China: Managing the IP Lifecycle 2018/2019

Protecting intellectual property online

Vivien Chan & Co
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We are firmly in the internet age, with the general population increasingly shopping, socialising, dating and investing using online platforms. According to an Accenture report, business-to-consumer e-commerce is on its way to becoming a mainstream retail channel. By 2020, over 2 billion e-shoppers – 60% of the target global population – will be transacting 13.5% of their overall retail consumption online, equivalent to $3.4 trillion. Further, cross-border e-commerce is taking over as the key engine for business-to-consumer trade, with a compound annual growth rate of nearly 30% from 2014 to 2020. In China, online sales through the Alibaba e-commerce site amounted to Rmb103 billion in one day on Singles’ Day (an online shopping discount day originally created by Alibaba to target single netizens). Further, social media platforms are a major part of Chinese daily life. In 2017 the monthly active users on WeChat (China’s most popular social media platform) exceeded 889 million – more than 80% of the population – with more than 50% spending over 90 minutes on the platform. It is therefore imperative to sufficiently protect intellectual property online. This chapter highlights protection strategies and considerations for two main online areas: e-commerce sites and social media platforms.

**E-commerce sites**

**Enforcement**

The primary challenge for most brand owners in China is the prevalence of counterfeit goods on Chinese e-commerce sites. The most popular of these – such as Alibaba and Taobao – have efficient complaint filing systems and rights holders are advised to learn how to use these mechanisms effectively.

**Takedowns – current challenges:** Takedowns are the most cost-effective and expedient way to deal with counterfeits sold on e-commerce sites. However, in certain cases the takedown mechanism is not as effective (eg, for lookalike products) for obtaining further information on the root problem (eg, the factories where counterfeits are produced and the existence of any parallel imports or unlicensed products). In these cases, rights holders must combine takedowns with additional enforcement strategies.

The main issue is the sheer volume of counterfeits on e-commerce platforms and the costs incurred in policing them. Other issues include the following:

- Delays in shutting down links – experienced counterfeiters may file a counter-notice or defence to delay processing of the rights holder’s complaint. These counter-notices are usually groundless.
- Overlooking infringing products – some counterfeiters mask products by using different search terms, so that rights holders searching for infringing products on the platforms are unlikely to find all infringing products and remove all infringing links.
- Lack of follow-up deterrent measures – the existing takedown system removes links only and does not exclude the online seller until repeated complaints have been made. As such, there are few additional measures to deter the proliferation of counterfeit goods. Even if an infringing link is removed, new infringing links will often soon reappear on the platform.

While the takedown system remains the cheapest way to remove counterfeit goods on these sites, the following protection programmes are more effective options.
Further cooperation between rights holders and e-commerce sites: Certain e-commerce sites (eg, Alibaba) recently established the IP Joint Force programme (similar to the eBay Vero programme), which allows rights holders to work cooperatively with participating e-commerce platforms to enhance IP protection. Initiatives include an online portal through which the platform will suggest infringing links to rights holders in order to verify takedowns. The brand may also be assigned an account manager who liaises with the brand owner on takedown actions.

The advantages of such cooperation include the following:

- **Time savings in searching for infringing links** – the platforms make their search algorithms available to programme participants in order to better identify counterfeits;
- **Greater transparency on complaint adjudication and evidence requirements** – by having an assigned account manager, rights holders may be able to obtain greater clarity on evidence requirements and the platform’s stance on cases. This is particularly useful for borderline cases (eg, goods sold without a licence and grey goods); and
- **Enhanced deterrent effect** – with the platform’s automatic search, the rate of complaints by rights holders is likely to rise, thereby increasing the deterrent effect against infringing activities.

Disclosure of illicit receipts of online sellers: In cases where the counterfeiter sells a large volume of counterfeits, platforms such as Alibaba are cooperative in disclosing evidence of such counterfeit sales on issuance of a court order or on request by the Public Security authorities.

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Bureau. This is particularly useful since China lacks a discovery procedure and such financial data is typically impossible to obtain from the counterfeiter. However, the Public Security Bureau will conduct a raid only if the plaintiff can first provide evidence of actual sales or storage of counterfeits amounting to a certain level – currently Rmb50,000 and Rmb150,000, respectively. Therefore, rights holders should target the largest online sellers.

This evidence disclosure procedure is an important tool to assist rights holders in establishing their case and information obtained through it will support claims for higher damages. As most transactions involving the sale of counterfeits are conducted online, it is particularly beneficial to brand owners’ enforcement efforts.

E-commerce sites without enforcement systems
Aside from the largest and most popular e-commerce sites such as Alibaba and Taobao, certain smaller sites have limited IP protection procedures in place. These sites are often flooded with counterfeits which are regularly sold in bulk to end consumers or re-sellers in foreign countries. It is not uncommon for IP complaints filed against goods on such sites to be dealt with only after rounds of complaints or even to be ignored outright.

In such cases rights holders may need to reach out to the site directly or through their local legal representative. Another recourse may be to initiate civil litigation against the site.

