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LESSONS LEARNED FROM THE COUNTERFEIT BORDEAUX WINE MARKET IN CHINA AND THE SOLUTIONS AVAILABLE TO PRODUCERS

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Lessons Learned from the Counterfeit Bordeaux Wine Market in China and the Solutions Available to Producers

Bethany Fraker*

I. Introduction of the Problem

Counterfeiting is a problem that has plagued wine producers for centuries. Indeed, one can see this problem in the 18th century when King Louis XV ordered producers from Côtes du Rhône to mark their barrels with “CDR” before exporting to help prevent fraud.¹ Yet what differentiates the counterfeit wine market today from King Louis’ era is the sheer size of the market and the amount of profits that criminals are making from forgeries.

A. The Growth of the Counterfeit Market in China

The rise of the counterfeit wine market in China is attributable to China’s unprecedented economic development.² A new class of Chinese consumers, eager to display their sophistication and wealth, has developed a taste for wine, particularly high-end French red wine. The number of counterfeit wines claiming to be from Bordeaux is especially high because of the demand for the wine from this region.³ In 2013, China became the world’s biggest market for Bordeaux wine consuming almost 20% of the wine region’s export volume.⁴ Not surprisingly, the exorbitant prices for these prized bottles have proved too irresistible to counterfeiters. However, the counterfeits are not just limited to the pricy luxury

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¹ Editorial, *As Wine Counterfeiting Gets More Sophisticated, the Industry Fights Back*, NEW YORK DAILY NEWS, Dec. 9, 2013, available at: <http://www.nydailynews.com/life-style/eats/wine-counterfeiting-sophisticated-industry-fights-back-article-1.1542562>.

² Daniel C.K. Chow, *Counterfeiting in the People’s Republic of China*, 78 Wash. U.L.Q., 3, 7 (2000).

³ *As Wine Counterfeiting Gets More Sophisticated, the Industry Fights Back*, *supra* note 1. Premiere Bordeaux wines have a particular reputation as some of the most sought after in the world among wine collectors.

⁴ Editorial, *Chinese Official Claims Half of all Chateau Lafite in China is Fake*. JING DAILY, May 12, 2014, available at: <https://jingdaily.com/chinese-official-claims-half-of-all-chateau-lafite-in-china-is-fake/>.

bottles, counterfeits have spread into the mid-level brands, resulting in a larger number of affected producers.⁵

B. Different Ways of Counterfeiting

There are several ways in which wines are counterfeited in China.⁶ First is traditional counterfeiting, in which a forger will try to pass off a wine as authentic using the wine producer's trademark or brand name. How discernable the counterfeit bottles are from the authentic bottles can vary widely, from outright obvious, to anyone with a trained eye, to so sophisticated that not even a producer can tell the difference between a real and a forged bottle. The advanced counterfeiters often find authentic bottles of the wine they are counterfeiting and refill them with an inferior wine. In fact, there is a whole market just for empty bottles; often, these empty bottles can be found for sale on eBay.⁷

The second way to counterfeit is what is known as "brand squatting" or "trademark squatting," which is when a third party registers a trademark in bad faith.⁸ Brand squatting can be done in two ways, first is when a counterfeiter takes advantage of China's "first to file" laws (this will be further elaborated). Second is when a brand squatter registers a trademark to profit off of the goodwill of a brand. For instance the trademark will either be slightly misspelled or have a modification of the wine producer's name. For instance, numerous trademarks have been registered in China to benefit off of the high demand for one of Bordeaux's most famous producers, Chateau Lafite. Such trademarked names that brand squatters have registered include "Lafite Family", "Lafite Empire" and "Lafite Field."⁹

C. How Counterfeits Affect the Industry

⁵ Paolo Beconcini, *China Fake Wines, Coming Soon to a Class Near You?* IP FRONTLINE, Feb 19, 2015, available at: <http://ipfrontline.com/2015/02/counterfeit-alcohol-coming-soon-to-a-glass-near-you/>.

⁶ *Id.*

⁷ *As Wine Counterfeiting Gets More Sophisticated, the Industry Fights Back*, *supra* note 1.

⁸ Lindsey A. Zhan, *No Wine-ing: The Story of Wine Companies and Trademark in China*, 1 CORNELL INT'L L.J. ONLINE, 58, 59, <http://cornellilj.org/wp-content/uploads/2013/11/Zahn-Trademark-China-Wine-final.pdf>.

⁹ Kevin Nie, *Lafite Wins IP Suit in China*. Kevin Nie, CHINA IP MAGAZINE, available at: <http://www.chinaipmagazine.com/en/journal-show.asp?id=722>.

The negative consequences of counterfeits can be felt in several ways. First there is devaluation in the brand's reputation and quality, which can result in a loss of profits as well as the brand's goodwill among consumers.¹⁰ Additionally, counterfeit wines carry a risk of injury to consumers, recent headlines of consumers falling ill after drinking Chateau Lafite counterfeits have hurt the producer's goodwill and image among the public, resulting in decreased demand.¹¹ Second, there is an increased risk that the counterfeits originating in China will start spreading to producers' significant markets outside of China. As counterfeiting becomes more profitable, bottles forged in China will start to make their way to other markets. This has already been actualized; in 2011, counterfeit bottles of Chinese origin were seized in England.¹²

D. Challenges in Fighting Wine Counterfeits

There are several factors unique to the wine industry that has made fighting counterfeits difficult. First, Chinese consumers are relatively new to wine; the majority of counterfeits can be spotted as obvious fakes to consumers who have familiarity with wine and bottle labels. For instance, counterfeit labels will often mix locations and vineyards, such as a "Chatelet Margaux" claiming to be from "Luxembourg" while also being a "Produit de France."¹³ A second challenge is that producers are sensitive about shedding light or exposing the problem of counterfeits, as they do not want to discourage consumers from purchasing the wine. This decline in consumer confidence has already actualized with a 20% decline in prices for high-end wines.¹⁴ Additionally, because Bordeaux wines have been

¹⁰ Beconcini, *supra* note 5.

