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## A BRAND OWNER'S GUIDE TO CREATING A CUSTOMS OUTREACH AND TRAINING PROGRAMME IN ASIA

While ASEAN states have been hit by rocketing levels of counterfeits, rights holders need to tailor the support they offer depending on each country's IP border control situation, argues Rouse's Adelaide Yu .

- **Several Asian countries are being deluged by counterfeits arriving from China, making the need for strengthened Customs systems imperative**
- **A number of factors are behind this rise, including the trade in illicit goods, the take-off of e-commerce and the emergence of free trade zones**
- **Brand owners should consider collaborating with other organisations and stepping up their lobbying activities to maximise their impact**

Before covid-19, Asia was projected to have the world's largest GDP by 2020 (World Economic Forum, 2019). Expectations, however, fell short, as the pandemic caused the Asian economy to contract by 1.5% in 2020 (McKinsey & Company, 2021). Now, with increasing vaccination rates and the easing of government restrictions, analysts are still hopeful that the Asian economy will bounce back despite the surge of cases in Hong Kong and China.

Asia is not just a production hub and a vital market, but also the main manufacturer of counterfeit goods, with the majority originating in China. Now that Association of Southeast Asian Nations (ASEAN) countries have overtaken the EU member states as China's largest trading partner, the assumption is that this increase in commerce includes an upsurge in the distribution of counterfeit products.

### Counterfeits in China and trade with Southeast Asia (H2)

In the paper "Measuring the Magnitude of Global Counterfeiting", the US Chamber of Commerce found that:

*China alone is estimated to be the source for more than 70% of global physical trade-related counterfeiting, amounting to more than 285 billion USD. [...] China and Hong Kong together are estimated as the source for 86% of global physical counterfeiting, which translates into 396.5 billion USD worth of counterfeit goods each year.*

It went on to elaborate that:

*Hong Kong's prominence in the field of physical counterfeiting is a result of its proximity to China—the Guangdong province in particular—which enables easy trafficking of goods to Hong Kong's busy ports. Today, it is estimated that China is responsible for about 10% of global trade in goods, as it is home to seven of the ten busiest ports in the world, including the port of Shanghai, the world's largest.*

At the start of 2021, the *Global Times* reported that:

*ASEAN countries have jumped to be the number one trading bloc with China in 2020, with the trade volumes hitting 4.74 trillion yuan (\$731.9 billion), a 7 percent growth year-on-year, [...] making ASEAN China’s largest trading partner for the first time and making China ASEAN’s largest trading partner for 12 years in a row.*

Figure 1 shows the increase in trade between China and the Asian region.



Source: *Global Times*

The growth of trade and regional economic cooperation between China and ASEAN nations can be attributed to many factors. Primarily, the trade war with the United States in 2019 and 2020 led to the recalibration of global supply chains and increasing integration between the two regions. Online trade has also boomed in Southeast Asia over the last five years, as evidenced by the growth in online e-commerce platforms, often selling goods sourced from China; whereas the pandemic forced the European Union into lockdown for most of 2020.

With the Regional Comprehensive Economic Partnership (RCEP) coming into effect, it is expected that trade volumes will greatly increase, as tariffs on more than 65% of China’s trade in goods with ASEAN, Australia and New Zealand are expected to drop to zero under the regional agreement. The *South China Morning Post* reports that “more than 90% of merchandise trade between RCEP members will eventually be subject to zero tariffs under the new trade bloc”.

