

Authentix[®]
The Authority in Authentication

Online Brand Protection in China.

What You Need to Know.


eBook





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INTRODUCTION

It's no secret that China leads the world in counterfeit and pirated products. According to a recent report by the U.S. Government and the office of U.S. Trade Representative (USTR), counterfeit and pirated goods from China, together with transhipped goods from China to Hong Kong, accounted for 75% of the value of counterfeit and pirated goods seized by U.S. Customs and Border Protection in 2021. Within China's borders, fake luxury-brand products are more prevalent than any other country in the world.



Yet, counterfeiting affects multiple industry sectors such as cosmetics and perfumes, wine and spirits, pharmaceuticals, consumer goods, industrial and automotive products, and more. Frequently, these converge around the counterfeiting of goods in developing and emerging economies, which eventually find their way to more advanced economies. A report by the Organization for Economic Co-operation and Development (OECD) and the European Union Intellectual Property Office (EUIPO) has observed that while counterfeit and pirated goods originate from virtually all economies in all continents, China emerges as the top producer of counterfeit goods in nine out of the ten most vulnerable product categories.

Brand owners frequently find their intellectual property (IP) unlawfully exploited on counterfeit products originating in Chinese factories and warehouses. Further, Chinese e-commerce and social media platforms serve as major points of distribution for such counterfeit goods. Domestic Chinese companies, several of whom today create high-value trademarks and brands, are also affected by the problem and have an interest in improving the IP enforcement environment. Nevertheless, there continues to be gaping holes in the online brand protection ecosystem in China, which pose great risks to trademark owners and the wider public.

This eBook offers a glimpse into potential countermeasures when faced with these challenges, how Chinese IP laws work, and provides key insights for brand owners to further protect their branded products from these threats. The eBook also features recent case studies where Authentix Online Brand Protection was able to successfully detect and take remedial actions for the counterfeiting of its clients' products in China.

We hope you will find this eBook a useful tool as you plan and refine your online brand protection strategies.

CHINESE TRADEMARK LAW AND SHORTCOMINGS

China officially entered the World Trade Organization (WTO) with U.S. support on December 11, 2001. At the time, China was the world's sixth-largest largest economy and already a major manufacturing and export hub. Crucially, China had begun to diversify its export base — initially weighted towards clothing, footwear and toys — and focus on sophisticated electronic goods.

In the years preceding China's accession to the WTO, U.S. government officials and industry bodies had raised issues concerning IP violations in China. Thus, for IP owners, the most significant outcome of China's accession to the WTO Agreement was its simultaneous admittance to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Today, China has incorporated most major TRIPS provisions in its domestic legislation.

The Trademark Law of the People's Republic of China is the primary trademark legislation in China. In recent years, the law has been amended to curb "bad faith" and "malicious" trademark applications by parties. Other major IP-related laws are supplemented by regulations initiated through the State Council of China (notably the Regulations for the Implementation of the Trademark Law and the Regulations on the Administration of Special Signs); administrative rules made by ministries and commissions under the State Council; local government regulations; and rulings of the courts and the Trademark Review and Adjudication Board.



There are four specialist IP courts which hear first instance or second instance trademark civil cases (in Beijing, Shanghai and Guangzhou City and the Hainan Free Trade Port). Remedies available to rights owners include various pretrial measures (such as a preliminary injunction and orders for preservation of evidence and property). Appeals from decisions of specialist IP courts can be made to the Supreme People's Court, which, in turn, has an IP division. Under the Criminal Law of the People's Republic of China, trademark infringement is punishable where identical marks are used on the same goods without permission from the trademark owner.

Various articles and policy documents have highlighted flaws in the Chinese trademark system. These include:

- A rigid subclass-based trademark registration system, unlike most other countries, that potentially allows the same trademark to be registered by another party in a similar subclass. For example, gloves and scarves fall into separate subclasses instead of a composite class, potentially allowing one party to register a mark for gloves and another to register the same mark for scarves.ⁱ
- A narrow application of principles of trademark dilution.ⁱⁱ
- Low protection for unregistered marks.ⁱⁱⁱ
- Widespread bad-faith registrations and unreasonably high standards for establishing well-known mark status.^{iv}
- De-prioritization of prosecution of IP-related crimes.^v

Chinese trademark law is widely perceived as being inflexible in matters such as the classification of goods, the application of dilution principles, and the recognition of well-known marks.

