

# Brand protection strategies for Korea

On August 28th, ASIAN-MENA COUNSEL and Lee International co-hosted an In-House Community Thought Leaders Breakfast Forum in Seoul entitled 'Brand Protection Strategies for Korea.' The meeting took the form of a presentation by Nicholas Park, senior foreign attorney at *Lee International IP & Law Group* with a concurrent open discussion with our special In-House Community guests: Chang-Hoon Kim, Country Counsel, *Hewlett-Packard Korea Ltd*; Paul H. Jang, Vice President, Head of International Legal, *Hyundai Group*; Kevin Song, Head of Legal, *JT International Korea*; Yun Choi, Senior Manager, Intellectual Property Division, *LG Chem Ltd*; and Ho Jin Kang, Head of Legal & Compliance, *Mundipharma Korea Ltd*. The group was joined by *Lee International's* experienced IP and corporate lawyer, Emma (Kyoung-Joo) Park. The following is a summary of this useful presentation and some of the discussion.

**Nicholas Park (NP)** opened with a look at the current counterfeiting situation in Korea, followed by an overview of possible legal actions, and an assessment of the strategies available to organisations in combatting counterfeiting and piracy.

According to NP: By 2015 it is expected there will be some US\$1 trillion counterfeit goods on the global market with US\$571 billion spent on counterfeits in 2010 alone. That this is a growing problem is evidenced by the fact that this has increased by some 10,000 percent over the last two decades and 80 percent of consumers at some time or another purchased counterfeit goods.

## Some numbers

- 2 percent of all global trade is in counterfeit goods (WTO)
- 70 percent of all counterfeit goods seized globally come from China (UN)
- US\$41 billion worth of fake cigarettes are produced by North Korea p.a.
- Up to 50 percent of all drugs sold online may be fake (WHO)
- 14,000 illegal factories were shutdown in China in 2011 and 2012
- 80 percent of all consumers in the world have purchased counterfeits

## South Korea

South Korea, which is the fifth largest filer of IPR (intellectual property rights) applications in the world, comes only 21st in

BASCP's<sup>1</sup> IPR Protection Rankings and suffered some US\$5 to 8 billion counterfeit goods in its market in 2010. The country was only removed from the United States Trade Representative Watch List (a list of jurisdictions deemed to have severe intellectual property right violation issues) in 2009. Whilst on the Watch List, Korean companies' options to protect their IPRs in the US were severely restricted.

**NP:** "Over the last 10 years Korea has gone from being seen as a source of counterfeiting to being a victim of counterfeit products with the entertainment industry particularly affected by piracy online."

## Changes in what is counterfeited

"In addition, the level and breadth of products affected by counterfeiting has changed, with more technologically sophisticated products, like smart phones and airconditioners vs. fashion goods and DVDs etc. being targeted, as well as products such as automobile parts, pharmaceuticals, cigarettes, food and beverage, with the real and serious threats to health and safety that such fake products bring."

**Kevin Song, Head of Legal, JT International Korea (KS):** "We have operations across South East Asia, and in some of these countries we have problems with non-licensed manufacturers producing similar products, making just slight changes to the packaging. If we see these products we inform the authorities, but it is often difficult to trace exactly where these products are from as the counterfeiters move so quickly, and in many cases they are known as having some sort of relationship, through bribery etc., with the local government."



Nicholas Park

*“In countries like China, Myanmar or Laos, it’s hard to enforce IPRs, especially trademark rights, as trademark laws and court systems in these countries do not provide sufficient protection, and therefore often non-legal action has to be pursued.”*

### Ghost factories

NP: “Over the last decade, manufacturers, especially those setting up in emerging markets like China, have had to face the emergence of ‘ghost factories’. Ghost factories are exact copies of entire production facilities built almost consecutively with the original plant, but usually some distance away, and fitted out with the same equipment, and therefore capable of producing a virtually identical product to the legitimate operation. The products produced by such factories can even end up in the supply chain along with the original products, with the brand owner often unaware for many years.