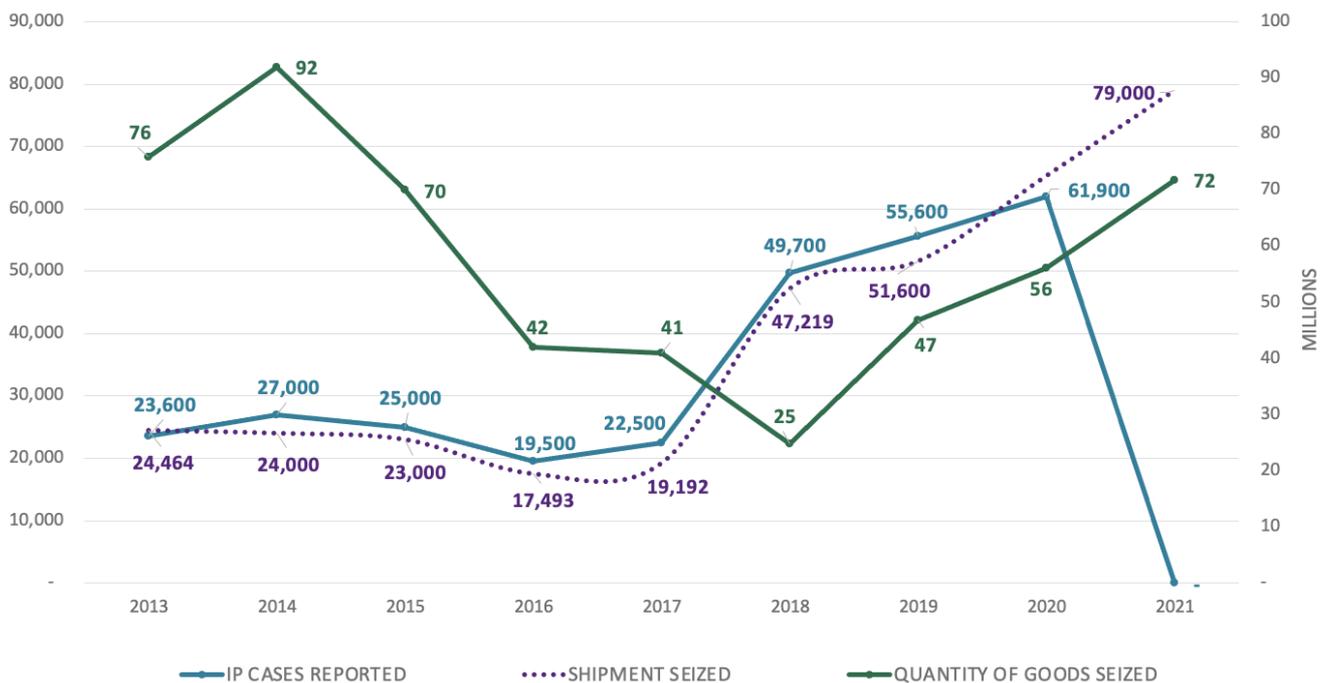
## China Customs records (H2)

The process for recording IP rights with the General Administration of Customs of the People’s Republic of China (GACC) is relatively straightforward and popular with rights holders. Customs recordal is available exclusively via the Customs’ online portal and is usually completed within a month.



In 2020, 15,163 new IP rights were recorded with GACC, bringing the total number of recorded IP rights to 61,362, recorded by 26,523 rights holders. Of these, 54,592 were for trademarks registered in China, 4,531 were for copyrightable subject matter deemed protected in China and 2,239 were for patents (including designs, inventions and utility models) issued by the China National Intellectual Property Administration. As of 18 January 2022, there were 29,845 recorded rights holders with 63,180 recordations for trademarks, 5,343 for copyright and 2,347 for patents.

According to figures published by the GACC, the number of seizures of counterfeits continues to grow year on year, more than doubling in the last five years. In 2020, 61,900 infringing shipments were intercepted, with a total of 56,181,911 goods seized (see Figure 2).



Source: GACC (General Administration of Customs of the People's Republic of China)

\*Note: the data on the shipment seized in 2020 was unavailable. The average of 2019 and 2021 is included in its place.

Going behind the numbers, in 2020, the 56,181,911 counterfeit items seized by China Customs were only related to around 1,000 rights holders' recorded IP rights – a mere 4% of the total recorded rights for 2020.

