

Made in China - The battle between luxury brands and China's counterfeiters heats up!

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The past 12 months have seen an increasing number of luxury brands take legal action in China to combat the problem of fake goods being sold online.

Taking advantage of the introduction of the new Chinese Trademark Law, which came into effect on 1 May 2014, and the establishment of three new intellectual property courts in Beijing, Shanghai and Guangzhou in November 2014, the sector is starting to see taking action in China as a viable alternative in the continuing battle with China's counterfeiters.

Background

China has always been particularly susceptible to counterfeiters looking to copy luxury items and sell them at a cheaper price. Throw in the internet and last year the International Chamber of Commerce predicted the global value of counterfeit and pirated goods to be in the region of £1.16 trillion with China confirmed as the source country of over two-thirds of counterfeit goods circulating in the EU. So what can luxury brands carrying out business in China do to protect their brands?

Whereas previously the luxury brand sector had been reluctant to take enforcement action in China, the recent introduction of the new Trademark Law has seen an increased willingness of brands to take the fight against online fakes to Chinese shores.

Up until now many brands have mainly stayed away from taking enforcement action in China; instead entering into cooperation agreements with companies such as Alibaba (China's biggest online commerce company) to prevent fake goods entering the market. In 2013, LVMH was one of the first companies to enter into such an agreement under which Alibaba promised to proactively take down product listings of suspected counterfeit LVMH goods and implement preventive measures to stop sellers from listing fake items. According to the UK government a similar agreement entered into between the China Britain Business Council and Alibaba in 2014 has resulted in the removal of £8 million worth of counterfeit versions of UK products.

Despite the existence of such agreements, many brands have continued to view Alibaba and other online platforms with cynicism, believing them to be part of the problem rather than solution. Last year the American Apparel & Footwear Association



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(AAFA) called on the United States Trade Representative to re-add Alibaba to its "black list" of "notorious markets" for fakes. It also demanded that the company take the issue more seriously and set up an automated system to take down offending listings immediately, a demand Alibaba seems unlikely to meet.

In May 2015, Kering (the owner of brands such as Gucci and Balenciaga) took action. Rather than seek Alibaba's cooperation it chose to issue legal proceedings against the company in New York. This was the second time in 12 months Kering had issued proceedings against Alibaba for allegedly selling counterfeit versions of items from its stable of fashion houses on its websites. Kering said at the time that the lawsuit was part of its "ongoing global effort to maintain its customers' trust in its genuine products."

Legal action in China

To date the luxury brand sector has chosen either to negotiate or, like Kering to tackle the issue by taking legal action in their home courts. Only two weeks ago it was reported that Bank of China had surrendered records in a legal case brought by Gucci (owned by Kering) in New York after a judge fined it \$50,000 a day for not complying with subpoenas seeking information about Chinese makers of counterfeit luxury goods.

However, the introduction of China's new Trademark Law has resulted in an increasing willingness on the part of the luxury goods sector to take action directly in China; either pursuing the counterfeiters through the Chinese courts or by requesting the Market Supervision Administration Bureau (until recently the Administration of Industry and Commerce) to take enforcement action.

Under Article 53 of the Trademark Law rights holders can request the MSAB to take enforcement action by submitting written evidence of the infringer's activities, identity and location, in which case the MSAB can conduct a raid to seize infringing goods. If guilty, the counterfeiter is issued a penalty fine within six months of the raid. Identifying the counterfeiters is not always a straightforward task but MSAB action is an increasingly popular method of enforcement not least because of its relative simplicity, costs and immediacy. In cases of serious infringement, the MSAB also had the discretion to transfer cases to the police for criminal prosecution.

In addition to possible action via the MSAB, two recent cases have seen the luxury goods sector pursuing civil action and seeking damages from the counterfeiters directly in the Chinese courts. The first brought by the French fashion label Moncler against counterfeiters of its products and the second by Louis Vuitton (owned by LVMH) against three individual sellers have demonstrated an increased confidence in the Chinese legal system.

In November 2014 the new intellectual property court in Beijing ordered Beijing Nuoyakate Gourmet Co Ltd (commonly known as Nuoyakate) to pay French label Moncler nearly \$450,000 in damages after Moncler accused Nuoyakate of producing counterfeits of its merchandise. This significant victory for Moncler is the first judgment under the new Trademark Law under which brands can be granted "maximum statutory damages" in cases of counterfeiting.

Louis Vuitton has gone further, targeting the individual sellers of fake goods purporting to be from the French fashion house. According to a statement released last month on

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the website of the Haidian District Court in Beijing, Louis Vuitton is taking action against three individuals previously convicted of selling counterfeit goods on Taobao, one of the platforms owned by Alibaba. The Beijing Court confirmed that Louis Vuitton is seeking to stop the defendants from "infringing on its trademark and is seeking compensation of economic losses of 250,000 RBM (approximately \$37,900)."

In contrast to Kering's decision to sue in the US, LVMH and Moncler's decision to sue in the Chinese courts is an interesting development. Penalties for IP infringement have been notoriously low in China in comparison to western jurisdictions and many brands have been scared of ending up in an endless game of whack-a-mole, shutting down one manufacturer or seller only to see another pop up. Fighting the war on counterfeit items without lobbying Alibaba and other online platforms has always previously been a risky and expensive business.

What does this mean for the luxury brands sector?

The small sum of money Louis Vuitton is demanding in its Chinese claim, particularly in comparison to the sums claimed by Moncler in its action, implies that the suit is aimed at deterring sellers rather than seeking any significant damages. The question if it wins is whether the fear of future lawsuits can have a significant impact on the decisions of online sellers selling fakes on China's online and social media platforms or whether the rewards will always outweigh the risks for the counterfeiters. Up to now seeking the cooperation of Alibaba and other online companies, or even taking legal action in your home court, has always seemed a more effective option for luxury brands. The introduction of the new Trademark Law and the increased commitment of the AIC to take enforcement action, however, is a significant step in the right direction.

Regardless of the result in either the Kering or Louis Vuitton claims, those doing business in China will need to remain aware of enforcement trends specific to China, both legal and technological, and to have flexible strategies in place that can be adjusted to constantly changing circumstances. Even bearing in mind the introduction of the new legislation, the ultimate objective in eliminating counterfeit luxury goods in China continues to be a significant challenge for those wanting to do business in the Far East.

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