“For this reason, it is vitally important for companies to be mindful of the security around the technology, documentation and the knowhow they put into building and operating a production facility.”

### Ghost factories

- One major motorcycle company only licensed five factories to produce parts in China, but found 50
- A major US auto manufacturer have seven full-time staff who are dedicated to identifying and location counterfeit factories
- The average operational life of a counterfeit aircraft part was found to be 600 hours, while the genuine part had an operational life of 20,000 hours

“When a major motorcycle company realised that there was a ‘ghost factory’ producing its parts operating in China, it was apparent that it must be a big operation, with perhaps 4,000-5,000 employees. So the Central government issued a notice to all the principalities asking “have you seen this factory?”, but nobody responded. Why? Well, you have to consider that if that factory closes, 4,000-5,000 people in one city lose their jobs ... that could almost be the whole city’s income, so why would they want to tell the authorities? Therefore, it’s very important to work with the government to find and resolve the underlying issues. One of our clients even resolved the problem of a counterfeit producing factory by buying it, and then working with the original owner to start producing the genuine product.”

**Ho Jin Kang, Head of Legal & Compliance, Mundipharma Korea Ltd (HJK):** “For these ghost factories to obtain their licenses there is obviously some bribery involved, which may also be a concern from the perspective of the US Foreign Corrupt Practices Act and the UK Bribery Act”.

NP: “Even now, when you try to do a raid or an investigation on an operation in a small town in China it’s often very difficult to get cooperation from the local authorities.

“One of the advantages counterfeiters have when selling their products is they don’t have the up-front costs of research and development, etc., so for example, in the pharmaceutical industry, they can go to a hospital and say ‘we have the same drug as the other supplier, but you can buy it from us for 50 percent less’.

“Counterfeiters can also open up the legitimate company to allegations of bribery, as they have the same business cards, with what looks like the same product and so the average consumer will assume they are dealing with the real company.”



Kevin Song



Chang-Hoon Kim



Yun Choi

**What if the domestic company wishes to use different branding from the parent company?**

**NP:** “Companies will occasionally change their logo and branding. But what happens if an affiliate doesn’t want to change their brand because it feels it’s got too much invested in the current brand, or it costs too much to change. What happens to the status of the old logo or branding? Could it be considered counterfeit?”

**HJK:** “I’d ask, is it really possible for an affiliate company to object to the decision of the headquarters like that? I don’t think so. [If there are no shareholding issues], legally it may be possible, but culturally, all of the affiliate companies should follow the head office.”

**Passive vs active counterfeiting**

<p><i>Passive</i></p> <ul style="list-style-type: none"> <li>• Overproduction</li> <li>• Use of similar designs</li> <li>• Playing off of brand names</li> <li>• Tampering with expiration dates</li> <li>• Altering country of origin</li> </ul>	<p><i>Active</i></p> <ul style="list-style-type: none"> <li>• Imitating or replicating designs and trademarks without permission</li> </ul>
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**NP:** “When it comes to active counterfeiting, you often simply can’t tell if you’re looking at the real thing just with your eyes.

“In Korea, active counterfeiting is becoming less prevalent. More and more we are seeing passive counterfeiting, where counterfeiters play off the design, the concept or marketing strategy. For the legal community, the question is increasingly, what constitutes counterfeiting as opposed to just ‘a similar business strategy’, and when can you take action?”

**Paul H. Jang, Vice President, Head of International Legal, Hyundai Group (PHJ):** “Hyundai Group owns a hotel in Seoul branded as *Banyan Tree Club and Spa Seoul*, which has a distinctive tree logo. We found a massage parlour using a very similar tree design on their logo, so we’ve had to send them a notice.”

**NP:** “Which brings up another issue for domestic in-house counsel to consider, which is ‘when the brand is owned by the head office, who has the right to take action or file the suit?’”

**PHJ:** “Under the terms of our management agreement, the *Banyan Tree* head office will go after the infringer, but we have to assist in that effort.”

**NP:** “And, in some companies, that can be frustrating for the local in-house counsel if the head office decides not to pursue, or they proceed slowly because they don’t have the necessary resources.”