## Increasing trade means a surge in imports/exports of counterfeits (H2)

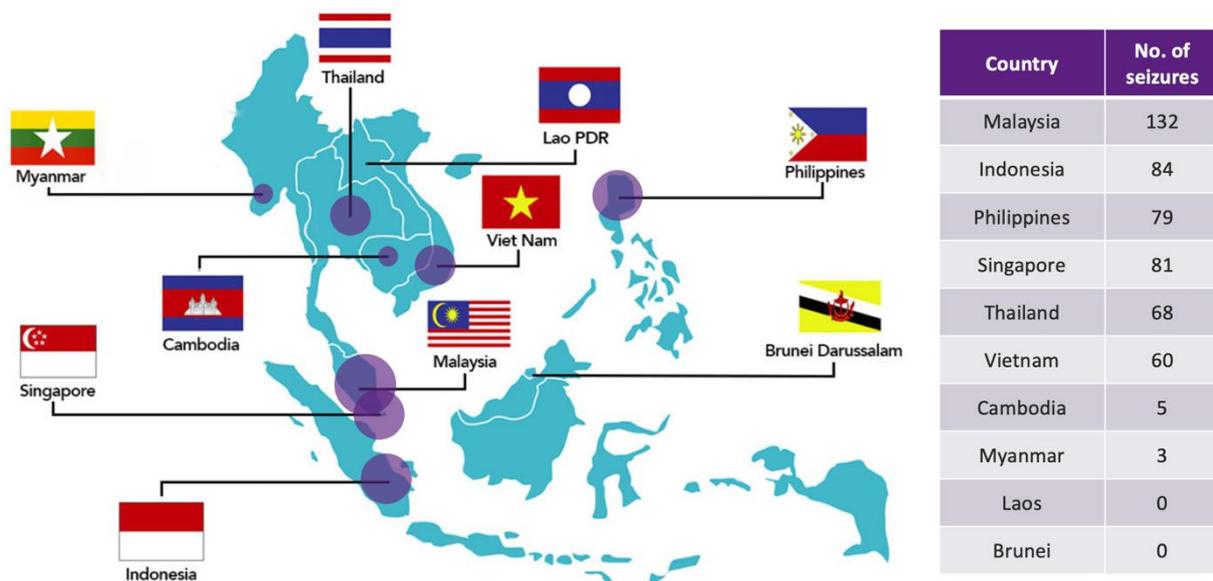
Data suggests that the trade of counterfeit goods from China into Southeast Asia is worth between \$30 and \$40 billion. This is alarming and causes significant harm to Asian economies, quite apart from the losses incurred by brand owners.

To better understand this, Rouse analysed the punishment decisions handed down by China Customs for several years. Typically, data on these is not consolidated and must be searched for on the individual websites of each port (if published) or collected through phone calls to port officials. Rouse gathered and

reviewed over 7,800 punishment decisions from Customs ports across key exit routes in China from 2013 to 2020, involving more than 1,100 brands, over 5,000 infringers and 120 exit ports.

Punishment decisions usually identify the destination of the seized shipment. Of those decisions that reported the destinations, the following number of seizures identified ASEAN countries as the final destination.

Figure 3. Final destinations of seized counterfeits



Although these numbers are small relative to the total seizures, they suggest several patterns. Punishment decision data from 2013 to 2020 shows a rapid rise in China’s exports of counterfeit goods to Southeast Asia, with 512 intercepted shipments of counterfeit goods destined for Southeast Asia. The biggest destination markets were Malaysia, Indonesia, the Philippines, Singapore, Thailand and Vietnam.

These figures from China are, of course, only the tip of the iceberg. The total value of counterfeit goods destined for Southeast Asia in punishment decision data was just under \$1 million in 2018 and over \$1 million in 2019, and represents only a fraction of the total China seizures; while seizures themselves represent only a fraction of the total counterfeit trade.

## What brand owners can do (H2)

First and foremost, brand owners must analyse the counterfeiting export trade and support targeted measures. They should invest time and money to identify key infringers and understand how they work. In addition, they might wish to consider collecting and analysing evidence obtained through in-depth investigations and managing intelligence received on infringers and their trade routes.

Second, all rights holders should record their key IP rights with Customs as a matter of course. Although in 2020 only 4% of recorded IP rights resulted in seizures, it is still a worthwhile exercise. IP protection remains a high priority for Customs, as shown by the increase in seizures of counterfeit products, despite the pandemic.

Third, engage and share relevant information with China Customs. This might include investing in targeted Customs (national and local) engagement, including online and offline training, port visits, frequent communications with key customs officers, performing quarterly updates with Customs and so on. It can also be useful to share relevant information concerning overseas seizures or domestic enforcement actions with the relevant customs ports.

