



# ALIBABA GROUP PLATFORM GOVERNANCE ANNUAL REPORT 2016



PLATFORM GOVERNANCE  
DEPARTMENT

MAY 2017

# Preface

---

Alibaba established the Platform Governance Department (hereinafter referred to as “Platform Governance”) at the end of 2015 with the overall mission of maintaining a healthy and dynamic business environment throughout Alibaba’s e-commerce ecosystem by fostering fair and sustainable commercial activity for all participants.

As the watchdog of the Alibaba ecosystem, Platform Governance is responsible for administering and, as necessary, improving the rules and policies governing business practices on our online marketplaces; assessing the reliability and integrity of merchants; protecting intellectual property rights; and setting standards for the quality and safety of products sold on our marketplaces. With product authenticity at the core of its mission, the Platform Governance team is committed to preserving the trust that consumers and merchants place in Alibaba, by proactively monitoring Alibaba websites while working with governments, brands, trade associations, and leveraging big data and technology to assist in offline investigations.

Platform Governance firmly believes that the e-commerce environment should be based on respect for intellectual property rights, fair and just practices, and quality merchandise. Such an environment will continue to play a significant role in the development of the Chinese economy, which in turn provides a strong foundation for the growth of vibrant innovative enterprises.

////////////////////

# Contents

<b>1</b>	Alibaba Group 2016 Platform Governance Statistical Overview	04
<b>2</b>	Alibaba Group 2016 Platform Governance Key Initiatives	9
	I. Tighten Merchant Verification Process	9
	II. Establish New Policies and Mechanisms to Deter and Punish Repeat Offenders	10
	III. Bolster Proactive Monitoring and Takedown Capabilities	11
	IV. Expand Partnership with Law Enforcement on Offline Investigations	11
	V. Maximize Transparency and Join Forces with the Industry	14
	VI. Increase Use of Litigation to Explore New Models of IP Enforcement	17
<b>3</b>	Conclusion	18

# 1

## Alibaba Group 2016 Platform Governance Statistical Overview

In 2016, Alibaba's Platform Governance team made significant strides in consumer protection and intellectual-property rights protection through cooperation with international brands, trade associations, government regulators, and law enforcement agencies, as well as data-driven proactive monitoring and test-buy programs.

### Proactive Monitoring and Takedown System Results Continued to Improve

#### Significant Improvement in Effectiveness of Alibaba's Proactive Monitoring

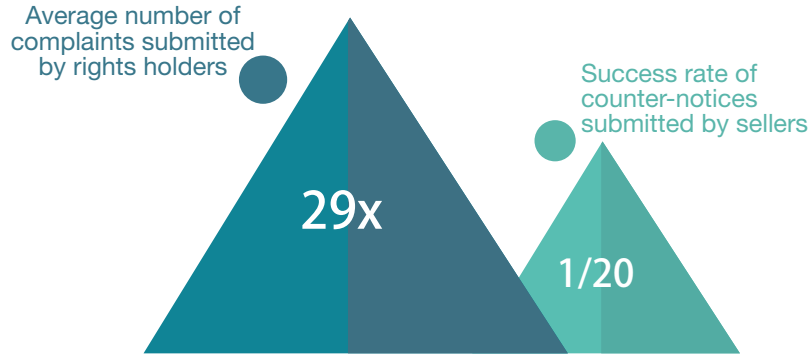
(Ratio of product listings proactively removed by Alibaba versus takedowns in reaction to a rights holder's complaint)



Alibaba proactively monitors, identifies and eliminates suspected listings of intellectual property policy violations. The team's ability to screen out potentially infringing listings before they are posted online is one of the most powerful IP enforcement mechanisms Alibaba utilizes, and continues to be enhanced through increasingly closer cooperation with rights holders. This ability will continue to improve as more and more brands and rights holders contribute information and knowledge about their IP into the system, and as Alibaba continues to advance its technology. In 2016, the number of listings detected and removed proactively by Platform Governance was 26 times greater than the number of listings removed reactively by Alibaba in response to complaints by all intellectual property rights holders combined.

