EFFECTIVE ANTI-COUNTERFEITING ENFORCEMENT IN CHINA:
STAGE BY STAGE

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A practical guide to enforcing a foreign (non-Chinese) company’s intellectual property rights against counterfeiters in China, illustrated with case studies drawn from enforcement actions carried out by FTI Consulting Ltd.

This guide examines in detail each of the stages in an enforcement action, the enforcement options available and the role played by in-house counsel, external counsel, local counsel and investigatory firms, and sets out the typical profile of a China counterfeiter. It also includes practical tips on the issues that arise for legal counsel at each stage, such as choosing the correct enforcement target, managing enforcement spend, avoiding inadvertent anti-bribery and anti-corruption violations, and steps to take if and when the action is handed over to Chinese law enforcement.

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Effective anti-counterfeiting enforcement, even in a company’s home jurisdiction, requires decisive management and the coordination of experts from inside and outside the company.

Anti-counterfeiting enforcement in China (PRC) raises additional issues for counsel managing the action (for multinational corporations (MNCs), this is often a single in-house lawyer or a small team with responsibility for multiple jurisdictions, including China). These include:

- The importance of registering intellectual property (IP) rights in China.
- Choosing the correct enforcement target.
- Understanding the achievable goals of an enforcement action.
- Awareness of the options for enforcement in China (administrative, civil and criminal).
- Understanding the costs and risks of conducting enforcement (for example, the risk that sensitive data will enter the public domain, or paying enforcement costs will breach anti-corruption or anti-bribery laws).

For examples of the general considerations in a UK context, see:

- Practice note, Resourcing an effective anti-counterfeiting strategy (global.practicallaw.com/8-519-8600).
- Checklist, UK anti-counterfeiting strategy (global.practicallaw.com/6-519-2859).

For examples of the general considerations in a US context, see:

- Practical Law US, Checklist, Creating an Effective Trademark Anti-counterfeiting Program (global.practicallaw.com/0-503-4783).

WHERE TO REGISTER IP RIGHTS

Tradtemarks, patents (including design patents) and copyright can be registered in China. These should be registered with the following bodies:

- **Patents.** These should be registered with the State Intellectual Property Office (SIPO) (中华人民共和国国家知识产权局).
- **Design patents.** Designs other than artwork are protected as design patents in China and should be registered with SIPO. (Artwork is protected as copyright.)
- **Trademarks.** These should be registered with the Trademark Office (中华人民共和国商标局) (TMO), which is an office of the State Administration for Industry and Commerce (SAIC) (中华人民共和国国家工商行政管理局).

Trademarks should also be registered with the General Administration of Customs (GAC) (海关总署) to facilitate inspection and seizure of counterfeit goods (see Customs watches, below).

- **Copyright.** Copyright registration is voluntary. Software registration should be filed with the Copyright Protection Centre of China (CPCC) (中国版权保护中心), which is affiliated with the National Copyright Administration (中华人民共和国国家版权局).

Other copyrighted works can be registered with the CPCC and the NCA’s branches at provincial or municipal level.

Because of the importance of registration to enforcement, the volume of registrations handled by these bodies is growing. For example, figures published by the World International Property Organisation (WIPO) showed that SIPO accounted for over 70% of the increase in patent applications worldwide over the period 2010-2012 and that in 2012, more patents, trademarks and designs were registered in China than in any other country in the world.

CAN UNREGISTERED RIGHTS BE ENFORCED?

As a general rule, if a trademark, patent or design has not been registered in China with the relevant agency, any anti-counterfeiting programme, no matter how sophisticated, will be pointless, as there will be very little likelihood of engaging Chinese enforcement agencies to conduct raids or prosecution activity.