¹¹ Editorial, *Red Whine: Counterfeit Bordeaux Making Chinese Buyers Sick*, JING DAILY, Apr 26, 2013, available at: <https://jingdaily.com/red-whine-counterfeit-bordeaux-making-chinese-buyers-sick/>.

¹² Beconcini, *supra* note 5.

¹³ *As Wine Counterfeiting Gets More Sophisticated, the Industry Fights Back*, *supra* note 1.

¹⁴ Tessa Dunlop, *China's Faux Bordeaux Stirs Wine Market*, REUTERS, Mar. 12, 2012, available at: <http://www.reuters.com/article/uk-china-wine-fake-idUSLNE82B01M20120312>.

targeted the most by counterfeiters, there has been a particularized decline in Bordeaux wine sales and an increase in the demand for wine from other regions, such as Burgundy or Italy.¹⁵

E. Proposed Solutions.

While legal recourses in the form of litigation is one tool a producer can use when fighting counterfeits, this paper will predominately focus on the preventative actions a producer can take to better protect its brand in China. Though the focus of this analysis will be on Bordeaux, the solutions proposed are applicable to producers from any wine region interested in selling in the Chinese market.

Part II will examine how a producer can work within the legal and government structures in China. Part III will look at how a producer's investment in developing relationships with its supply chain can have a significant positive impact. Part IV will show how a wine producer can utilize new technology to fortify its efforts against counterfeiting. And Part V will conclude by summarizing the preventative steps a company should take when selling its wine in China.

II. Working Within the Laws and Enforcement Mechanisms in China

A. Chinese Laws

In China, there are multiple areas of laws that cover counterfeit goods and trademark protection. Therefore depending on the method the counterfeiters use, different laws can be implicated. Both trademark law and criminal law covers brand protection.¹⁶ These areas of law cover the act of either forging a trademark or putting an inferior wine into an authentic wine bottle and selling it as an genuine wine without the owner's permission.¹⁷

¹⁵ *Red Whine: Counterfeit Bordeaux Making Chinese Buyers Sick*, *supra* note 12.

¹⁶ Emily Kehoe, *Combating The Counterfeiting Woes of the Wine Seller in China*, 53 IDEA 257, 271–76 (2013).

¹⁷ *See generally* Beconcini *supra* note 5.

Additionally, China recognizes Geographical Indications (“GIs”). GIs are used worldwide to designate a good’s specific geographic origin; this is often seen with food and wine.¹⁸ More specifically, GIs serve to function as a description that signifies not only the product’s region but also that the product has the reputation and qualities attributable to that specific region.¹⁹ GIs are crucial for the wine buyer; this is because wine is a product in which consumers must often rely on the labeling to determine whether to purchase. The Chinese GI laws aim to regulate GIs use as well as preserve products’ characteristics and quality.²⁰ While these GI laws are fairly new, the GIs protection has become significant within China. Since implementing GIs into its laws, China has registered more than 700 GIs under its GI system; this has led to increased enforcement against domestic infringements.²¹

Enforcement of the trademark protections can be done via judicial or administrative enforcement. Administrative enforcement is conducted by the Administration for Industry and Commerce. This enforcement usually consists of surprise raids on the forgers’ facilities, confiscation, as well as destruction of the counterfeited goods and tools used to make them. If there is a large quantity of forged goods or counterfeits that pose a threat to the safety of consumers, then the raids will be carried out by the police and result in criminal trials.²²

In China, a civil suit may follow all criminal and administrative enforcement. Generally most judicial enforcement that follows an administrative action is rather simple and

¹⁸ Laura Zanzing, *The Perfect Pairing: Protecting U.S. Geographical Indications With A Sino-American Wine Registry*, 88 WASH. L. REV. 723, 729–31 (2013).

¹⁹ *Id.* GIs implicate a term known in the world of wine as “Terroir.” Terroir is essentially all the environmental factors that can affect the fruit and consequently the wine. It is the terroir that gives a wine from a specific region (and even vineyard) a particular taste, aroma, and more importantly its price point. However, it can be common for two vineyards, relatively close to each other but in two separate bordering GIs, to have a drastically different price tag due to the GI on the label. For instance wine from the Bergerac wine region, directly east of Bordeaux, is considered a great value wine, as it is generally much more affordable than Bordeaux wines. The premium that the consumer pays for Bordeaux wine is due to its specific terroir that the region is famous for.

²⁰ *Id.* at 746.

²¹ *Id.* at 747.

²² See generally Beconcini, *supra* note 5. Trademark infringement and counterfeiting convictions can lead to a sentence of three to seven years in jail as well as the disgorgement of any profit.

direct. This is because all the evidence that is necessary for the suit is collected during the prior administrative enforcement. Damages recovered from a civil suit may include damages from lost profits as well as reputational harm.²³

B. Preventive Actions Wine Producers Should Implement.

1. Police Trademarks

The first line of protection for a wine producer is to register its trademark. China does not protect unregistered trademarks; therefore if a company does not have a trademark registration for its brand it has no enforceable rights against counterfeiters.²⁴ China's intellectual property laws are quite different from Western laws; the trademark law of 1982 is based on the "first to file" system.²⁵ This first to file system means that the first person to file a trademark application with the China Trademark Office ("CTMO") is usually granted the trademark rights, even if the trademark has already been in prior use by the rightful owner.²⁶ This system essentially allows trademark squatters to identify and apply for trademarks belonging to the rightful owners who have not yet registered their trademark.²⁷

Trademark squatting has become a serious issue for wine producers, as it can force the rightful trademark owner to either change its brand name or pay an exorbitant fee to the brand squatter to receive the legal rights of the trademark. Some third-party registrants make a living out of trademark squatting. Indeed, one particular man has registered almost 300 Bordeaux Chateaux names; he only needs to sell back a couple of the trademarks to make a valuable profit. It costs around 1,000 Euros to register a trademark and between 8,000 to 30,000 Euros for the

²³ Beconcini *supra* note 5.

²⁴ *Id.*

²⁵ Daniel C. Fleming, *Intellectual Property Rights in China*, WONG FLEMING UNIVERSITY, available at: <http://wongfleming.com/intellectual-property-rights-in-china/>.