## Good Faith Takedown Program Showed Remarkable Results

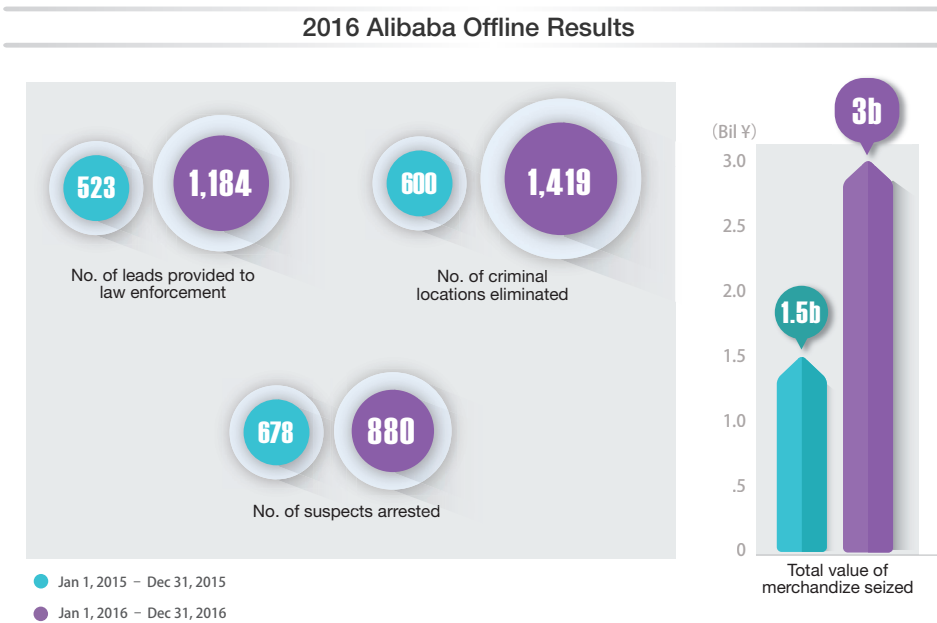
### Heightened Proactivity and Accuracy in Complaints Made by Rights Holders in Alibaba's Good Faith Program



• Data Gathered From Jan 1st to Dec 31st, 2016

Alibaba firmly believes that collaboration is key in effectively enforcing intellectual property rights. The Good Faith Program was created to offer a simplified and expedited notice-and-takedown process for rights holders who consistently demonstrate a record of genuine and conscientious notice-and-takedown reporting. In 2016, average number of IPR infringement complaints submitted by rights holders in the Good Faith Program via Alibaba's online Intellectual Property Protection ("IPP") platform exceeded those submitted via the regular notice-and-takedown process by 29 times. The number of invalid complaints submitted by regular rights holders – as reflected by successful rate of counter-notices filed by accused sellers – were 20 times more than those made by Good Faith accounts – a proof of the superior quality and accuracy of notices filed by rights holders in the Good Faith Program.

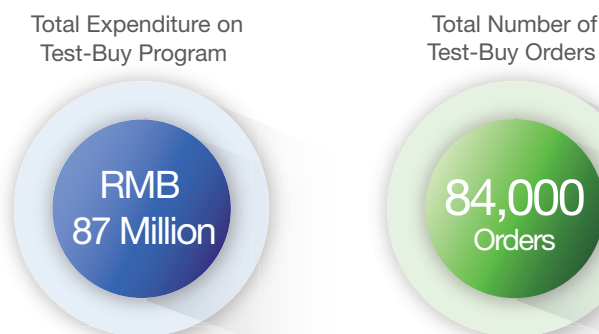
## Total Value of Counterfeit Products Seized in Alibaba-Assisted Offline Investigations Doubled in 2016



The Platform Governance team cooperated with the governments of 13 provinces and cities nationwide to fight the offline sales of counterfeits. As of Dec. 31, 2016, Alibaba provided a total of 1,184 leads to law enforcement agencies, assisted the police in the arrests of 880 suspects, and assisted in the shutdown of 1,419 manufacturing locations, resulting in the confiscation of more than RMB 3 billion worth of merchandise, twice the amount of the previous year.