Copyrights that have not been registered in China are protected under the Berne Convention for the Protection of Literary and Artistic Works (Berne Convention). However, although China is a signatory to the Berne Convention, Chinese enforcement authorities frequently do not understand the implications of this status and can be reluctant to assist with copyright infringement investigations if the copyright in question has not been registered in China. This is particularly true when working with government enforcement agencies in second and third tier cities. The best chance of a successful Berne Convention enforcement is in major cities such as Beijing or Shanghai, but this should not be relied on.
CUSTOMS WATCHES
To facilitate inspection and seizure of counterfeit goods, rights owners who have registered their trade marks in China may apply to the GAC to seize and detain suspected counterfeit goods while goods are being inspected at a port (a “customs watch”). Rights owners are required to pay a bond in connection with a customs watch to cover any losses attributable to wrongful seizure.

Applications to apply a customs watch must include evidence of:

- The name, place of registration or nationality of the rights holder (for example, a certificate of incorporation or business licence).
- Details of the owned right (for example, a trademark ownership certificate issued by SIPO).
- Details of any licensing of the right in question.
- Details of the original goods. This includes their name, origin, port of entry or exit customs authority, main features, prices, and contact details of any authorised importers to and exporters from China.
- Available details of counterfeit goods, including (to the extent known) the manufacturers, importers or exporters, port of entry or exit customs authority, main features and prices.

(Article 7, Regulations of the People’s Republic of China on Customs Protection of Intellectual Property Rights 2010.)

Local practice varies and in many cases the GAC will institute a customs watch application that only provides evidence as to the name and nationality of the rights holder, its incorporation status and evidence of its ownership of a registered mark. Local counsel in the relevant part of China should have details of current practice in their area.

As a practical note, rights owners should ensure that any new marks, products, packaging, security features and so on are passed to the customs office as soon as practicable, including when packaging design or security features are changed or added, to facilitate identification of fake goods. Additionally, rights owners must ensure that they are prepared to react quickly to any customs’ request for seized product verification, as failure to respond could result in the suspect counterfeit goods being shipped or make the relevant customs officials reluctant to take seizure action in the future.

To further facilitate the process, it can be helpful for the rights owner to execute a power of attorney to authorise its local counsel, IP agency or other agent on the ground to act on its behalf in managing the customs watch. For an example of a power of attorney that can be adapted to this purpose, see Standard document, Power of attorney (intellectual property enforcement): China.

China and Hong Kong are the primary sources of counterfeit products intercepted elsewhere in the world. According to statistics released by US Customs and Border Protection (CBP), in the 2012 financial year, the Department of Homeland Security (DHS) in the US seized 22,848 shipments of IP-infringing products originating from China and Hong Kong, constituting 84% of all US seizures in that period. The most commonly seized goods were counterfeit handbags, wallets, watches, jewelry, apparel, consumer electronics, footwear and pharmaceuticals. The situation is similar in Europe. In 2012, the European Commission registered nearly 90,000 seizures of counterfeit goods, primarily from China.

TRANSFERRING REGISTERED RIGHTS
If the company owns IP rights registered in China under the name of a subsidiary, predecessor or affiliate (for example, a consolidated variable interest entity (VIE)), counsel should ensure that if acquiring IP that has already been registered in China, the registered IP is re-registered as expeditiously as possible in the name of the entity that will carry out the enforcement action.

CASE STUDY: FAILURE TO RE-REGISTER
FTI Consulting (China) Ltd (FTI) was engaged by a multinational fast-moving consumer goods client to establish a brand protection programme in China. This was prompted by high quality counterfeit products being manufactured and exported from China into the Middle East and Europe. The legitimate products in question were originally produced by a smaller local company that the client had recently purchased. Ownership of the relevant trademarks remained in the name of the subsidiary.