²⁶ Zhan, *supra* note 8, at 58–59.

²⁷ Paolo Beconcini & Kelly Liu, *\$5 M Case Highlights Risk From Chinese Trademark Trolls*, LAW360, Oct 17, 2012, available at: <https://www.law360.com/articles/386205/5m-case-highlights-risk-from-chinese-trademark-trolls>.

rightful owner to purchase the wine trademark from a brand squatter.²⁸

Chinese importers often require a chateau to own the trademark rights in China before doing business with a producer. Consequently, if a producer does not own the trademark rights it will be blocked from entry into the Chinese market until it has secured the rights to its trademark.²⁹ It is imperative that for any producer that has an interest in selling its wine in China to organize and plan the construction of a trademark portfolio as soon as it can. In addition to having its Latin name registered a wine producer should also register the appropriate Chinese translation, including both Chinese characters as well as phonetic transcription, to ensure full brand protection.³⁰

2. Utilize Customs Protection

Producers should record their trademark with the Central Administration of the Chinese Customs (“CACC”). Registration of trademarks is necessary before the CACC will engage in monitoring and confiscation of counterfeits. It is rare for Chinese Customs to proactively look for counterfeits unless a registered trademark is also recorded with CACC for customs protection. Therefore it is imperative that producers register their trademarks with the appropriate agencies in order to take advantage of this enforcement mechanism. Customs protection is a cost-effective method to counterfeiting because there is no civil suit necessary to a claim. Rather a trademark owner only needs to verify that the product is forged and then pay for storing the seized product. This mechanism also gives brand owners a chance to fortify their legal protections by using the opportunity to train and educate the Chinese Customs officials about their trademarks and products.³¹

²⁸ Jane Anson, *Chateau Ausone wins Trademark Case in China*, DECANTER, Jul. 22, 2013, available at: <http://www.decanter.com/wine-news/chateau-ausone-wins-trademark-case-in-china17381/#UvK3FbFZz0Ey6M9M.99>.

²⁹ Zhan *supra* note 8, at 59.

³⁰ Beconcini & Liu *supra* note 28.

³¹ Beconcini, *supra* note 5. Surprisingly very few wine producers have registered their trademarks with the CACC, a recent search (February 2015) into the CACC database shows that only 12 French wine brands are recorded with the agency, the total number of wine brands recorded with the CACC is 57.

3. File an Application for GI protection

Wine producers seeking to gain protection under Chinese GI laws must also file an application with The Administration for Quality Supervision Inspection and Quarantine (AQSIQ) for their products to have the specific GI protection.³² Although the wine producer is

limited to the GIs that China recognizes, there are ways in which the producer can get the government to recognize a new GI under its laws³³; this will be addressed in the next section.

4. Build Relationships with Government Agencies

There are multiple avenues a producer can utilize to work with and build important relationships with the Chinese government. The expansion of the number of GIs registered in China is example of how building relationships with Chinese agencies can be fruitful for wine producers. For instance, in June 2011 the French Bordeaux Wine Council (CIVB) partnered and worked with the Chinese government, specifically the AQSIQ, to promulgate GIs dedicated specifically to Bordeaux wine region. In June 2015 the Chinese Government officially recognized the GI for Bordeaux. Additionally, in June 2016 the CIVB was successful in getting the Chinese authorities to protect the status of almost 50 different GI appellations within Bordeaux.³⁴ Since identifying and registering these GIs, Chinese enforcement agencies have become better equipped to fight against counterfeits.³⁵

The CIVB is not unique in its success with getting the Chinese Government to recognize GIs for Bordeaux. There have been other regional trade organizations that have found success as well. For instance, the Napa Valley Vintners (NVV) association was one of the first organizations that was able to get China to recognize a GI for a specific wine region.

³² *Champagne or Sparkling Wine? Geographic Indications in China*, CHINA BRIEFING NEWS, Jul. 14, 2015, available at: <http://www.china-briefing.com/news/2015/07/14/champagne-or-sparkling-wine-geographic-indications-in-china.html>

³³ Zanzing, *supra* note 18, at 746.

³⁴ Jane Anson, *Bordeaux wine names get legal cover in China*, DECANTER, June 2, 2016, available at: <http://www.decanter.com/wine-news/bordeaux-in-china-legal-protection-305689/>.

³⁵ Zanzing, *supra* note 18, at 747.

The NVV has since been successful in getting other Asian countries to recognize the Napa GI.³⁶ If China does not recognize the GI of a wine producer's region³⁷, then the producer should contact its local GI organization or create a trade body to petition the Chinese AQSIQ to recognize and register the specific GI.³⁸

Wine producers can also utilize the new Chinese government initiative to label wine with a Protected Eco Origin Product ("PEOP") Label. The PEOP Label has both visible and invisible codes that consumers can check with their smartphones; these labels indicate to consumers that the Chinese government guarantees the wine's authenticity.³⁹ Though this method involves technology (which will be discussed later), it exemplifies the possible ways in which a producer can work with the Chinese government in protecting its brand.

While building relationships with the appropriate government agencies can be useful for the producer, it should also be careful to ensure that it is in compliance with relevant anti-corruption laws; this undoubtedly includes both French and Chinese laws. However, the United States Foreign Corrupt Practices Act (FCPA) may also be applicable.⁴⁰ Even though the FCPA is a broad provision that prohibits the producer from making payments (as well as

³⁶ Laura Seal, *Napa wine gets better legal cover in Asia*, DECANTER, July 13, 2016, available at: <http://www.decanter.com/wine-news/napa-wines-asia-gi-316771/>.

³⁷ In the case of the Bordeaux wine producer, this is very likely no longer an issue since the Bordeaux Wine Council was successful in getting China's law to recognize the Bordeaux regions as specific GIs. However, it could be an issue if the Appellation d'Origine Contrôlée (the French bureaucratic agency that certifies French GIs) were to recognize a new region within Bordeaux. Additionally, it is applicable to wine producers in other regions whose GIs are not yet recognized in China.

