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## Schneider Electric Fights Back Against Counterfeit Manufacturers

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### Introduction

When Schneider Electric found counterfeits of its Square D<sup>®</sup> QO<sup>®</sup> circuit breakers in the United States, we quickly took action. Within a short period of time, we filed 13 lawsuits against 27 U.S. companies selling counterfeits. In several cases, investigation revealed information leading us back to the manufacturers in China.

However, taking action in China can be difficult. Despite its national government's cooperation with anti-counterfeiting efforts world-wide, China's local governments are often complicit in or turn a blind-eye to the counterfeiting trade, and are protective of whatever boost to the local economy manufacturing counterfeits provides.<sup>1</sup> Even with the cooperation of the local government, there are limitations to China's laws and regulations. For example, while local authorities may seize the counterfeit products, they may not be able to seize the equipment being used to make the counterfeits. Still having the equipment allows the counterfeiter to simply move his operation out of the raided location to a new location.

Even with the difficulties of pursuing the Chinese manufacturers, there was no question that Schneider Electric should take the steps necessary to work with governmental and non-governmental agencies battling counterfeiting in China.

### Sunhong Electric

One of the Chinese companies that came from a lawsuit, Sunhong Electric, was not new to us. We had previously noticed Sunhong on an Internet trading website called Alibaba.com. A search for "circuit breakers" on Alibaba.com found Sunhong's claim, "Our factory specializes in producing SQ-D, which is well sold around the world." Schneider Electric ordered sample "SQ-D" breakers from Sunhong and confirmed they were counterfeits of the Square D brand QO breakers. In October 2007, Schneider Electric conducted a raid against Sunhong.

As a result of its global anti-counterfeiting program and prior operations in Europe, Mid-East and Asia, Schneider Electric had developed many contacts within the Chinese Intellectual Property Enforcement area, Chinese Customs and local/provincial police. Within a short period of time, Schneider Electric's Chinese investigators had identified target locations where counterfeit Square D brand products were being produced. Using this intelligence, multiple raids were done simultaneously in Sunhong's locations in China's Jiangxi and Zhejiang provinces. Since the factories were in relatively remote locations and were a large source of local income, the raids involved the Chinese Intellectual Property Enforcement agency, the provincial and local police departments, as well as, the approval of the local mayor.

The raids resulted in the successful seizure of almost 30,000 finished counterfeits of Schneider Electric products including Square D circuit breakers and approximately 300,000 labels/boxes staged for packing. In addition, Chinese authorities seized equipment used in the counterfeit operation, files and computers. By our estimates, Sunhong has the capacity to manufacture over 3 million units per year and is believed to be one of the largest exporters of counterfeit Square D products to the U.S.

### Schneider Electric

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Not only are we continuing our efforts in China, both criminally and civilly, against Sunhong Electric, we have named them in our U.S. lawsuits. In addition, we monitor Alibaba.com and other Internet trade sites for the company's offerings and we monthly review U.S. importation data looking out for imports by the company.

### **Kivi Electric**

In a second operation, just a few months after the Sunhong raid, Schneider Electric decided to raid Kivi Electric. Kivi had published a catalog that showed counterfeit Square D brand circuit breakers. Like many Chinese counterfeit operations, Kivi operates a "just in time" operation to quickly move product out of their factory and avoid detection. This type of operation is difficult to raid as actual proof of counterfeit manufacturing or physical inventory is needed to get the assistance from the Chinese authorities. Undeterred, Schneider Electric sent an investigator to work undercover in the factory. Within a few weeks, Schneider Electric had the proof it needed to convince the provincial and local police to conduct an immediate raid.

Once in Kivi's factory, the investigators and officers found counterfeits of Square D brand products in various stages of production. The authorities seized over 7,500 finished products, 3,900 pieces of semi-finished products and 1,700 labels/boxes staged for packaging. By our estimates, Kivi has the capability to manufacture 500,000 – 1.5 million units per year. Schneider Electric continues to work with the Chinese government on the criminal prosecution of Kivi.

### **BEAMA Raids**

Schneider Electric and other manufacturers from across the electrical industry have teamed with the British Electrotechnical & Allied Manufacturers (BEAMA) to conduct monthly raids of counterfeit manufacturers in China. BEAMA's "Electric Dragon" investigators have raided over 180 factories and seized over 10 million products.<sup>2</sup>

During several raids in 2007, counterfeits of Square D brand circuit breakers were found in small Chinese operations. One factory contained only the molded casing found on Square D QO circuit breakers supporting the theory that multiple factories could be involved in the manufacturing of counterfeit components. Using various locations minimizes the risk of being caught with sufficient quantities to warrant serious penalties or prosecution.

### **Conclusion**

Schneider Electric feels that the combination of its anti-counterfeiting efforts in the U.S. and abroad has been effective in deterring the counterfeiters. Today, U.S.-based distributors of counterfeit Square D brand products and the entire distribution channel are aware that Schneider Electric will not tolerate the counterfeiting of its products and is fighting back. We are also sending a strong message to our customers that Schneider Electric is committed to upholding the standards and the reliability of our products.

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<sup>1</sup> Alex Glass, et al, Intellectual Property Protection: Problems and Prospects for China, at 37 (Jan. 2007), available at [http://www.pwc.com/uk/eng/about/events/pwc\\_sloan-fellow\\_essays\\_ip-essay.pdf](http://www.pwc.com/uk/eng/about/events/pwc_sloan-fellow_essays_ip-essay.pdf).

<sup>2</sup> Information available at <http://www.beama.org.uk/hotTopics/Anti+Counterfeiting/edragon.asp>

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