An urgent investigation identified targets that were manufacturing significant quantities of high quality counterfeit products for the export market. However, due to the difference between the names of the registered owner of the trademarks and the name of the entity attempting to conduct the action, and delay on the part of the local subsidiary in executing the necessary documents to authorise the transfer of the trademarks to the name of the new parent, the local AIC (that is, the local branch of the SAIC, and Public Security Bureau (PSB) (公安局) in Jiangyin, Jiangsu province were reluctant to collaborate with FTI to eradicate targets that had been identified as the manufacturers of counterfeit products. In particular, the PSB wished to avoid commencing an enforcement action before they had been furnished with all of the supporting documentation that would be needed to conduct an effective prosecution of the defendants once arrested. This contributed to several months of delay in enforcement, during which time the infringers were able to continue manufacturing and exporting the infringing goods.
GOVERNMENT RELATIONS AND LOBBYING IN CHINA
Building strong relations with government, law enforcement and political organisations at national, provincial and local levels across China can greatly facilitate subsequent enforcement actions. It is particularly important to maintain a good line of communication with the administrative and criminal enforcement agencies (see Enforcement options).

Counsel should oversee lobbying efforts in China closely, whether carried out in-house or by external consultants, to ensure that no anti-bribery or anti-corruption issues arise. External investigators can be asked to assist with such lobbying efforts to ensure that lobbying of government agencies is conducted at arm’s length from the company and focused on training or awareness-raising activity that will not subsequently prove damaging to the client company.


For more information on the major global enforcement regimes that may apply, see Practice Note, The Foreign Corrupt Practices Act: Overview and Practice note, Bribery Act 2010 toolkit.

DESIGNING THE CHINA ANTI-COUNTERFEITING STRATEGY

On becoming aware that their goods may be being counterfeited in China, counsel should first consider their brand protection strategy and the objectives they are seeking to achieve. An effective strategic approach begins with the steps set out below.

DEFINING AND QUANTIFYING THE PROBLEM

It is important to understand from the outset the general scale of counterfeiting, and where it is geographically concentrated. In-house counsel should work with other key stakeholders inside the company to review the markets within and outside China and divide them into:

• Key markets that must be protected from erosion by the counterfeit trade.
• Markets the company is considering moving into that must be protected from infiltration by counterfeiters.
• Markets of significantly lesser importance and/or that have been lost to counterfeiters.

As counterfeiting in China is often undertaken with a view to export, do not limit the analysis to the China market or any part of it.

At this stage, counsel should be seeking to answer the following questions:

• Is it a single major offender or are several smaller offenders working independently or in concert?
• Is the problem limited to China or does it affect other countries and regions as well?
• Is the problem systemic? If it is, are there identifiable patterns and trends that can be determined and addressed?
• Is the problem getting worse? How long will it take before it represents a serious threat to the company’s profitability and brand reputation?

Once this stage is complete, the business will be in a position to determine the goals and objectives of enforcement, and what level of resources to allocate to it.

DEFINING OBJECTIVES, GOALS AND RESOURCES

Once the counterfeiting problem has been defined, in-house counsel will invariably be tasked with coordinating the response. This involves establishing the guiding strategic principles of the project, determining specific objectives and goals, designating resources, allocating funding and establishing the project management team.

Counterfeiting in China is often conducted or facilitated by large and sophisticated networks (see Profile of a counterfeiter). As such, it is generally most cost-effective to:

• Identify through investigation the points in the counterfeiting process where counterfeit products are accumulated.
• Develop a strategic list of offenders.

This allows the rights owner to conduct fewer, higher impact enforcement actions rather than multiple smaller-scale raids on individual vendors and ultimately reduces the burden that enforcement places on corporate resources.

At this stage, counsel should be seeking to answer the following questions:

• Are all relevant IP rights registered in China (see Registering intellectual property (IP) rights in China, above)? If not, correcting this should be a priority task.
• What is the objective of the enforcement action in each market inside and outside China? For example, is it to eliminate or severely impede counterfeiting activity in the market, reduce the visibility of counterfeit, or increase and protect market share?
• What level of enforcement is sought (see Enforcement options). Is a cease and desist letter followed by a negotiated solution or civil proceedings practicable? If not, are criminal convictions critical or is administrative enforcement sufficient?
• Is it worth committing resources to attack the counterfeit manufacturing source or syndicate?
• How much engagement does in-house counsel want and how much should be delegated to external counsel? For example, many MNCs in China find it helpful that external counsel can provide a layer of distance between in-house lawyers and the actions carried out on the ground by investigators or Chinese enforcement agencies.
The other general considerations for planning and resourcing an anti-counterfeiting strategy also apply, such as costing the enforcement action and establishing the intended return on the resources invested in combating counterfeiting in China (see Practice note, Resourcing an effective anti-counterfeiting strategy).