³⁸ *Champagne or Sparkling Wine?* *supra* note 32.

³⁹ Sophie Kevany, *Fake Bordeaux in China Being Made on Offshore Boats, Says Official*, DECANTER, May 7, 2014, available at: <http://www.decanter.com/wine-news/fake-bordeaux-in-china-being-made-on-offshore-boats-says-official-13036/>.

⁴⁰ The FCPA has jurisdiction over a French wine producer in different scenarios: if it is company that is publically traded on a U.S stock exchange, the bribe money was at one point wired through the U.S, or relevant persons were physically in the United States when acting in violation of the FCPA.

making offers or promises of payments) to any foreign official to retain or obtain business, there is a narrow exception to the FCPA that a wine producer may be interested in utilizing.⁴¹

The FCPA contains exceptions for “facilitating and expediting payments” made to further routine governmental action. These exceptions are applicable only when used to further routine governmental action that involves non-discretionary acts. The “routine governmental actions” include providing police protection or scheduling inspections related to the transit of goods.⁴² While this provision is narrow, it would allow a wine producer to create financial incentives to police departments or government agencies to enforce relevant anti-counterfeiting and trademark laws. In fact, investigators often get Chinese agencies to conduct raids on counterfeiting warehouses via facilitating payments.⁴³

C. Recent Cases

Chinese courts have been increasingly expanding the application of trademark protection laws to favor wine producers, whether the infringers engage in traditional counterfeiting or trademark squaring.⁴⁴

1. *Liu Zhaolong*

In one case that involved traditional counterfeiting, the forger, Liu Zhaolong, would reuse genuine empty Scotch whiskey and French cognac bottles and fill the empty bottles with an inferior product. The Beijing Daxing District People’s Court found that Zhaolong had committed the crime of trademark counterfeiting, even though technically some of the bottles that Zhaolong used were not identical to the trademark. However, the key to the court’s

⁴¹ U.S. DEPARTMENT OF JUSTICE AND THE U.S. SECURITIES AND EXCHANGE COMMISSION, A RESOURCE GUIDE TO THE U.S. FOREIGN CORRUPT PRACTICES ACT, available at: <http://www.sec.gov/spotlight/fcpa/fcpa-resource-guide.pdf>

⁴² *Id.*

⁴³ Kehoe, *supra* note 16, at 268.

⁴⁴ *Id.* at 279.

decision was that Zhaolong sold the trademark labels without the owner's permission in addition to selling inferior goods.⁴⁵

2. *Chateaux Ausone and Barrière Frères*

Recently, two Bordeaux wine producers were successful in significant battles against trademark squatters. These cases are important for several reasons. First, it shows that a chateau can be successful in recovering from the mistake of failing to register its trademarks by challenging the other party's registration as fraudulent. Second, that enforcement against a trademark squatter is possible *ex post* a third party registration.

Chateau Ausone recovered from failing to register its trademark. It won a case against a trademark squatter who had tried to register a Chinese character that was a translation of "Ausone." Even though Chateau Ausone did not register or hold legal rights to the Chinese trademark; the CTMO determined that the Chinese applicant, who had also previously registered trademarks of other wine producers, was acting in bad faith.⁴⁶

Given the pandemic of trademark squatters, a wine producer may find that there is a trademark very similar to its own or it may find that a Chinese translation is already registered as a trademark, however this should not stop a wine producer from seeking enforcement. Barrière Frères fought a third party registration of a logo that was very similar to Barrière Frères' iconic Grand Bateau logo. Barrière Frères argued that the third party's trademark would cause consumer confusion. Even though the CTMO had already previously approved the third party's registration, the court sided with Barrière Frères and recognized its ownership of the mark.

These cases are a positive step in the right direction for trademark protection and seems to suggest that China *may* start to move away from its first to file system of trademarks. However, it should not be assumed that the Chinese courts look mainly at the intention of the

⁴⁵ *Id.* at 279–80.

⁴⁶ Zhan, *supra* note 8, at 59–60.

parties or whether they acted in bad faith. As the next two cases demonstrate, the first to file rule appears to still be the prevailing standard for the Chinese courts.

3. *Castel Frères*

French wine company, Castel Frères, had been present in the Chinese market since 1999. Castel started a corporation with a wine maker in China under the name of “Ka Si Te”, sales grew and the “Ka Si Te” brand gained a reputation among Chinese consumers, however Castel never registered its trademark. A Chinese wine distributor took advantage of China’s first to file system and registered “Ka Si Te” as a Chinese trademark; it was then later transferred to a Spanish-Chinese winemaker, Li Daozhi. Li Daozhi established a company that sells wines exported from France to China with the trademark “Ka Se Te.” When Castel discovered the use of the hostile trademark it filed an application for the “Ka Se Te” trademark, however it was rejected do to the already existing and registered trademark that Li Daozhi owned.⁴⁷

Castel then filed a request with the CTMO office to cancel the use of the hostile trademark, the dispute lasted for nine years with the Supreme People’s Court rejecting Castel’s request for cancellation. Then, adding insult to injury, Li Daozhi responded by filing a trademark infringement lawsuit against Castel claiming that Castel had illegally earned a profit by its unauthorized used of Li Daozhi’s “Ka Se Te” trademark.⁴⁸

The case was before the Wenzhou Intermediate People’s Court; Castel argued that its use of the trademark was in good faith. However, the court found that Castel had knowledge of the registered “Ka Se Te” trademark; consequently the court deemed Castel to be an infringer on Li Daozhi’s trademark and ordered a payment of damages exceeding \$5 Million. Castel appealed to the Supreme Court. The Supreme Court held that Castel, with full

⁴⁷ Beconcini & Liu, *supra* note 28.