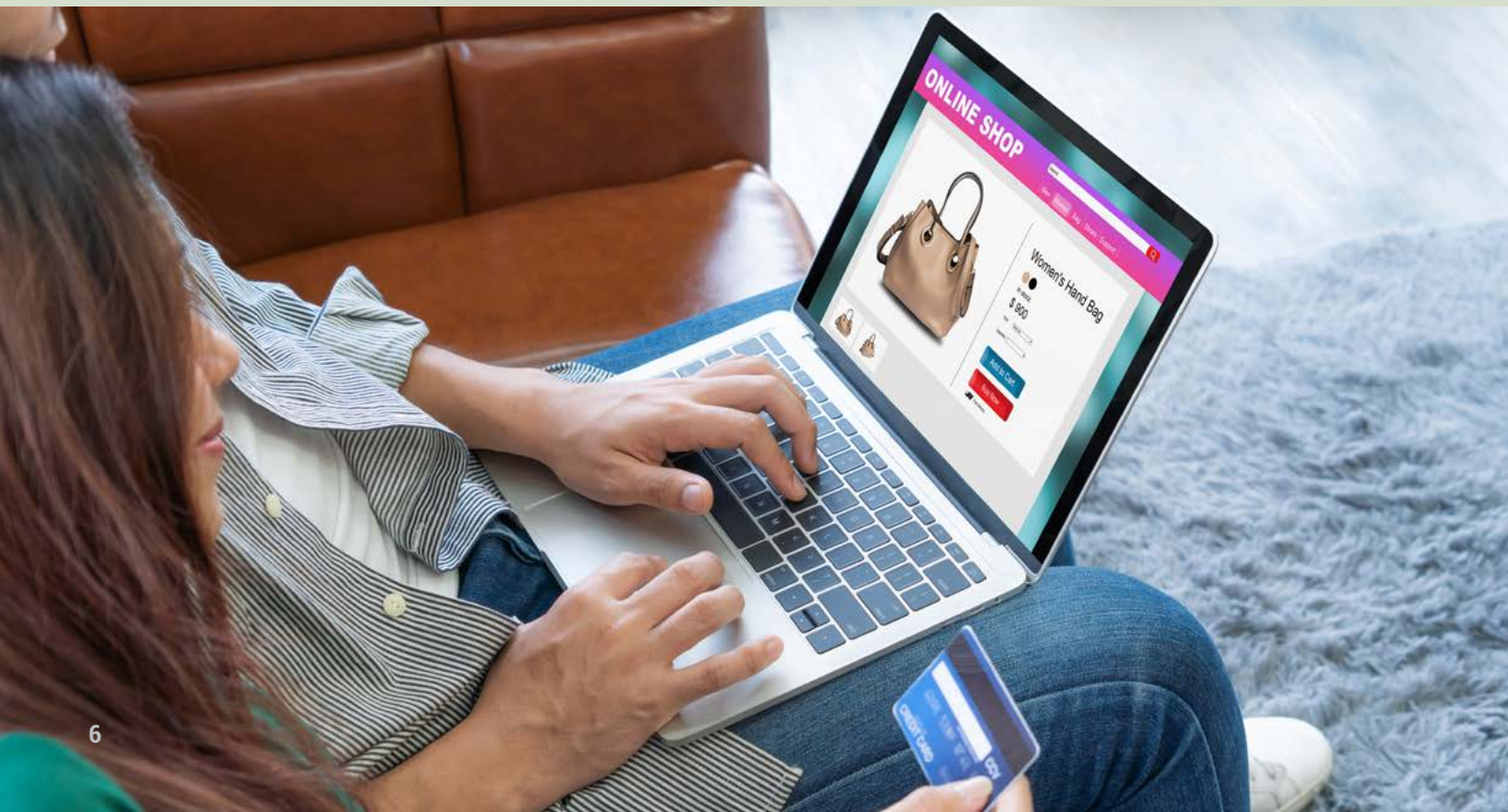


CHALLENGES FOR ONLINE MARKETPLACES & SOCIAL MEDIA PLATFORMS

In addition to problems with the Chinese legal system, various issues also exist with takedown mechanisms on online Chinese marketplaces. The U.S. Trade Representative (USTR) has added well-known platforms like DHGate and AliExpress to its Notorious Markets List, stating that both platforms have weak vetting procedures.