WHO TO INCLUDE ON THE PROJECT MANAGEMENT TEAM
Although primary responsibility for managing counterfeiting will often rest with in-house counsel, it is important to involve staff members from different divisions of the corporate organisation as well as outside consultants or counsel as early as possible to ensure that relevant specialist and local knowledge is made available to the project team on a timely basis.

A typical team structure should at least include:
- **Team Head.** This is usually regional in-house counsel who will be responsible for providing overall strategic guidance.
- **Chief point of contact for investigators.** This is usually a Regional Security Director.
- **Public relations (PR) coordination.** This is usually a PR Manager.
- **Legal coordination.** This is usually China in-house counsel.
- **External consultants.** These can include international counsel, local counsel and investigative firms.
- **Internal stakeholders.** These can include product, sales and marketing, government relations, PR and other relevant corporate resources on the ground in China.

It is particularly important at this stage to involve the internal stakeholders, as they will often have detailed insight into the problem. For example, product heads will be able to comment on the quality of and requirements to produce the counterfeits; sales and marketing personnel will be best placed to analyse the distribution channels and competitive impact of the counterfeits; and government relations specialists will have a sense of the diligence and appetite for pursuing action with the various Chinese enforcement agencies in the regions in question.

Exercise reasonable caution as sometimes local senior management are part of the problem (see box, Case study: dissatisfied local partners, on page 10) or can perceive their position within the organisation to be under threat.

ROLE OF THE EXTERNAL INVESTIGATOR
Unless a brand owner has sufficiently experienced and qualified in-house investigative capabilities, it is important to engage an external investigator. Individual organisations will differ in their approach, but broadly their role will include the following:
- Retrieving, collating and analysing information acquired from past investigations and raid actions, such as the forensic examination and recovery of computers, and establishment of a comprehensive database to identify entities that may have gone undetected because past enforcement actions were uncoordinated.
- Coordinating the rights owner’s use of its own market distribution networks and offices around China as intelligence-collection assets. In China this is often overlooked and can be a valuable source of intelligence.
- Providing advanced software and training that can support the intelligence-analysis process. This software is especially strong in the analysis of relationships, distribution processes and fund flows.
- Developing and refining the list of primary and secondary infringers.
- Identifying high worth targets such as suppliers, distributors and buyers (and analysing shipping data to identify offshore buyers) and, where available, using computer forensics to aid identification and to calculate potential financial damage to legitimate markets.
- Advising on the impact of the offenders on the client’s business.
- Managing tactical actions (for example, coordinating with law enforcement for raid actions).
- Using computer forensics to identify suppliers, distributors and buyers, where possible.
- Communicating the success of the brand protection and anti-counterfeiting program through the publicising of successful raids and other actions.
- Developing an effective coordination strategy among fellow industry participants (both for domestic Chinese corporations, and for foreign firms).
- Monitoring the activities of law enforcement authorities to ensure that counterfeit products seized during raids do not find their way back into the market place.
- Providing litigation support in the prosecution of major offenders, especially if they are located in regions and countries with effective legal systems, such as Hong Kong.
- Responding in a timely manner to law enforcement requests for assistance and documents.

DOCUMENTS FOR EXTERNAL ADVISORS
At this stage, in-house counsel should also identify lead external counsel and (if different) local counsel. All members of the team should have clear responsibilities and reporting lines. Counsel should also ensure that external advisers, including any IP enforcement agency and investigatory firm, execute the following:
- Power of attorney (see for example Standard document, Power of attorney (intellectual property enforcement): China).
- Non-disclosure agreement (to the extent the advisor is not already bound by professional obligations of confidentiality).
- Confirmation of compliance with the company’s anti-bribery policy. Also attach a copy of the policy.