**Emma (Kyoung-Joo) Park, Lee International:** “In my experience, many foreign companies set up their own ‘brand company’ to deal with licensing and branding etc., and all the IPRs are owned by that company, so if you are a branch company you would follow their policies, and more and more Korean companies are adopting this model.”

**Chang-Hoon Kim, Country Counsel, Hewlett-Packard Korea Ltd (CHK):** “For Hewlett-Packard, all our IP is owned by one company and so we must consult with that company for IPRs related matters.”

**HJK:** “I think this is similar for almost all multinational companies. For example, in our case, all patents are owned by a US-based company, and all our trademarks are owned by a Swiss company, so when it comes to intellectual property rights, whilst we may support and assist, they are in control and we follow their decisions and those of the IP General Counsel.”

**What legal action can you take if you find your products have been infringed?**

**NP:** “In Korea, there are five main agencies that assist in IP infringement matters:

- the Korea Intellectual Property Office (KIPO);
- the Korean National Police Agency;
- the Korea Customs Service (KCS);
- the Korea Trade Commission (KTC); and
- the Ministry of Justice, which includes the judiciary.

And there are a variety of enforcement actions you can take, including investigating distribution networks, raids conducted by enforcement officials, you can file civil lawsuits and injunctions, block imports and exports, and there are other international trade remedies as well, and of course, making criminal complaints.

“As far as making an infringement claim in the judiciary, you can file a trademark, patent, copyright or other IP infringement claim with the IP or judiciary courts, and you can file civil and



criminal complaints, but the cost to benefit analysis of this doesn't work out very well, as gathering and presenting evidence may be very expensive and time consuming. Defendants often disappear, or they may have no assets to provide for a meaningful damage award, and infringers are usually well aware of the loopholes and, based on that, they often continue their operations."

### The KTC

**NP:** "Some of you may already have experience with the KTC, but I don't know how aware you are of the ITC (the International Trade Commission) in the US, which has become one of the largest forums for IP disputes in the world. A reason for the popularity of KTC or ITC actions compared to an infringement action is the former provides an injunction against the product. When you file an infringement claim with the court or the IP Office you're basically filing for a damage award, "these guys caused us 'this much damage', and so they owe us 'this much money'", or "because they've caused us this much damage, we want them sent to jail", whereas, in a KTC or ITC action, you're filing an injunction against the import, export and sale of the product. If you win a KTC action (which is actually a government win), the product can no longer be imported into Korea or exported from the country, as the case may be. That is very different from in the US, where you can only block imports into the country.

"We have what we call the 3.5 rule, for patent litigation in the US – the average cost of a patent action is US\$3.5 million in legal fees. The same thing taken as an ITC action is just US\$500,000. A KTC action is even less than that. Not only is a Trade Commission action cheaper, the process is also faster, the average time being 6 months to a year, compared with an IP litigation which is between one and six years, dependent on appeals and the Supreme Court process."

### The KCS

**NP:** "You should file the trademarks of all of the products you think may, or may not be counterfeited with the KCS. The cost of

the process is very cheap (the KCS itself makes no charge). As soon as a product comes into the country, if it is not going to a destination approved by you, the KCS will notify you and ask you to go and check the product and tell them whether it is legitimate or a fake. Therefore, you should keep the KCS up-to-date with your products and how you can identify a fake. It's also important to act quickly when they contact you as the only way they can be certain if a product is genuine or counterfeit is with the authorised trademark holder confirming it one way or the other. If you don't cooperate or respond, they will assume it's genuine. You should, however, be aware that patent infringement is something the KCS is not geared up to identify, so you need to notify them if you have a product which has been classified as patent infringing in other jurisdictions and then they can have those stopped at the border."

**KS:** "We find the KCS works well and respond very quickly. They contact me as soon as anything comes in, and they provide all the data and information on what they have identified. One issue is, you better be prepared to go to their office to examine or collect samples for testing as they won't send them to you. But we have found them to be very cooperative and helpful in general.