Finally, lobby China Customs through various IP groups/organisations: joining groups such as the Quality Brands Protection Committee, which has a Customs Committee, is an important step towards increasing engagement with Customs and lobbying for significant changes in its procedures. The following areas should be part of any discussions:

- Accuracy and quality shipment information provided by exporters: China has an export agency system, which means that several layers of agents can be involved in one export shipment, making it very difficult to identify the true shipper and owner of the goods after an interception. Therefore, accurate recording of logistics information (e.g., seller's name, phone number and shipping address, as well as real-name registration), should be required of exporters. Alternatively, China needs to adopt the equivalent of a beneficial owner identity rule in its financial system, and then investigate and punish any traders that make false declarations.
- Improve the ratio of seizures to IP owner recordals: the current 4% figure needs to increase in order to demonstrate that Customs is improving. This will lead to a wider variety of goods being seized, create further engagement with more IP owners and ultimately prove that China is serious about addressing this issue.
- Lower the expenses shouldered by rights owners in IP enforcement: the bond requirement for each instance of suspected counterfeits being detained should be dispensed with, while rights holders should be relieved of having to pay the costs for destroying counterfeit goods.

## IP border protection in Asia (H2)

Thailand, Vietnam, Indonesia, Malaysia, the Philippines and Singapore are the top Asian destinations for counterfeit products from China. It is therefore imperative to look at the IP border control situation in each of these jurisdictions in order to understand how to minimise the spread of counterfeit products.

### Thailand (H3)

Of all the countries in Southeast Asia, only Thailand has a properly functioning IP border protection system. Thai Customs detains and inspects suspected goods daily, with around 1,000 seizures a year. Once the rights holder confirms that goods are indeed counterfeit, Customs destroys them.

Control measures apply to both trademarks and copyright. For copyright, rights holders must inform and request Customs to inspect and detain suspected goods on a case-by-case basis, while a recordal system is available for trademarks. Rights holders should file applications for Customs recordals of their registered trademarks with the Department of Intellectual Property. This then reviews applications and notifies Customs of the recordals. When customs officers intercept suspected goods, they will contact the brand owner's representatives as recorded in the system, to coordinate verification of whether the suspected products are in fact counterfeit.

In practice, due to the large volume of trademarks recorded on the customs' database, officers may not always be aware of new trademark recordations. Thus, it is good practice for rights holders to provide training on how to differentiate between counterfeit and genuine products, after the recordal has been completed.

### Vietnam (H3)

Vietnam's IP border protection system is opaque. There is a recordal and seizure system, but the data for these is only published sporadically. Likewise, while seizures do take place regularly, exact numbers for these are unknown.

Customs measures for protection of intellectual property in Vietnam include suspending customs procedures for suspected infringing goods, and inspection and supervision for detecting goods that appear infringing. Customs can act at the request of rights holders to temporarily block goods coming across the border. If they do detect counterfeits in the suspension, inspection and supervision processes, officials have the right and obligation to impose administrative sanctions, remedies and preventive measures for the enforcement of administrative penalties.

Rights holders are entitled to file Customs recordals of their IP rights with the General Department of Vietnam Customs. These will then be valid for two years, with a possibility of renewal for a further two years. Rights holders can also participate in Customs' annual training sessions.

### Indonesia (H3)

Indonesia's recordal system came into effect in 2017 but is limited to companies with a local subsidiary, thereby excluding most IP owners. Only one foreign company (P&G) has used it so far which it achieved by amending its corporate articles of incorporation. Apart from this, the recordal system is new and relatively complicated, adding to the hesitancy of brand owners.

As of March 2021, four recordals are reported to have been filed, three by local Indonesian companies and one by P&G. Several applications are known to be pending, some of which have been filed by foreign IP owners' subsidiaries.

### Malaysia (H3)

There is currently no customs IP recordal system in place in Malaysia. Under local laws, based on *prima facie* evidence, any authorised officer may detain or suspend the release of goods bearing a trademark that is identical to a registered trademark. Apart from this *ex officio* power, IP owners may not apply directly to Royal Malaysian Customs to detain or seize goods.

Alternatively, copyright owners may apply to the director general of the Intellectual Property Corporation of Malaysia (MyIPO) or the copyright controller to request the prohibition of the import of infringing copies into Malaysia during a specified period. Once the application is approved, the prohibition will come into force and infringing copies will be liable to seizure and forfeiture.

With no system to apply to Customs, the only option is for IP owners to obtain their own intelligence and file requests for specific containers to be intercepted.

### The Philippines(H3)

Under local laws, the Philippine Bureau of Customs has the authority to seize and destroy prohibited goods, including counterfeit goods.