All of the above should be duly notarised, to ensure that they can be provided as evidence in administrative or court proceedings in China. For information on execution, notarisation and legalisation of documents in China, see Practice note, Execution of contracts and documents: China.
ENFORCEMENT: RAID AND SEIZURE ACTIONS
The most common type of enforcement action in China is the “street-sweep”, also known as a raid and seizure action. Typically, this is the first response to a counterfeiting issue, and is conducted by a variety of local service providers. There are many of these providers in China, varying in size and sophistication, from simple one man operations to larger companies that have a string of investigators posted around the country. Nearly all of these providers operate by providing raid targets for a fee, and nothing more. These entities specialise in conducting one-off enforcement actions in an attempt to ensure “raid volume” (that is, a large number of raids) on behalf of a client.

These actions can potentially yield valuable information about counterfeit good supply chains. However, these service providers are typically reluctant to share intelligence with each other, and are more frequently concerned with guarding their own turf from competitors than ensuring a good result for the customer. Consequently, unless a rights owner has its own in-house intelligence management system, a significant amount of valuable information can remain undiscovered if the strategy is over-reliant on this type of local-level enforcement and as a result the more significant players can remain undetected.

ENFORCEMENT: ADMINISTRATIVE ACTIONS
These are the most common type of enforcement actions in China. Administrative sanctions are, in general, easier to prosecute and quicker to resolve than civil or criminal proceedings, and avoid some of the perils in terms of disclosure requests for sensitive information and anti-bribery and anti-corruption concerns surrounding providing payment for enforcement costs. However, their deterrent value is limited, and many infringers regard them as merely a “cost of doing business”.

The administrative bodies responsible for different kinds of IP right are as follows:

• Design patents. The local branch of the SIPO (local SIPO) is responsible for design patents.
  For details of the enforcement regime, remedies available and assessment of damages, see Standard document, Cease and desist letter (registered design patent infringement): China: Drafting note: enforcement).

• Utility model and invention patents. The local SIPO is responsible for utility model and invention patents.
  For details of the enforcement regime, remedies available and assessment of damages, see Standard document, Cease and desist letter (Utility Model and Invention Patent infringement): China: Drafting note: enforcement

• Copyright. Varies by region, but commonly the local Cultural Enforcement Department of the China Trade Mark Office is responsible for copyright.
  For details of the enforcement regime, remedies available and assessment of damages, see Standard document, Cease and desist letter (Copyright infringement): China: Drafting note: enforcement.

IMPLEMENTING THE STRATEGY AND CONDUCTING A PRIVATE INVESTIGATION

ENFORCEMENT OPTIONS
Once a strategy has been determined and external consultants have been engaged, the next steps diverge depending on the ultimate enforcement goals. Approaches to enforcement in China can be classified as follows, in ascending order of seriousness:

• Raids against individual distributors or retailers to suppress counterfeit sales.

• Administrative proceedings against elements of the counterfeit supply chain (for example, packaging venues; for a general overview of the steps in a commercial supply chain (from a US perspective), see Practical Law US, Practice Note, Supply Chain Overview).

• Civil proceedings against elements of the counterfeit supply chain.

• Criminal proceedings against elements of the counterfeit supply chain. These are only available if the infringement meets certain thresholds (see Enforcement: criminal proceedings, below).

Determining which approach is appropriate will depend on the profile of the counterfeiters and the strategic objectives of the brand owner. Anything more extensive than a one-off raid will require an intelligence-led enforcement action (see Intelligence-led enforcement actions).

CASE STUDY: INVOLVING INTERNAL STAKEHOLDERS
The alcohol industry in China is plagued by counterfeiting. As a result, alcohol manufacturers and distributors have among the most sophisticated systems for tracking and reacting to instances of counterfeiting inside China.

One of their key findings has been that their sales teams are some of the best sources of information on the retail sale of counterfeit alcohol products.