## Test-Buy Program Reached New Heights in Coverage

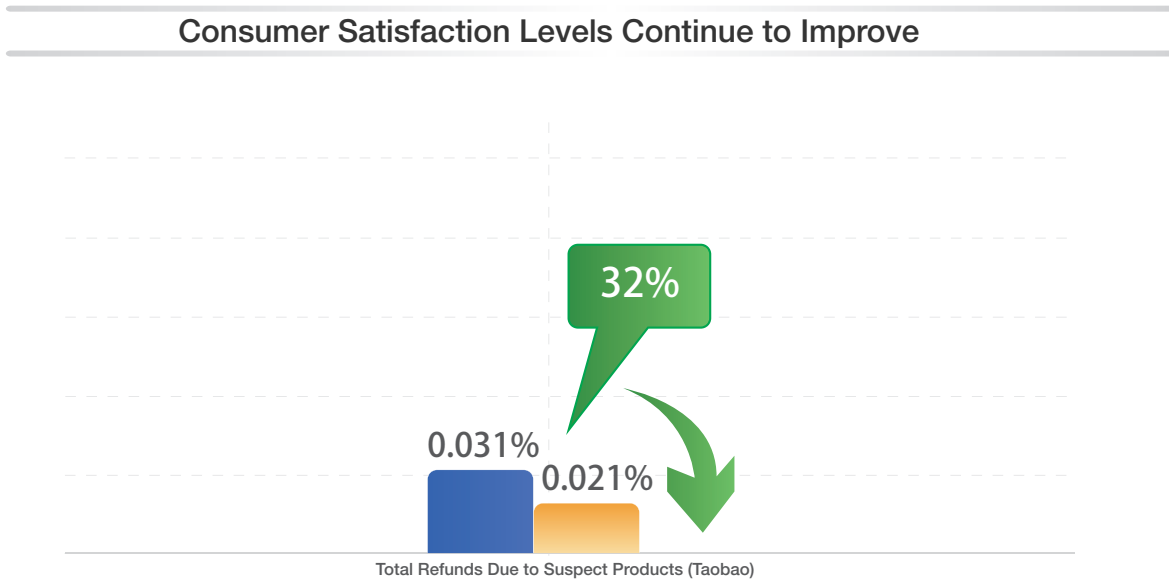
### 2016 Test-Buy Program Data Summary



• Data Gathered From Jan 1st to Dec 31st, 2016

To help ensure that consumers have a positive shopping experience, Alibaba carries out 'spot checks' of product quality and customer service through a program of stealth "test-buy" purchases. Alibaba spent more than RMB 87 million on this test-buy program in 2016, sampling a total of 84,000 orders made.

## Consumer Satisfaction Levels Continued to Improve



Consumer satisfaction showed significant improvement in 2016 compared to the previous year. On Taobao, the total rate of refunds due to suspected products declined by 32%.

## Combating The Import of Counterfeit Goods Made Overseas and Sold in China



While working with law enforcement in offline investigations, Alibaba's Platform Governance team uncovered a new trend – fake products manufactured overseas were infiltrating China's industrial supply chain and being sold domestically. Last year, a task force of professionally trained personnel focused on product authenticity within Alibaba's Platform Governance department – helped police dismantle a counterfeiting ring that was importing lubricating oils produced overseas through various ports, and selling them through a variety of channels nationwide across China.