Since 2002, the Philippines has established a procedure for Customs recordal of IP rights and seizures involving infringing goods. It is a straightforward process under Customs Administrative Order 6-2002 and includes requests for issuance of an alert or hold order on suspected infringing goods.

However, few brands renew their recordals because Philippine Customs almost never seize goods for recorded brands. Instead, it reports on seizures of goods from inland warehouses, including in Manila, where

officials sometimes come across counterfeit goods. These seizures are believed to take place when importers refuse to pay unofficial fees, or else from tip-offs. Therefore, the present Customs IP system is regarded by IP owners as ineffective.

### Singapore (H3)

Singapore is the largest transshipment port in the world and a well-known node in global illicit trade. It has no recordal or seizure system but expects rights holders to apply to the courts for an order to intercept counterfeit goods.

Despite this, border enforcement provisions do offer measures for the detection and enforcement of goods infringing copyright and trademarks being imported into, and exported out of, Singapore. These include *ex officio* border enforcement action on imports, exports and re-exports (transshipments with local consignees), in addition to the lodging of a notice by IP owners.

Both of these systems run concurrently. Under the lodgement of notice system, a rights holder is required to make a complaint to Singapore Customs about a particular shipment before the authorities will detain it at the border. Under its *ex officio* powers, Customs does have the authority to stop infringing goods in transit.

## Recommendations for brand owners (H2)

First, brand owners should consider investing in China Customs: preventing counterfeit shipments from leaving China is the first step in disrupting the flow of infringing goods into different markets. It is therefore important to press China to improve the ratio of seizures to recorded brands and to address e-commerce exports – the small packages problem.

A second plan of action is to employ a focused Customs recordal strategy: this will depend on the brand owner's business structure and presence, the goods and their distribution routes, as well as the likelihood of seizures. Jurisdictions with relatively effective IP border protection systems that lead to regular seizures and detention of counterfeit goods (eg, Thailand and Vietnam), should be at the top of the list for recordals. However, countries such as Indonesia, which has a restrictive recordal and seizure system, should only be considered by brand owners with local subsidiaries present and strong local sales in these markets.

Another option is to strategise your engagement with each customs authority: instead of merely training customs officers, create holistic engagement strategies that provide data on goods, routes and channels, and lobby for the improvement of seizures for recorded brands.

If customs recordals are filed in Indonesia, the Philippines or Vietnam, regular training for customs authorities is recommended, alongside lobbying for more seizures and improved effectiveness – training sessions alone can often prove ineffective.

Brand owners might wish to consider joining trade groups/associations, which will help to lobby for change. Collaboration between local IP owners helps to raise the profile of problems and are more likely to secure support in changing national policies. The following issues are good targets for lobbyists:

- Malaysia – press the government to establish a Customs recordal system, allowing IP owners to directly apply to customs authorities to detain suspected infringing goods.
- Indonesia – lobby for the removal of the local subsidiary requirement and to simplify the customs recordal system.
- The Philippines – continue to press Customs to seize goods for recorded brands and not accept *ad hoc* seizures for other reasons.

- Vietnam – publish more transparent data and continue to improve the efficiency of the system.
- Thailand – encourage the country’s leadership in IP border protection in the region, so that other Southeast Asian countries can learn from its success.
- Singapore – address the counterfeit transshipment problem (locally sold counterfeits within the country remain low).

## Other problem areas (H2)

Counterfeiting problem is not simply a supply and demand issue, nor is it merely the failure of customs authorities to perform their duties. There are other factors contributing to this dilemma, such as the trade in illicit goods (also involving counterfeit products), the present insufficient IP border protection system in most jurisdictions, presence of free trade zones (FTZs) and the growth of e-commerce.

### Trade in illicit goods (H3)

The trade in counterfeit goods (*ad hoc* or by organised crime syndicates) is merely a sub-set of a broader commerce for illicit goods, including the trade in grey products (eg, alcohol, tobacco or other highly taxed or regulated products) and trafficking in general (eg, of people, narcotics or firearms). Countries with weak border regimes, long and porous land borders (which facilitate inland smuggling) or archipelagos and where corruption is deeply embedded contribute to this trade.