In response, Alibaba has claimed that:

- grievances concerning the bona fides of third-party sellers are entirely outside Alibaba's control;
- criticism against Alibaba is impractical, unsupported, or technical;
- "look-alikes" is not a legally recognized category of IPR;
- Alibaba is bound by Chinese law; and
- it is "nonsensical" to expect compliance with practices in other jurisdictions with differing legal standards.



Various reports have also pointed to the presence of counterfeit goods on TikTok Shop, the e-commerce marketplace of TikTok. Solutions providers including Authentix Online Brand Protection (OBP) have also experienced multiple challenges with these platforms, as well as Taobao and Temu.

These challenges include:

- Inconsistent takedown times.
- Lack of protection on trademarks not registered in China.
- Insistence on photographs taken from exact angles, while comparing photographs of original and infringing goods.
- Not recognizing look-alike products.
- Not recognizing certain forms of trademark dilution.

Authentix OBP has raised these issues with the previously mentioned marketplace platforms and much progress has been made. However, many challenges remain and Authentix continues to work on behalf of brands to find the best solutions.

In cases of straightforward counterfeiting, Authentix files takedown requests and, where necessary, support efforts by law enforcement and customs authorities in China to seize fake goods. When Chinese marketplace platforms decline our trademark-related takedown requests, we try to address the problem in various ways, from fine-tuning our submissions and speaking with our contacts at such platforms, to using non-IP laws where possible (e.g., health regulations in the case of medicinal products). We also conduct physical investigations and gather information about the sellers, with the goal of at least checking the entry of these goods within the U.S., Europe and other overseas markets.

– Echo Guo, Authentix OBP Manager Operations, Shenzhen Office

Case Study 1: Spotlight on Cosmetics & Pharmaceuticals



The Challenge

An Authentix OBP client manufactures a popular brand of dermatological skin cream. The patented product is distinguishable because of its monochromatic packaging and logo. While this has the advantage of making the product instantly recognizable to consumers, it also makes the product relatively easy for counterfeiters to replicate and deceive customers who identify the product chiefly through its visual elements.



The Solution

Authentix's OBP solution encompassed an in-depth investigation of online marketplaces, a targeted test purchase plan from high-risk sellers, online and offline investigations, and takedown notices.



Actual/Expected Results

Authentix OBP scanned major Chinese online marketplaces and removed over 22,000 suspicious listings from over 8,000 sellers in a 12-month period, representing an estimated stock value of \$12.8 million. Unlike many instances of counterfeiting, where fake products tend to cost much less than the original products, the prices of several suspected counterfeits detected by Authentix OBP matched those of the brand owner's retail price. Subsequently, based on intelligence from Authentix OBP investigations, 35 successful raids were conducted by authorities in China, leading to the seizure of illicit product valued at over \$950,000. The raids were preceded by several days of online investigation, evidence-gathering, and site visits where Authentix OBP was able to identify the principal counterfeiter through witness statements, chats on the popular Chinese social media app WeChat, and invoices and shipping documents.

Authentix OBP also monitored and targeted grey market activity. Within the same 12-month period, Authentix OBP helped the client reduce counterfeit activity by 95%, and grey market activity by 65%.

One of the most interesting aspects of the case was that the logo and packaging in question were not registered as trademarks in China. Authentix OBP was able to cite copyright law principles, produce relevant registration documents, and convince online marketplaces and law enforcement agencies that copyright protection existed in the elements of the packaging that qualified as an original artistic work.