"We only import tobacco products, and one time the KCS contacted us as they had identified cigarette lighters and ball-point pens with our logos on them, and, as we don't produce or import such products we could simply confirm by letter that we were 100 percent certain they were not ours, and so they were seized."

### Coordination with the authorities

**NP:** "It's important to give each agency points of contact at your company, i.e., telling the IP Office, the KCS or the police authorities 'this is the person you should contact if you find a



problem. You should also have a back-up contact person so you can respond quickly.”

### IP protection strategies

**NP:** “And so, let’s look at some of the strategies that companies in Korea employ to protect their IP.”

#### *Formation of a brand protection team*

“Firstly, the formation of a ‘brand protection team’, or at least, appointing a brand protection manager. A brand protection team will be made up of people who are scattered across different parts of the company, but who come together to have regular meetings, perhaps once a month, or even once a week. The team should comprise:

- IP: someone who knows the brands and the legal status of IP owned by the company;
- Purchase and distribution: someone who knows what is being purchased and what is being sold;
- Legal: someone who knows the status of the IP licenses and distribution agreements; and
- Security: someone who knows the security measures that may currently be being used for IP protection.

Once you’ve put together a team, it’s important to get everybody in the organisation on board, from board members, shareholders and senior executives through to the staff. Ascertain if there are any guidelines for the team. Does it have a budget? You’ll need to have agreement from senior management that they will implement any recommendations. Obviously, the legal department should be on board, and those who have to implement any decisions.

“Every company is different so it’s important to organise tasks which the company can absorb. You should conduct an overall assessment of the company’s existing policies and plans and draft and revise an annual policy and plans based on the issues you face and your organisation’s future business objectives. It’s very important to manage and document the chain of custody and the supply chain of each of the products coming in and out of your company and educate your customers how to identify counterfeits

of your products. As discussed previously, you should collaborate with the relevant local enforcement officials, and identify any relevant service providers, investigators, law firms etc, that will be of help. And then lastly, knowing when, where and how to file claims and prosecute offenders is vitally important, so having a manual with such details included is very useful.”



Emma (Kyoung-Joo) Park

#### *Funding the program*

“Obviously, funding this kind of program is one of the biggest problems for in-house practitioners, as often it is just seen as an expense and executives don’t recognise the beneficial results of the program. Therefore, part of the role of the brand protection team is to demonstrate a link between the expense of the program and the profit which ensues.

“The next step is to calculate the cost of establishing and implementing an anti-counterfeiting plan, including a detection system and using the relevant enforcement or service providers.

#### *Proactive or reactive*

“Another question is, how much of your resources are going to be spent being proactive as opposed to reactive? Are you only going to commit resources when you identify a problem or find your product counterfeited, or are you going to invest in a preventative plan.

#### *Chain of custody forms*

“One thing many companies and legal departments are implementing are ‘chain of custody forms’. The forms are required for all of the products being distributed in a specific country, with those in the chain of custody having to sign and state when they receive the product. This makes it easier to ascertain if and where a counterfeit product was leaked into the chain, or if there was any overproduction.”

### Types of anti-counterfeiting measures

**NP:** “There are three main types of anti-counterfeiting measures: overt, covert and forensic.

“Overt measures include things like holograms, or packaging design which is hard to replicate. Covert measures can be hidden design elements or images that only you as the brand owner would know are there. Finally, forensic elements can be added which require special equipment to reveal, for example images which appear under infrared light or elements that can only be seen under a microscope.

“There are a variety of industry measures, including special seals, laser etching, and RFID (Radio-frequency identification, which is used for tracking shipments). Many legal departments now require their company’s sales and purchase managers to have KYC or KYP programs (‘know your customer’ or ‘know your partner’). This means they are expected to do extensive due diligence on their buyers and sellers before they’re allowed to purchase from or sell to them to ensure they are not buying or selling counterfeits. Finally, it’s also important to monitor your sales outlets and any online stores.”

#### **Endnote:**

1. Business Action to Stop Counterfeiting and Piracy

[www.leeinternational.com](http://www.leeinternational.com)

**Write up: Tim Gilkson**  
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