⁴⁸ *Castel Wines Adopted a New China Brand Because of Trademark Issues*, LIUMING INTERNATIONAL, May 9, 2016, available at: <http://www.liuminginternational.com/castel-wines-adopted-new-china-brand-because-of-trademark-issues/>.

knowledge, infringed on Li Daozhi's trademark and was therefore liable. Fortunately for Castel, the Court reduced the damages to the statutory compensation of Rmb 500,000 (about \$72,000) as Li Daozhi failed to prove profit losses from Castel's use of its trademark. However, Castel had to not only pay the damages to Li Daozhi, but it also had to adopt a new brand name for the Chinese market.⁴⁹

4. Chateau Listran

Chateau Listran, another Bordeaux producer, was forced to change its brand name and register its trademark as "L'Estran" because a third party had already registered and owned the rights to "Listran." While Listran's decision to not pursue costly litigation or pay out to the third party resulted in saving some costs, it also involved losing a valuable brand name as well as the goodwill connected to Listran's reputation and decades of history.⁵⁰

The Castel Frères and Chateau Listran cases highlight the crucial importance for a wine producer, at a minimum, to at least register and monitor its trademark to ensure that its trademark rights are legally recognized. Producers need to be careful not to use an already existing Chinese trademark, as the Castel Frères case exemplifies the high costs associated with such activity. If a producer is confronted with a similar sounding or written trademark that is already registered, the more logical approach may be to choose another trademark and work to build that trademark into the brand's image in China, the producer will have to conduct a cost benefit analysis to determine the proper plan of action.⁵¹ Additionally, the next case illustrates that a producer should aim to register not only its Latin trademark but also the Chinese character transliteration of its trademark.

5. Chateau Lafite Rothschild

Chateau Lafite Rothschild has been in a legal dispute with Nanjing Golden Hope Wine for

⁴⁹ *Id.*

⁵⁰ Zhan, *supra* note 8, at 60–61.

⁵¹ *Castel Wines Adopted a New China Brand Because of Trademark Issues, supra* note 48.

over five years regarding the similar sound of their trademarks. In 1996 Chateau Lafite registered the mark “LAFITE” for the use of alcoholic goods. In 2007 Golden Hope registered a trademark consisting of Chinese characters, also to be used for alcoholic goods, the pronunciation of Golden Hope’s trademark is ‘la fei.’ In 2011, Chateau Lafite submitted an application for the cancellation of Golden Hope’s trademark with China’s Trademark Review and Adjudication Board (“TRAB”)—the body that handles appeals of CTMO decisions regarding trademark applications. Chateau Lafite argued that the “LAFITE” trademark and its Chinese translation ‘la fei’ should be acknowledged as its well-established trademarks in China. The TRAB agreed with Chateau Lafite and canceled the registration of Golden Hope’s trademark. Golden Hope appealed the TRAB decision to the Beijing Intermediate Court.⁵²

The Intermediate Court held that Golden Hope used the Chinese translated name of Lafite to trick consumers into thinking its wine was a genuine Chateau Lafite wine. The court ruled in favor of Chateau Lafite holding that the Golden Hope’s Chinese translation related to Lafite’s specific name. The court ruled that Golden Hope’s use of its trademark constituted trademark infringement. The court also held that the Golden Hope engaged in unfair competition because its trademark was confusingly similar to Chateau Lafite’s.⁵³

Golden Hope then initiated another appeal to the Beijing High People’s Court. During the appeal, evidence was submitted showing that before Golden Hope’s registered its trademark Chateau Lafite used different Chinese character transliterations of its trademark “LAFITE” in marketing materials. Of these various Chinese character transliterations, Golden Hope’s trademark was utilized. The court ruled that because Chateau Lafite’s marketing materials were limited to specific journals with a limited audience, Chateau Lafite’s trademark was not popular enough in China before Golden Hope’s registration of the Chinese character trademark. The court also held that the public did not recognize “LAFITE” and Golden Hope’s trademark as linked to each other and that Chateau Lafite’s trademark was distinct and different enough from Golden Hope’s trademark both in

⁵² *Chateau Lafite Not Famous Enough in China?* LIUMING INTERNATIONAL, Jun. 21, 2016, available at: <http://www.liuminginternational.com/chateau-lafite-not-famous-enough-in-china/>.

⁵³ Kehoe, *supra* note 16 at 280.

terms of pronunciation and font. Chateau Lafite has since appealed for review by the Supreme Court, the status is pending.⁵⁴

While the High Court's ruling is at odds with the Intermediate Court and the TRAB, this case may still be marked as one that fortifies trademark protection. The Intermediate Court's ruling expanded the extent of trademark protection under Chinese law because it limited the ability of trademark squatters to market and sell copycat wines under confusingly similar brands and labels. Regardless if the Supreme Court will sustain the intermediate court's ruling, this case demonstrates the importance for a producer to register the different possible Chinese character transliterations of its trademark and to be consistent in the use.⁵⁵

6. *Penfolds*

The most recent Chinese court decision dealing with trademark squatting involves Australian wine brand Penfolds, owned by Treasury Wine Estates. In this case the same trademark squatter from the Castel Frères case, Li Daozhi, filed the trademark of the Chinese translation of Penfolds, "Ben Fu", in 2009 with the CTMO. In 2012 Treasury filed an application to have Li Daozhi's trademark registration cancelled, the court found in favor of Treasury. The decision was then appealed to the Beijing's High People's court. The court upheld the decision, stripping Li Daozhi of the trademark, finding that there was no valid commercial purpose for using the "Ben Fu" trademark.⁵⁶ This case is a positive step in the right direction for legitimate trademark holders, as it appears that the Chinese courts are giving more consideration to the new trademark law, discussed in the next section, as well as the intent of the parties.

D. Recent Laws and Trends in Enforcement

All of these cases above demonstrate that utilizing the Chinese legal system can be costly and arduous. However, since the initiation of these cases China has adopted amendments to its

⁵⁴ *Chateau Lafite Not Famous Enough in China?* *supra* note 52.