Over 22,000 suspicious listings were removed, representing a stock value of \$12.8 million dollars.

Case Study 2: Spotlight on Luxury Goods



The Challenge

An Authentix OBP client is one of the world's most famous luxury goods companies. The company's products are easily recognizable through its stylized logo and certain visual indicators, such as color schemes and three-dimensional designs. Frequently, in non-English speaking countries, the latter is the primary way through which consumers identify the company's products. Certain Chinese platforms sell counterfeit products using the company's logo, color schemes and three-dimensional designs.



The Solution

Authentix OBP investigated a major Chinese platform and found multiple suspicious listings. However, the sellers shrewdly posted images that only partially revealed views of the products. Authentix OBP conducted test purchases, confirmed that the products were spurious, and tracked down the rogue sellers through a social media investigation. Authentix OBP shared the findings with the company for further action. The company then decided to pursue civil litigation through Authentix OBP's partner law firm in China.



Actual/Expected Results

In the past, Chinese courts have awarded high damages in civil cases. The company is confident of receiving a substantial damages award in this case. One of the goals of such an award would be the deterrence of other counterfeiters.

Authentix
conducted test
purchases and
a social media
investigation
to track down
rogue sellers.

Case Study 3: Spotlight on Luxury Goods



The Challenge

Another Authentix OBP client is also a world-famous luxury goods company. Unfortunately, a rogue seller in China registered a mark similar to the company's mark, in relation to a species of product not manufactured by the client and very dissimilar to its range of products, yet often associated with notions of fine living and luxury. The seller was also manufacturing such products using these copycat registered marks.



The Solution

After extensive investigations, Authentix OBP tracked down the entity and provided intelligence to the client so that they could plan a response that would help curb the export of these products to Europe (where trademark legislation would be broad enough to prevent their sale).

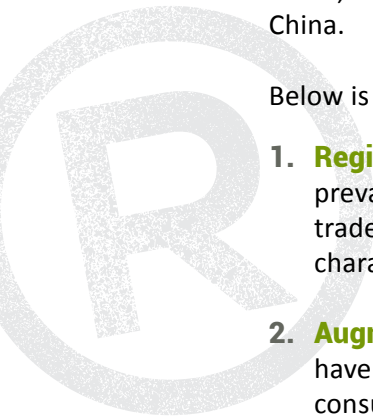


IN CONCLUSION: TOP RECOMMENDATIONS FOR BRAND OWNERS

In recent experience with monitoring and enforcing hundreds of well-known trademarks in China, there are several steps brand owners can take to proactively protect trademarks in China.

Below is a list of the top five recommendations:

- 1. Register transliterated trademarks:** Because of cultural differences and the low prevalence of the Latin alphabet in China, it is essential to register transliterated trademarks in China. Transliterated marks are created by replacing Latin alphabet characters with Chinese-language characters that approximate their sound.
- 2. Augment transliteration with translation:** Transliterated characters should preferably have a distinctive meaning and help position the uniqueness of the brand among consumers. In other words, translation in addition to transliteration. For example, the Latin alphabet trademark of Subway (the fast-food chain) has been transliterated to 百味 in Chinese, which is pronounced “sai bai wai” and means “100 flavors”.





- 3. Pre-empt bad-faith trademark squatting:** Owing to the widespread practice of trademark squatting in China, it is essential to not only register trademarks as early as possible in China, but also to register them in a large number of subclasses. This applies both to original and transliterated trademarks. Further, it is essential to periodically search for copycat trademarks on the online database of the Trademark Office of the Chinese National IP Administration (CNIPA) and plan immediate steps, including filing possible cancellation actions, if such marks are found.
- 4. Conduct online monitoring regularly:** A search of the CNIPA database must be supplemented through regular monitoring of major Chinese online marketplaces and social media platforms. An online trademark search alone is not sufficient to detect potential instances of counterfeiting, as most counterfeiters nowadays work in the shadows. Ideally, an online monitoring strategy should use a combination of machine learning and human intervention — machine learning to capture a broad range of potentially infringing pages and human intervention to assess each potential target on its own merits — keeping in mind the limits of Chinese trademark jurisprudence.
- 5. Build local networks in China:** It is crucial for brand owners to have reliable contacts in China who can help them navigate through the complexities of the Chinese legal system, whether it be the oddities of Chinese IP law or non-IP related laws that can help check counterfeiting; the process of approaching the police and other government authorities in cases of serious counterfeiting; and outreach to online Chinese platforms and intermediaries, in cases where takedown requests are rejected, to better understand their objections.

