITING

- Use surveillance equipment or firewalls on web sites
- Ensure that proper security protocols are in place for trade secrets
- Conduct regular training on security measures

ANTI-COUNTERFEITING

- Pricing and Channels of Distribution
 - For products with broad consumer appeal in China many purchases are made in small retail shops – difficult to monitor and police
 - Consider developing a stripped-down, low-cost version of the product for sale in China

ANTI-COUNTERFEITING

- Many OEMs do longer production runs than authorized, many toys for sale in Chinese stores were designed for the U.S. market
- One option is to monitor or control the supply of a key component to control volume
- Use clearly written contracts with OEMs, know your supplier and their principal(s) – have an enforcement plan

ANTI-COUNTERFEITING

- Do not use your standard form U.S. supplier agreement
- prepare for enforcement in China with a civil law form of contract in Chinese
- U.S. judgments cannot be enforced in China
- Include audit and inspection clauses

ANTI-COUNTERFEITING

- Internet Distribution
 - Have Chinese speaking staff monitor the internet
 - Alibaba: <http://china.alibaba.com/>
 - Tabao (auctions) <http://www.taobao.com/>

ANTI-COUNTERFEITING

- Organizations

- American Chamber of Commerce – PRC

- <http://www.amcham-china.org.cn/amcham/home/index.php>

- China Association of Enterprises with Foreign Investment – R&D Based Pharmaceutical Committee

- <http://www.rdpac.org/english/gate.asp>

ANTI-COUNTERFEITING

– International Federation of the Phonographic Industry (IFPI)

- <http://www.ifpi.org/>

– U.S. China Business Council

- <http://www.uschina.org/>

ANTI-COUNTERFEITING

- Business Software Alliance - China
 - <http://www.bsa.org/country/Public%20Policy/China.aspx>
- QBPC—Quality Brands Protection Committee (企业联合打假组织) –
 - <http://www.qbpc.org.cn/>

ANTI-COUNTERFEITING

PLAN FOR ENFORCEMENT

- Build enforcement costs into your project feasibility plan
- Do not rely on 关系 (guanxi)
- Have an enforcement plan for minor breaches, international arbitration is expensive
- Be careful about joint ventures, many have ended in litigation – such as Danone v. Wahaha

ANTI-COUNTERFEITING

- Do not rely on the advice of your Chinese partner as to the enforceability of the contract
- Negotiate in good faith and disclose material facts – required by Article 42 of the Contract Law (中华人民共和国合同法)
- Plan for the collection of evidence – in China as in other civil law jurisdictions the courts focus on written evidence – there is no discovery – there are limitations on the affidavits that a notary will formalize

ANTI-COUNTERFEITING

- If arbitration is used, consider inserting provisions for limited discovery developed by the International Bar Association
- Make sure that all necessary government approvals are obtained – know the authority of the level of government that you are dealing with

ANTI-COUNTERFEITING STRATEGIES IN CHINA

打假冒伪劣的策略在中国

Paul Jones

Jones & Co. 钟保禄律师事务所 Джоунс и Ко.

www.jonesco-law.ca

Strafford Publications - Intellectual Property: The China Threat
February 19, 2008