Counterfeiting cannot be looked at and addressed in isolation but should be viewed as part of an organised criminal activity. As an example, IP seizures by local customs authorities in the Philippines are not made as a result of strategic investigation, intelligence and collaboration with brand owners, but mostly through the interception of shipments of importers that fail to pay bribes to customs officials.

### Improvement of IP border protection systems (H3)

Generally, IP border systems rely heavily on brand owners and the judicial system to identify, investigate and penalise infringers. For many customs authorities, especially in the Asian region, this has not worked and has further aggravated the problem.

The main issue with this set-up is that it requires IP owners to conduct their own investigations and generate their own intelligence on counterfeit goods. Not many have the resources and capital to do this. Moreover, even where brand owners do have access to such information, enforcement actions must be made through the judicial system, which is time-consuming and costly.

### FTZs and special economic zones (H3)

While FTZs are vital for global trade, the notion that domestic laws do not apply in these areas, alongside their inaccessibility for customs authorities, means that they are also being utilised for illicit trade. Specifically, many FTZs are used to hold and redistribute counterfeit goods, whereas special economic zones (SEZs) are used to reprocess goods in an unbranded format before they are rebranded and packaged for onward transit.

### The impact of e-commerce (H3)



E-commerce was seen as a developing industry, which has surged due to the pandemic. Nowadays, the majority of goods are bought online and markets that were previously inaccessible due to geographical considerations have now been brought within reach.

This creates a fresh problem, as it is difficult to identify sellers from abroad – especially those who ship goods through logistics and fulfilment centres, thereby enabling them to hide their real identity and location. More and more people, therefore, fall prey to scams and counterfeit products.

The growth of e-commerce has also led to the increase in circulation of goods via small parcels. Few such shipments are carefully scrutinised by customs authorities and this has thus become the main route for smuggling counterfeit products.

## Recommendations to address these problem areas (H2)

Partnering with socio-civic organisations or other stakeholders can be a powerful way to achieve change. Such entities seek to stop human, wildlife, narcotics and other forms of trafficking and can be valuable partners in the overall aim of ending the bigger problem of illicit trade. In addition, some of these groups have extensive experience working with government entities, which is invaluable.

Collaboration with anti-corruption organisations or agencies is also a step in the right direction when it comes to ridding customs authorities of ineffective and corrupt officials and employees.

Adopting the recordal and *ex officio* seizure system of China Customs is another option. This system (also followed by the United Kingdom, United States and Europe), whereby suspected goods are flagged and reported to brand owners for immediate verification, and seized as soon as they are confirmed to be counterfeit, is effective and should be adopted by customs authorities in Asia. So far, only Thailand Customs has adopted this system and it has led to increased seizures of counterfeit products.

Brand owners should ask customs authorities to adopt this method and highlight the use of new technologies and risk assessment techniques to flag and detain suspected counterfeit goods. This is particularly important when it comes to addressing growing concerns over small parcel shipments, which are being used to send counterfeit goods.

Lobbying government agencies, along with other organisations, to effect changes in the FTZ and SEZ systems should also be a focus. These systems are an area of concern, as it is widely believed that local laws do not apply and local customs authorities do not have jurisdiction in them. Such misapprehensions should be corrected, while government authorities must acknowledge that despite the benefits offered by FTZs and SEZs, they are being utilised for illegal schemes.

Lobbying to achieve changes within the e-commerce industry can be another course of action to explore. E-commerce platforms ought to have a system of reporting and takedown, which should be acted upon quickly and effectively. Many e-commerce platforms have these mechanisms but there are still some that are ineffective and do not really act on takedown complaints. Communication must be the first step but, if no action is taken, brand owners should instead lobby for liability for online platforms that fail to take adequate steps to prevent counterfeits.

Moreover, e-commerce platforms should be required to stop and ban sellers with no clear identity or proof of address. They should take initiatives to ensure that only legitimate sellers join their marketplace and not simply make the excuse that it is only a platform provider. As a suggestion, e-commerce platforms could require their sellers to pay deposits that would be forfeited if they engage in fraudulent or counterfeiting conduct.

## Comment

This analysis clearly demonstrates that the scourge of counterfeit goods cannot be addressed in isolation given the multitude of factors at work. And yet, many things can be done to address the situation.

Brand owners have an integral role to play, which they can do most effectively by collaborating with other like-minded organisations, working with customs authorities and lobbying government agencies to minimise, if not eradicate, the trade in counterfeit goods.