Consequently, many of the larger companies have harnessed this information source to effectively identify end users within the entertainment industry that are involved in stockpiling and selling fake alcohol. For example, FTI was engaged to conduct high profile raids against a number of enforcement venues outside Beijing that had been identified by the local sales team of a client as selling fake whisky. The result of the raids led to the identification of a warehouse and illegal filling facility and the seizure of thousands of counterfeit bottles of whisky. The culprits were subsequently arrested and criminally prosecuted.

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• **Trademarks.** The local AIC is responsible for trademarks. For details of the enforcement regime, remedies available and assessment of damages, see Standard document, Cease and desist letter (trade mark infringement): China: Drafting note: enforcement.

• **Unregistered IP rights.** The local AIC is responsible for unregistered IP rights. It is difficult to successfully prosecute claims for unregistered rights in China, in particular outside of major cities such as Beijing, Shanghai, Guangdong and Shenzhen. For details of the enforcement regime, remedies available and assessment of damages, see Standard document, Cease and desist letter (unfair competition): China: Drafting note: enforcement.

**ENFORCEMENT: CIVIL PROCEEDINGS**

These are typically more time-consuming than administrative actions, but give rise to a wider set of remedies (for more details, see Country Q&A, Litigation and enforcement in China: overview).

For details of the elements of claim, remedies available and assessment of damages in relation to each class of IP infringement, see the drafting notes to the cease and desist letters linked to in *Enforcement: administrative actions* above.

**ENFORCEMENT: CRIMINAL PROCEEDINGS**

Criminal proceedings are the greatest deterrent to and disruptor of counterfeiting activities. These are only available for infringement activities that meet certain thresholds, and are handled by the local economic crimes unit of the PSB. The thresholds for criminal distribution are either one or a combination of:

- Seizure quantity.
- Seizure value.
- Seriousness (broadly, this is a function of political sensitivity, scale and the potential negative social impact of the counterfeiting).

For details of the thresholds, elements of offence and punishments in relation to each class of IP infringement, see the drafting notes to the cease and desist letters linked to in *Enforcement: administrative actions* above. Authorities have discretion to take into account peripheral evidence of the scale of counterfeiting in determining seizure quantity and value.

Although criminal enforcement often offers the most satisfying solution to counterfeiting claims, there are several practical issues. In particular:

- Interpretation of thresholds varies depending on the province or municipality involved.
- Some authorities will accept the infringer’s assessment of the value of the goods seized as dispositive.
- Some authorities may not exercise their discretion to take into account peripheral evidence of scale of counterfeiting. This can lead to perverse results (for example, if a raid yields packaging and boxes for two million units, an authority may only count the value or number of goods seized on the production line).

As a result, if a credible case can be made that counterfeiting is “serious”, this is often the best approach. Examples of “serious” counterfeiting include counterfeiting of food, drugs or alcohol (which has an obvious potential impact on public health), or counterfeiting of auto parts such as car brakes (which may result in car failures, again potentially causing harm to the general public). The food and beverage industries are particularly the subject of official scrutiny, due to high-profile food safety incidents such as:

- The Chinese milk scandal in 2008 (in which Chinese brands were found to be adulterating milk and infant formula with melamine).
- The contaminated pork scandal in 2013 (which resulted in the carcasses of large numbers of slaughtered pigs being dumped into the Huangpu river).

Specific examples of situations where the sale of food or beverages can constitute criminal offences (such as counterfeits of global MNC brands) can be found in the Interpretation of the Supreme People’s Court and the Supreme Peoples Procuratorate on Certain Issues Related to the Application of Laws in Handling Criminal Cases Involving Food Safety 2013.

**PROFILE OF A COUNTERFEITER**

Large volume counterfeiting of the goods produced by non-Chinese brands in China can involve a wide range of levels, from the street peddler to the sophisticated factory. However, as far as the more sophisticated operations are concerned, high end counterfeiting operations can be facilitated by:

- Individual Chinese commercial or joint venture partners who are dissatisfied with the economic split.
- Sophisticated criminal enterprises that have significant production and logistics capabilities to reach widespread local and overseas markets.
- Numerous small-scale retailers of finished products that are dependent on a common supply source.
- Internet-based operations concealed behind products that are business and business to consumer websites.