ABOUT AUTHENTIX ONLINE BRAND PROTECTION

Authentix, global leaders in authentication and information services, acquired Strategic IP Information Pte Ltd (SIPI), Asia's leading online brand and content rights protection company, in 2021 to form Authentix Online Brand Protection (OBP). The Authentix OBP workforce includes analysts, software engineers, lawyers and investigators based in Delhi and Shenzhen. They are supported by Authentix offices worldwide, along with an experienced network of consultants and partner organizations spread across six continents.



Authentix Online Brand Protection digitizes product authentication, traceability, and brand protection services to provide the necessary business intelligence to address issues related to counterfeiting, grey market, and other unfair online business practices.



Our efficient and scalable programs powered by machine-learning technology and image matching algorithms have reduced infringements and counterfeits on online marketplaces, social media platforms and websites by up to 90%.

Authentix is the only global provider to offer complete online monitoring and enforcement solutions to protect your brand image, copyright, customers, and reputation. We identify and investigate online infringements and assist in resolving issues through judicial or administrative action. Our efficient and scalable programs powered by machine-learning technology and image matching algorithms have reduced infringements and counterfeits on online marketplaces, social media platforms and websites by up to 90%.

Authentix Online Brand Protection advises over 200 of the world's leading brands, with a diverse client base encompassing sectors like luxury brands, cosmetics, FMCG, pharmaceuticals, medical instruments, electronics, automobiles, heavy industries, software, gaming, entertainment, financial services, biotech and agriculture. Clients include the world's top Fortune 500 brands, small and mid-sized enterprises, government bodies, and non-profit organizations.

Ready to learn more? [Contact us now](#) to see how Authentix can help protect your brand and content rights online.

ⁱ Jian Xu, Six common problems caused by China's trade mark subclass system, European Commission, Oct. 1, 2021 <https://intellectual-property-helpdesk.ec.europa.eu/news-events/news/six-common-problems-caused-chinas-trade-mark-subclass-system-2021-10-01_en>.

ⁱⁱ Boya Yin and Qinghong Xu, Comparative aspects of trademark dilution between the United States and China, World Trademark Review, Sep. 3, 2020 <<https://www.worldtrademarkreview.com/regionindustry-guide/china-managing-the-ip-lifecycle/2021/article/comparative-aspects-of-trademark-dilution-between-the-united-states-and-china>>.

ⁱⁱⁱ Shujie Feng, "How are Unregistered Trademarks Protected in China?" (2013) 44 International Review of Intellectual Property and Competition Law, p. 815.

^{iv} Office of the United States Trade Representative, 2023 301 Special Report (2023), p. 31 <<https://ustr.gov/sites/default/files/2023-04/2023%20Special%20301%20Report.pdf>>.

^v Office of the United States Trade Representative, 2023 301 Special Report (2023), p. 31 <<https://ustr.gov/sites/default/files/2023-04/2023%20Special%20301%20Report.pdf>>.

About Authentix

As the authority in authentication solutions, Authentix brings enhanced visibility and traceability to today's complex global supply chains. For over 25 years, Authentix has provided clients with physical and software-enabled solutions to detect, mitigate, and prevent counterfeiting and other illicit trading activity for currency, excise taxable goods, and branded consumer products. Through a proven partnership model and sector expertise, clients experience custom solution design, rapid implementation, consumer engagement, and complete program management to ensure product safety, revenue protection, and consumer trust for the best-known global brands on the market. Headquartered in Addison, Texas USA, Authentix, Inc. has offices in the North America, Europe, Middle East, Asia, and Africa serving clients worldwide.



CORPORATE HEADQUARTERS

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