⁵⁵ *Id.*

⁵⁶ Chris Mercer, *Penfolds Wins Trademark Battle Over "Squatter" in China*. DECANTER, January 17, 2017, available at: <http://www.decanter.com/wine-news/penfolds-china-wins-trademark-battle-352878/> .

trademark laws, which will potentially give a producer more protection for trademarks that had a prior use and for producers with well-known brands.⁵⁷ Under the new trademark laws damages and penalties have been markedly increased⁵⁸, and the CTMO is now under a nine-month deadline when reviewing applications, a marked difference from the average 15 to 18 month waiting period the year before the law was passed. The amendments also encourage good faith registration. Notably, Article 7 states, “any application or usage of trademark shall abide by principles of good faith.”⁵⁹ The new law therefore implicates brand squatters who have bad faith when registering a trademark.

Increasingly, the Chinese courts have been interpreting Article 7 favorably towards legitimate trademark holders, however there are still inconsistencies between the courts’ rulings and the administrative agencies’ implementations. For instance, the TRAB often ignores the Chinese courts’ holdings on cases involving trademark registration and the good faith requirement. Consequently, it is questionable whether China’s new trademark law will predictably be enforced in favor of legitimate trademark holders.⁶⁰

In addition to inconsistencies, China’s enforcement mechanism is also rife with corruption and incoordination.⁶¹ Undeniably counterfeiting has become a livelihood and way of life for entire villages and towns. Consequently, the counterfeiting industry has become deeply ingrained within parts of China making it difficult to utilize agency style enforcement as a means to eliminate counterfeiters. For instance, a Chinese enforcement agency may fail to eliminate the production facility that is producing the counterfeit goods because officials in that agency are also receiving bribes from the forgers.⁶²

⁵⁷ Zhan, *supra* note 8 at 61.

⁵⁸ Beconcini, *supra* note 5.

⁵⁹ Matthew Dresden. *China’s New Trademark Law and the Law of Unintended Consequences*, CHINA LAW BLOG, Jun. 2, 2014, available at: <http://www.chinalawblog.com/2014/06/chinas-new-trademark-law-and-the-law-of-unintended-consequences.html>

⁶⁰ *Id.* William M. Leahy & Stephen Kho, *Is China’s Amendment Trademark Law a Law With Teeth, or a Paper Tiger?* BOAO REVIEW, Aug. 2015, available at: <https://www.akingump.com/images/content/3/5/v2/35819/Is-China-s-Amended-Trademark-Law-a-Law-with-Teeth-or-a-Paper.pdf>.

⁶¹ Kehoe, *supra* note 16, at 267.

⁶² *Id.* at 268.

While several government branches are authorized to enforce trademark laws, the problem is that there is not enough coordination between the branches. It has been noted, even by the Chinese Government, that there is a need for a centralized policy and an overarching authority to resolve the ambiguities and lack of transparency between the agencies.⁶³ This lack of centralized oversight has helped create conditions ideal for counterfeiting. While the new trademark law addresses some of the enforcement issues, many observers remain cautious and skeptical as to whether the law will relieve the enforcement inconsistencies.⁶⁴

E. Benefits and Drawbacks of Working Within China's Legal Structure

The measures identified above should be producers first line of defense to protect their legal rights because if successfully undertaken these countermeasures can be effective. However, a producer should by no means stop here. While China recognizes intellectual property rights and has bolstered trademark protection rights, the courts are not completely predictable and the enforcement mechanisms are still inconsistent. Utilizing the tools available within the Chinese legal structure is indeed an important first step, but there are many other additional avenues that a producer can use to protect its brand.

III. Working With Distributors and Retailers

A. Monitor Supply Chain

A wine producer should strive to know what is going on its own market; it should monitor its supply chain to ensure that intermediaries, distributors and retail shops are selling its authentic wine and not counterfeits.⁶⁵ If a producer discovers counterfeit goods in its supply chain, there are several possible routes it can take to address the issue. In most

⁶³ *Id.* at 267.

⁶⁴ Dresden, *supra* note 58. *See also: New trademark law of China unsolved issues undermining brand protection and enforcement*, LEXOLOGY Mar 19, 2015, available at: <http://www.lexology.com/library/detail.aspx?g=15aade19-ff0b-4882-ad5f-a41c810bcbd2>.

⁶⁵ *Champagne or Sparkling Wine?* *supra* note 32.

situations, the first step would be to report the issue to the relevant enforcement agency.⁶⁶ However, due to possible inefficiencies or corruption within the government agencies, a producer will likely need to implement additional measures. Such suggested measures include working with, educating, and building relationships with its supply chain, as well as creating incentives for distributors.

B. Working With and Educating Supply Chain

Efforts invested in building relationships with intermediaries and retailers can pay off well for a wine producer. Such efforts should include raising awareness of the counterfeiting problems, particularly with respect to the risk of the retailer losing business due to bad publicity as well as the risk of consumer safety. Producers should also educate distributors and retailers about their wines and how to better identify counterfeits. For instance, just by looking at the labels, bottles, and corks for inconsistencies can filter a significant amount of counterfeits from authentic bottles.⁶⁷

An important aspect of this awareness and education undertaking is to build brand loyalty with the intermediaries. Johnson & Johnson (J&J) found this approach to be particularly helpful when it was facing counterfeit issues not immediately responsive to government action.⁶⁸ The following quote is from J&J's former director of Product Protection and Global Brand Integrity group:

With the brand integrity elements, we want to make sure that suppliers have a strong knowledge base. We also want to make sure that they have the ability to supply to people who hold even higher security levels than we may think of, such as companies that produce banknotes and secure papers. Those are the types of

⁶⁶ Beconcini, *supra* note 5.

⁶⁷ Jackie Northam, *Sip On This: That \$10,000 (or \$30) Bottle of Wine Might Be Fake*, NPR, Oct. 15, 2015, available at: <http://www.npr.org/sections/thesalt/2015/10/13/448182588/sip-on-this-that-10-000-bottle-of-wine-might-really-be-2-buck-chuck>.

⁶⁸ Craig Kramer, VP of Government Affairs at Johnson & Johnson, Keynote Address at the Virginia Journal of International Law Symposium: Impediments To The Global Economy (Feb. 17, 2016).

suppliers that understand the importance and the nature of maintaining confidentiality in their secure products.⁶⁹

J&J's policy shows the importance of supply chain relationships and it reflects the well-established principle of choosing a business partner wisely, especially in an emerging market.