When tackling these types of organised counterfeiting operations, the first point of investigation should often be any joint venture or other commercial partner on the ground in China, as well as the local senior management team, as these are often the source of business-specific issues (see Case study: dissatisfied local partners, below).

The most vulnerable part of the supply chain is often the facilitators (that is, the manufacturers, packagers, distributors and so on) that provide the network through which counterfeit goods circulate to individual vendors. Identifying and acting against these is more time-consuming than taking action against a dissatisfied local partner or retailer, but is often more effective from a cost and overall results perspective. This is
because the most efficient approach to enforcement in China is often to identify, through investigation, the few points in the counterfeiting process where counterfeit products accumulate (for example, packaging and assembly providers), and to conduct fewer, higher impact enforcement actions against those (rather than multiple smaller-scale raids on individual vendors).

CASE STUDY: DISSATISFIED LOCAL PARTNERS
FTI represented a multinational personal hygiene products firm that had set up many joint ventures and local toll manufacturers in China. The business was being eroded by counterfeiting in China. On investigation, it became clear that the heads of the local joint ventures were responsible for organising the counterfeiting, aided by local senior managers, vendors and suppliers.

To avoid this, businesses should:

- Conduct pre-employment vetting of senior managers.
- Screen vendors, suppliers and other on-the-ground staff for reputation and business practices.
- Conduct due diligence into joint venture partners and establish contractual penalties for breach of ethical business standards (see, for example, Standard document, Due diligence request: China: clause 16 and its accompanying drafting note) (For sample contractual wording, see Standard document, Distribution agreement: China: clause 9.)

INTELLIGENCE-LED ENFORCEMENT ACTIONS
Over the medium to long-term, reducing counterfeiting in China requires a more substantial response than raiding vendors. The most effective approach is to conduct civil, administrative or criminal proceedings against major players in the supply chain. This requires the rights owner to conduct its own intelligence-gathering exercise, with the goal of creating a case that can then be passed to enforcement authorities to act on.

Often, a counterfeiting problem is only recognised as serious after several raid and seizure actions have failed to resolve the problem. A sophisticated anti-counterfeiting programme should therefore start with a detailed review of all past enforcement actions (both successful and unsuccessful) to identify any valuable intelligence that has gone undiscovered.

In-house counsel’s role at this stage is to organise and present a full picture of what the rights owner has done in the past, and make this available to the investigative team (including investigative consultants and external counsel) without filtering. A key role will be overcoming siloisation and obtaining buy-in from different business units. For example, the cooperation of in-house investigative or security personnel will be crucial, but they often see the involvement of external counsel and investigators as a threat to their position.

CASE STUDY: INTELLIGENCE-LED INVESTIGATION
FTI was engaged by a global pharmaceutical company to identify and develop evidence relating to Chinese entities that were producing and selling a counterfeit cervical cancer treatment drug.

At the time of the engagement, FTI did not know how many syndicates were operating in China. After obtaining several samples of the counterfeit drug from a variety of sources, FTI conducted a microscopic forensic examination of the packaging, and discovered that each package contained the same microscopic non-random defects. This made it possible to identify the factory printing the boxes. Identifying the factory led to the conclusion that the infringers were a syndicate, not a collection of unconnected individuals.

The investigation and enforcement action subsequently led to the ring leaders receiving a sentence of 12 years’ imprisonment.

INVESTIGATION AND REPORTING
The investigation itself will be conducted by either the in-house or external investigative and security team, who will commence gathering information and report regularly to in-house counsel.

At this stage, in-house counsel should be realistic about timelines and the likely results of enforcement action. There is no guarantee that a given investigation will result in uncovering evidence that is sufficient for administrative or civil proceedings, or the additional evidence that would justify criminal proceedings against the infringers.