# 2

## Alibaba Group 2016 Key Initiatives

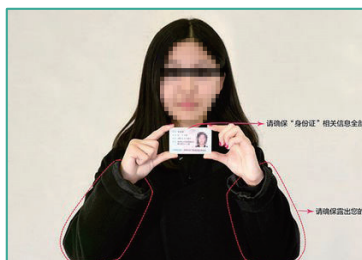
In 2016, the Platform Governance Department not only worked on reinforcing existing platform governance policies and capabilities, but also implemented new and innovative ways to govern its marketplaces which are more transparent and socially inclusive. These initiatives included the continuous strengthening of the company's proactive monitoring and takedown system, ramping up offline cooperation with law enforcement, establishing new policies and mechanisms to root out repeat offenders, and programs that encourage closer IP enforcement collaboration with rights holders. Additionally, in 2016 Alibaba also started filing civil lawsuits against counterfeiters, with the goal of improving the legal and judiciary environment in China to better protect brands and consumers.

### I. Tighten Merchant Verification Process

When traditional brick-and-mortar retail was the main channel of commerce, there was very limited physical mobility in how, and where sellers' business activities took place. To validate the legitimacy of these businesses meant relying on official government records, such as industrial and business licenses. The rise of e-commerce and internet technologies has significantly reduced barriers of operation and created opportunities for growth. However, the internet also poses new regulatory challenges given the increased mobility and number of channels through which commerce can be conducted. In order to ensure the authenticity and traceability of businesses operating on its platforms, Alibaba now requires not just business registration documents, but also a dynamic real-person-identification from sellers opening stores on its platforms, and will continue to raise the bar for platform admission.

#### Continually Advancing Seller Identification/Recognition Technology

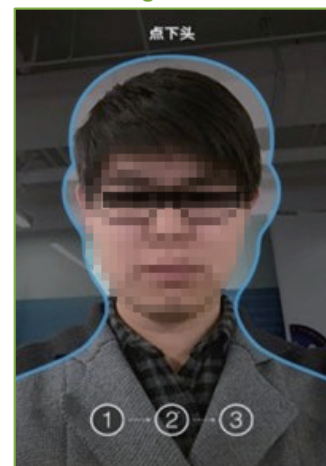
Individual Name Identification



Real Person Identification  
(using same-day newspaper)



Face Recognition



Alibaba adopted a dynamic real-person identification system to authenticate the identities of Taobao sellers. To open a storefront, individual sellers are not only required to upload their national identification cards or other official identification documents, but also need to be verified via facial recognition technology and other methods of real-person identification. This facial recognition verification takes place in real time.

To ensure that the person setting up the merchant account matches the person on the national ID card, applicants are required to send a picture of himself or herself posing as requested by a Taobao customer service representative, such as by holding a daily newspaper or other physical demonstration to help establish that they are who they claim to be. The Taobao customer service representative will then compare the photo of the person with the photo on the ID card. In some cases, a video call between the registrant and a customer service representative is also used to match the person to the ID card. This process helps ensure that the person setting up the merchant account matches the person on the national ID, which can help prevent the setting up of a Taobao merchant account using a stolen or purchased ID card.

In June 2016, Platform Governance expanded the dynamic real-person identification process to include enterprise sellers as well. When an enterprise opens a new shop on Taobao, in addition to uploading their business license and other related licenses, the company's business executives (such as a legal representative or major shareholder) must undergo face recognition and other methods of real-person identification. In order to ensure the ongoing validity of identification information, Alibaba requires business executives to undergo an annual re-verification process. Additional identification checks are required in cases of potentially suspicious business behavior.

## II. Establish New Policies and Mechanisms to Deter and Punish Repeat Infringers

In an online shopping environment where interaction between buyers and sellers is virtual, the accuracy of product descriptions and the integrity of marketplace participants become particularly important.

Through continuous innovation, Alibaba has developed a comprehensive online rating system to regulate sellers. The system is powered by Alibaba's data processing engine and users are evaluated based on the following metrics – identity verification results, user credibility assessment, compliance with platform policies, penalty records, positive user behavior, collaboration efforts, and others. This rating system enables Alibaba to enforce its rules and policies in a more targeted manner against infringing merchants, hence optimizing overall governance efficiency.