Selling products on Chinese e-commerce sites
As China’s consumers become more sophisticated and demand for foreign goods increases, many rights holders are eager to take advantage of this opportunity and the initial step is usually taken through e-commerce. It cannot be emphasised enough that rights holders must first secure their trademark rights, even if the branded products are being sold only through e-commerce sites and not in brick-and-mortar stores. Sites such as Taobao, T-mall (under the Alibaba Group) and Jingdong require sellers to provide proof of the relevant trademark registration before they can establish an online shop. Even if the foreign brand owner delegates the distribution of its goods in China to a local business partner or distributor, it should still ensure that it can provide the business partner or distributor with the relevant trademark certificate. Otherwise, the Chinese business partner will have an excuse to apply for the trademark itself in order to meet the requirement – in which case it would take significant effort for the brand owner to take back the trademark if the relationship ultimately turned sour.

Notably, retail and wholesale services for goods other than pharmaceuticals are generally not registrable in China. Wholesale and retail services, including those conducted online, are protected through the registration of the goods themselves, not the services listed in Class 35 (eg, “provision of an online marketplace for buyers and sellers of goods and services”). Therefore, rights holders should ensure that they register trademark rights for their goods in the appropriate class.

If the rights holder owns an international registration designating China, it must still obtain a copy of the trademark certificate or a certified copy of the trademark record as proof of its rights. This is a common requirement for many online platforms. As the international registration system does not provide a registration certificate as of right, it is wise to arrange to obtain one as early as possible in order to avoid delays to the product’s launch in China.

Social media platforms
Social media platforms are even more omnipresent in daily life in China than in western countries. For example, everything from paying utility bills and booking hospital appointments to paying for vegetables in the market can be done through the WeChat app. Unsurprisingly, rights holders also use social media to advertise their brands and communicate with customers. Most
As rights holders are increasingly advertising their products and using their trademarks on social media rather than traditional channels (eg, print advertisements), they should be aware of the prevailing attitudes towards such use.

Advertising and using trademarks on an official social media account can help to establish the brand’s fame in China. Rights holders are advised to regularly print and maintain screenshots of their social media accounts in order to docket them effectively. When filing a takedown complaint against infringing content, rights holders can rely on these printouts as proof of publication of a copyrighted work.

If use on social media platforms is the only evidence available in China, rights holders may consider notarising such content to increase its probative value.

Counterfeiting trends in social media
Counterfeities are increasingly moving from e-commerce sites to social media platforms to sell their infringing goods, with many setting up private groups and advertising directly to group members. Counterfeities usually allow prospective buyers to join these private groups only if they are referred by existing members. The counterfeit products are ordered through private group chats and any related discussions or negotiations are therefore not publicly accessible. After an order has been placed, the counterfeiter may send a link to the product’s page on an established e-commerce site, but without mentioning the brand or product name. Alternatively, it may simply send a QR code to the buyer, who then completes online payment via channels on established e-commerce sites.

This trend of counterfeiting ‘going underground’ poses significant difficulties for IP rights enforcement. Such activities cannot be discovered through keyword searches on

"In most suits brought by Chinese plaintiffs against foreign mark owners, the accused infringing content is posted not by the rights holder itself, but rather by local distributors or partners that have little contact with the rights holder and are unaware of its trademark rights"
established e-commerce sites and rights holders cannot rely on low-cost enforcement actions such as filing online complaints. Cooperation with social media platforms to reveal suspected counterfeiting group chats may alleviate these difficulties. However, rights holders may ultimately need to target the source of the products (ie, factories, warehouses and wholesalers), although this may incur higher enforcement costs.

**Enforcement on social media platforms**

Popular social media platforms such as WeChat and Weibo have stepped up their IP protection efforts. They allow complaints based on the following grounds:

- impersonation of accounts (which allows the true owner of the name to shut down impersonators);
- copyright-infringing content, pictures or videos;
- sale of goods that infringe trademarks, patents or design rights; and
- other improper content prohibited by law (eg, fraudulent content and pornography).

Rights holders may file complaints through designated online complaint systems. The public may also file complaints through the relevant social media app or by capturing a screenshot.

Like e-commerce sites, social media platforms have established systems to cooperate with rights holders on joint enforcement efforts. Once the brand owner has entered into a cooperative relationship with the platform, any complaints regarding IP infringement made by the public in relation to published content, user content or instant messaging apps will be directed to the contact point provided by the brand owner for verification. If the content is verified as counterfeit, the brand protection platform will impose relevant penalties on the infringer (eg, an order to take down infringing content or suspension of the account).

**Conclusion**

As modes of business and advertising channels constantly change due to the Internet, rights holders must keep up to date on the opportunities and challenges brought by such changes. Increased understanding of and cooperation with e-commerce sites and social media platforms are imperative to ensure business longevity and success. Nevertheless, traditional IP rights remain the foundation of any enforcement action and rights holders should therefore ensure that their rights are comprehensively prosecuted, protected and used in China.