In particular, counsel should understand and communicate to the key business stakeholders that larger counterfeiters in China typically do not respond to the same value drivers as legitimate businesses. For example, to guard against investigation, some counterfeiters in China staff all vertical and horizontal parts of the supply chain with trusted individuals from their known circle of contacts. Often, these individuals are chosen on the basis of sharing a unique culture and dialect, regardless of skills or competence. This can make it very difficult to penetrate the organisation or recruit intelligence sources.

To avoid cost overruns, in-house counsel should know the point at which further investigation will not increase the likelihood of a desirable result, as this is the trigger to end the investigation. Making this determination requires close coordination with the investigation team and will require the input of external and local counsel. For a general overview written in a UK context, see also Practice note, Resourcing an effective anti-counterfeiting strategy.
CASE DOCUMENTS, NOTARISATION AND LEGALISATION

Once the investigation commences, the focus will be on obtaining evidence that can be presented in subsequent legal proceedings. At this stage, counsel should take an active role in preparing the case documents so that they can be easily presented in court and/or processed by administrative or criminal enforcers. There are two main elements to this:

• Ensuring that key documents evidencing ownership (such as shareholder registers, patent registrations, business licenses, incorporation and good standing certificates) can be presented to officials or to the court. This means having them notarised and making an adequate number of copies in good time.

• Vetting the materials that will be presented as evidence, to ensure that sensitive material does not inadvertently enter the public domain for trial. For example, PSB officials often, as part of their investigation, carry out “fishing expeditions” to gather evidence at the China offices of the rights owner. This can result in the leakage of confidential information. PSB officials will not engage with or acknowledge the authority of foreign-qualified lawyers, so counsel should ensure that local counsel are immediately available to deal with information-gathering exercises and have clear instructions on what information must be kept confidential.

HANDING THE INVESTIGATION TO THE CHINESE AUTHORITIES

After materials have been handed over to the Chinese authorities for enforcement, counsel’s key concerns should be:

• Controlling what sensitive material enters the public domain for trial. For example, PSB officials often, as part of their investigation, carry out “fishing expeditions” to gather evidence at the China offices of the rights owner. This can result in the leakage of confidential information. PSB officials will not engage with or acknowledge the authority of foreign-qualified lawyers, so counsel should ensure that local counsel are immediately available to deal with information-gathering exercises and have clear instructions on what information must be kept confidential.

• Ensure that the official investigation does not create issues under applicable anti-bribery or anti-corruption law. It is common practice for PSB officials to require that rights owners provide payment for the incidental and travel costs of the investigators that handle cases commenced at a rights owner’s instigation. Depending on the circumstances, fulfilling a request of this kind need not result in a breach of applicable law (for example, the US Foreign Corrupt Practices Act 1977, the UK Bribery Act 2010 and applicable Chinese law; see Distribution agreement: China: Drafting note: anti-corruption and anti-bribery), but it is important to fully document all interactions with investigators to limit the company’s exposure.

MNCs in China often find it helpful to have both international and local counsel between them and the PSB to ensure that misunderstandings over what the company knew or requested do not arise.

• Managing document flow. Administrative and criminal actions require the government team investigating the infringement to report back regularly and submit relevant documents (for example, PSB investigations are typically conducted on a 30-day reporting cycle). Ensuring that notarised copies of important documents and, in particular, basic documents establishing the identity and rights of the parties (such as incorporation certificates and business licenses to pass to investigators at the point of request) can minimise the chance that investigators will conduct fishing expeditions.

It is important to make several notarised copies, as often several different government bodies will need to see a copy of a particular document. Also, documents should not be provided to government officials unless counsel has first confirmed that they are safe to release.

• Internal reporting. International counsel are often involved in overseeing and coordinating their local law firm partner to meet with the administrative or PSB investigators at various stages to confirm the progress of the case, conduct oversight and monitoring, and assist authorities with anything they need that the client can provide.

Once administrative or criminal proceedings commence, a guilty verdict is highly probable. Appeals are processed within a week and very rarely change a guilty verdict. After this stage, the role of counsel mostly involves coordinating with the PR team, if necessary, to limit negative media exposure.
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