



European  
Commission

# Case Study: Counterfeiting of Mechanical Products

CHINA  
IP SME HELPDESK

## ✓ Background

'EngCo' is a UK-based engineering company and a world leader in various types of mechanical products. The products are supplied internationally to customers in the power and refinery industries for use in high-integrity applications. The products undergo rigorous testing and certification since any failure in service would have major safety implications. The dangers posed by counterfeits are obvious.

Several years ago it became clear that a Chinese company had adopted a trade name similar to that of EngCo, sharing several of the original product range. It was attempting to make use of EngCo's reputation to market a product that was similar in shape, colour, markings and intended function. Fake certification marks were even applied to the counterfeit product.

## ▮ Action undertaken

EngCo responded with a series of escalating responses including arranging raids of the counterfeiters' sales outlets with the involvement of the Administration of Industry and Commerce (AIC) in cities where these infringements were taking place. At one stage EngCo considered making an offer to buy out the infringer, but it settled on a three-pronged response:

- pursue the infringer through the Chinese civil court system;
- lobby relevant UK and Chinese national authorities; and
- establish local manufacturing to lessen the cost advantage of the counterfeiters.
- The IP rights involved were patents, including design rights (grouped with patents under Chinese law), copyright and trademarks.
- EngCo has experienced problems in all these categories;
- opportunistic tactics by the counterfeiters, including vexatious and last-minute design 'registrations', failure to attend court and various other relentless attempts to 'play the system';
- the ineffectiveness of AIC in the face of questionable tactics by the counterfeiters over trademarks — as well as the current four-year waiting list, in some areas of China, for fake trade marks to be struck out; and
- concerns over the quality, training and integrity of some lawyers and even judges.

EngCo reported inequalities for plaintiffs in the Chinese legal environment. For example, although foreign law firms are not allowed to practice in China the English-language standards of local lawyers are often poor, requiring the expenditure of considerable costs and time compared with the cost for the counterfeiters in defending their position. Patent rights in particular have proved difficult to enforce, with extensive hearings over design rights which have led to lengthy arguments in court involving experts and adding to costs, time and frustration.

## 📌 Outcome

EngCo remains committed to China and has won a significant share of the market compared with the counterfeiters. The safety-critical nature of its products no doubt plays a part, especially when EngCo is bidding for major contracts involving large, reputable Chinese customers.

EngCo has learned how to compete in China — even in an environment where it continues to suffer sustained and partially successful attempts to infringe its IP rights and sell competing counterfeit products. In purely commercial terms, EngCo's own factory in China makes a key contribution to levelling the playing field through the familiar advantages of being close to the market and reducing the cost of the company's products.

## 📌 IP Lessons


- Ensure all relevant rights are properly registered in China to ensure sufficient protection, (even for copyrights, which do not require registration, it is necessary to be able to prove you possess the rights)
- Be vigilant in the defence of your rights and aware that IP authorities may not be adequate

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