A producer should conduct comprehensive due diligence to ensure that the distributor does not have a reputation of bribery or dishonest dealings. Particularly since the *GE InVision* case which has made it easier for United States prosecutors to establish a FCPA violation.⁷⁰ Companies are now expected to do more due diligence, training and monitoring of third party contractors or consultants. The extra resources invested in due diligence not only ensures that the producer is in compliance with the FCPA, but it is also just good business sense to be selective and careful when choosing a local business partner.⁷¹

C. Create Incentives for Distributors to Police Trademarks

While it is true that a producer has the legal rights to police its trademark (presuming that it has registered its trademark), practically, distributors are in a better position to protect the brand rather than the actual producer. Distributors are often nationals of China, therefore they are more familiar with the culture, government agencies, and business environment. They are generally savvier in knowing how to get business done within the business and government structures. Additionally, distributors are plugged into the network of the local industry and therefore they know which retailers to use and which ones to avoid.

Producers should try to create incentives for their distributors to protect the trademark and engage in the overall policing of the supply chain. While the threat of the producer

⁶⁹ Global Intellectual Property Center, Intellectual Property Protection and Enforcement Manual: A Practical and Legal Guide for Protecting Your Intellectual Property Rights, available at: http://www.ipr-policy.eu/media/pts/1/Brand_Enforcement_Manual_FINAL.pdf.

⁷⁰ RICHARD DEAN ET AL., *DOING BUSINESS IN EMERGING MARKETS* 34–39 (2d ed. 2010).

⁷¹ *Id.* at 105–107.

withdrawing or no longer selling its product to the distributor can be an incentive, using a carrot instead of a stick may be a more productive approach. The universally appealing incentive of cash, whether in the form of a bonus payment or an additional discount on the product and thus higher profit margin for the distributor, can motivate a distributor to keep the producer happy with the supply chain. However, this may not be the best mechanism for brand protection, because the distributor may reason that if the producer does not know about counterfeits or does not know that counterfeits are coming from the distributor's territory, then there is no harm to the distributor. The distributor could continue making a profit by selling the producer's wine while not exerting additional time or resources in policing the supply chain for the producer.

A possible solution to this problem is if the producer grants the distributor exclusive distribution rights of the wine. Such agreement would be one in which the distributor is the only buyer that the producer sells to in a given region.⁷² Undeniably this structure does limit the amount of distribution channels that the producer has in a given territory; this may not be an issue for the high-end wines that are known for their exclusivity, but this structure would be an important business consideration for the mid-level producer that desires to have more of a wide scale distribution. The upside to this structure is that it could create additional incentives for the distributor to police the producer's trademark. The distributor would have a monetary incentive to ensure that the only wine being sold under the producer's name comes from the distributor and not counterfeiters. Any counterfeits of the specific label sold in the distributor's territory are a loss in profit to the distributor.⁷³

Indeed, this distribution structure does implicate China's Anti-monopoly Law ("AML"). China's AML states that a business operator with a dominant market position in

⁷²*Distribution Country Question: China*, PRACTICAL LAW, Jun. 9, 2014, available at: <http://us.practicallaw.com/5-553-6027>

⁷³ Assuming that the distributor itself is not engaged in selling counterfeits, this reflects the importance of due diligence when selecting a local business partner.

the market cannot refuse to trade with a distributor without justification.⁷⁴ China's AML defines "dominant market position" as the "market position held by a business operator having the capacity to control the price, quantity or other trading conditions of commodities in relevant market, or to hinder or affect any other business operator to enter the relevant market."⁷⁵ Because Bordeaux wine producers not only compete each other, but also with other producers from different wine regions, it is likely that China's AML would not be violated.

D. Benefits and Drawbacks to Working with Distributors and Retailers

The benefits for a wine producer in working with and educating its supply chain may extend beyond addressing counterfeit issues. For example, building strong relationships with distributors and retailers may also help to make a producer's wine more desirable among competition. It is well known in the wine industry that the stronger a relationship between a producer and its supply chain the more likely the supplier's product will get sold. This is particularly true at the retail level, as wine is often sold based off of recommendations of retailers. The more a retailer is familiar and knowledgeable with a particular wine, the more likely it will be recommended to a consumer. These efforts can also implicate regional cooperation, such as promoting Bordeaux wine over Italian or Spanish wine. If a wine producer were concerned about costs associated with such an endeavor, then a potential solution would be to either create or join a regional trade organization to pool together resources and share costs to implement such awareness programs.

⁷⁴ ANTI-MONOPOLY LAW OF THE PEOPLE'S REPUBLIC OF CHINA, CHAPTER III, ARTICLE 17, available at: http://www.china.org.cn/government/laws/2009-02/10/content_17254169.htm

⁷⁵ *Id.*

The drawback to this approach is the reality that such efforts may not be enough to counter the very sophisticated counterfeits, that also happen to be the most expensive.⁷⁶ Therefore it may be necessary for a wine producer to also implement technological advances to further protect its trademark.

IV. Utilizing New Technology

There is no doubt that producers who sell high-end wines in China are fighting against sophisticated counterfeits, due to the fact that the sheer number of rare bottles from famous vineyards auctioned are too high to not include fakes.⁷⁷ This is not surprising since forgers have more to gain from counterfeiting wines that can fetch a higher price tag. Therefore, these producers may benefit from utilizing anti-counterfeiting technology on individual bottles. However, producers should not exclusively use technology as a shield against counterfeits, this is because forgers can also utilize technology and adapt to the anti-counterfeiting measures. It has been noted that the situation now is akin to “an arms race between the increasing sophistication of the methods used to authenticate bottles and the increasing sophistication of counterfeiters.”

A. Different Types of Technologies Available

Bill Koch, a billionaire businessman whose wine collection contains over 43,000 bottles, has been at the forefront in the fight against counterfeit wines. Koch has been collecting some of the most prized wine over the past forty years, including four 1787 Bordeaux bottles that were claimed to be part of Thomas Jefferson’s private wine collection.⁷⁸ As it turned out, the four bottles that Koch paid \$500,000 for were actually counterfeits.⁷⁹

⁷⁶ *As Wine Counterfeiting Gets More Sophisticated, the Industry Fights Back*, *supra*, note 1.

⁷⁷ *Id.*

⁷⁸ Editorial, *How Billionaire Bill Koch Fights Fake Wine*, BLOOMBERG BUSINESS (Sep. 17, 2014) available at: <http://www.bloomberg.com/news/articles/2014-09-17/how-billionaire-bill-koch-fights-fake-wine>.

⁷⁹ *Id.* See also, BENJAMIN WALLACE, *BILLIONAIRE’S VINEGAR* (Three Rivers Press 2009). For a very interesting and entertaining read on the history of Bordeaux, high-end wine auctions, and the legal proceedings that followed the sale of the mysterious 1787 Chateau Lafite bottle ascribed to be part of Thomas Jefferson’s collection.

Koch's further investigation into his wine collection revealed 500 to 600 counterfeit bottles. In the wake of these discoveries Koch put together a team of experts utilizing high tech equipment to test a wine's authenticity.⁸⁰

1. Isotopes, Particle Accelerators, and Laser Based Tests

The following methods that Koch's team utilizes are examples high-end technologies available to significant collectors. The Isotope Cesium-137 test measures the radioactivity in a bottle. Wines that are claimed to be from before the arrival of the atom bomb should not contain any Cesium-137, whereas wines from around the 1960's should show a marked increase in Cesium-137. Particle accelerator testing examines the unique chemical makeup of the bottle's glass. This test works because the recipe for glass changes each year. By comparing the glass of an alleged 1961 bottle to an authentic 1961 bottle, the test can determine if the forger used a newer bottle to pass off as an authentic. And lastly, a laser-based test, developed by a Bordelaise scientist, works by examining the chemical makeup for a specific terroir of a wine without even having to open the bottle.⁸¹ While Koch's three tests can ensure authenticity for the consumers, their use is limited to the high-end luxury wine sales conducted in auction houses such as Christie's. These exclusive tests are not appropriate for producers whose wine is marketed for more mass production, such as restaurants, hotels, and retail shops; enter the Near-Field Communication (NFC) Chip.

2. NFC Chips

These chips are a cost effective solution that allows a consumer to use a smartphone to scan the chip. Customers will then be shown a short video of the winemaker or winery confirming the authenticity of the wine. These chips act the same way as the PEOP labels described earlier. However, after their implementation it was soon realized that the chip does

⁸⁰ *As Wine Counterfeiting Gets More Sophisticated, the Industry Fights Back, supra, note 1.*

⁸¹ *How Billionaire Bill Koch Fights Fake Wine, supra note 77.*

not know if the bottle has been opened and emptied. A counterfeiter could obtain an empty bottle, refill, re-cork, and resell it with the authentic NFC chip on the bottle. SICPA, a Swiss company that manufactures ink used for many countries' currency, solved the problem by developing a tamperproof closure. The top of the closure contains SICPA proprietary ink that can be seen through the lenses of a "validator" card.⁸² In 2013 Opus One Winery, based in Napa, utilized both the NFC Chip and the SCIPA ink-printed seal, and it found great success, so much that for the first time in the winery's history it did not file any complaints about fake wines.

The NFC chips and SICPA seals are just a couple examples of the numerous cost-effective methods a wine producer can utilize to ensure the authenticity of its wine to consumers. For instance, some wineries opt to use bar-coded stickers instead. These stickers are placed on both the bottle and foil that surrounds the cork, when the bottle is opened the certification is destroyed. Other wineries choose to laser engrave their bottles with unique serial numbers.⁸³

B. Benefits and Drawbacks of Utilizing Technology

Use of technology not only restores consumer confidence in the authenticity of the wine

but it can also aid the supply chain in identifying counterfeits. To illustrate, if a retailer knows that Chateau Lafite utilizes the PEOP label but then is approached by a distributor to sell a case of Chateau Lafite with bottles that do not have the PEOP label, the retailer will know the case is fake. Ideally the retailer will not sell the forged wine; of course this outcome also depends on how strong the relationship the producer has developed with the retailer.

⁸² *Id.*

⁸³ Andrew Adams, *Product Focus: Anti-Counterfeit Systems*, WINES AND VINES MAGAZINE, May 2015, available at: <http://www.winesandvines.com/template.cfm?section=features&content=150589&ftitle=Product%20Focus%3A%20Anti-Counterfeit%20Systems>.

Additionally, if a consumer purchases a producer's wine more than once, the consumer will be better equipped to identify counterfeit bottles that stray from the producer's use of anti-counterfeiting technology.

The drawbacks to using anti-counterfeiting technology are the additional costs it puts on the producer and consumers. However, perhaps even more importantly, is the consequence that using high-end technology brings up is that the very issue that producers do not want consumers focused on: that the Bordeaux wine market has been compromised. Currently the industry remains divided as to whether it needs to bring publicity of the counterfeiting issue to consumers; some producers have a "code of silence" and even feel that their wine is "too good to be faked." However, there is a growing consensus among Bordeaux producers that the best approach is to "speak about it openly and to say what we're doing and let the consumers know what means there are to verify that they have the right product."⁸⁴ How a producer responds to this choice will depend on the perceived cost and benefits of having the additional security for consumers along with the additional publicity of the problem.

V. Conclusion

A producer looking to sell its wine in China should not be discouraged by the counterfeit market. Summarizing the suggested preventative steps. First the wine producer should work within China's enforcement mechanisms by registering its trademarks, filing applications for GIs, utilizing Chinese customs, building relationships with government agencies. Second, producers should work with its supply chain by raising awareness, educating, and incentivizing distributors and retailers. Lastly, producers can take advantage of modern technology to prevent counterfeit sales and further bolster consumer confidence.

⁸⁴ *As Wine Counterfeiting Gets More Sophisticated, the Industry Fights Back, supra*, note 1.

While counterfeit bottles pose a challenge to wine producers, steps can be taken to minimize the risk of a *faux Bordeaux*.