In June 2016, Platform Governance established new policies against repeat offenders. These rules strictly ban the practice of merchants opening multiple, dummy storefronts using borrowed, purchased, or fake identity cards. First implemented on Taobao, these rules were later extended to all Alibaba platforms in November 2016.

After these rules went into effect, the Platform Governance team also employed big data technology to scan all new and existing Taobao accounts. New accounts identified as creating fake storefronts to sell suspicious goods were banned from Alibaba's platforms; whereas existing account owners identified as IP infringers were subject to harsher penalties, the severity of which was determined by the gravity of the offense.

### III. Bolster Proactive Monitoring and Takedown Capabilities

Alibaba's Platform Governance team has built a sophisticated proactive monitoring and removal system, and continues to fine-tune the technology and data capabilities of this system in order to ensure the accuracy and legitimacy of product information listed on its platforms. Two special operations demonstrated the success of this proactive takedown mechanism.

In April 2016, Alibaba began a more concentrated effort to crack down on merchants attempting to mislead consumers into visiting their stores through abusive posting of branded keywords in the titles of product listings. Known within Alibaba as the "Haze Clearing Program," this initiative continuously uses big data algorithms to identify, block, and remove misleading uses of product identifying language. Listings identified by the initiative as subject to takedowns, lowered merchant credit ratings, and suspension of marketing activities.

As of February 14, 2017, the program had identified and blocked 15 million product listings, reducing complaints about the misuse and abuse of trademarks and trademark-related keywords received on our platforms by 90% compared to April 2016.

### IV. Expand Partnership with Law Enforcement on Offline Investigations

In order to better protect intellectual property rights, Platform Governance formed the "Anti-Counterfeiting Special Task Force" that actively works with local law enforcement agencies. By expanding the scope of offline cooperation, such as "Operation Cloud Sword" and the "Cloud Sword Alliance," and establishing channels for routine collaboration, Alibaba aims to help identify and eliminate bad actors at their offline manufacturing facilities. Currently, Platform Governance is working with the public security bureaus of thirteen provinces and cities – Zhejiang, Shandong, Beijing, Heilongjiang, Liaoning, Jiangsu, Shanghai, Jiangxi, Anhui, Guangdong, Hunan, Chongqing and Fujian.

**Eliminating the problem at the Source.** Piecing together data collected and processed via Alibaba's platforms of potentially suspicious user behavior and transactions, last year Platform Governance mapped out the geographic distribution of suspected counterfeit rings operating across China. Joining with rights holders, government authorities and law enforcement agencies, Alibaba began to participate in offline investigation work. As of December 31, 2016, Platform Governance had submitted 1,184 leads to law enforcement agencies; helped public security bureaus arrest 880 suspects, assisted in the shutdown of 1,419 manufacturing locations; and participated in the seizure of merchandise worth a total of more than RMB 3 billion.

### Results of 2016 Cloud Sword Operation

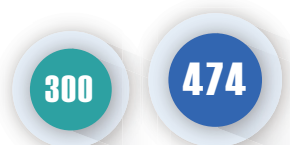
● 2015  
● 2016



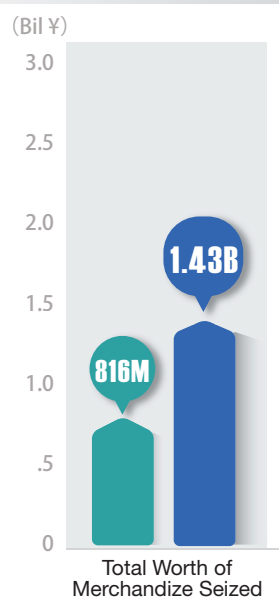
Number of Leads Provided to Law Enforcement



Number of Offline Locations Cracked Down On

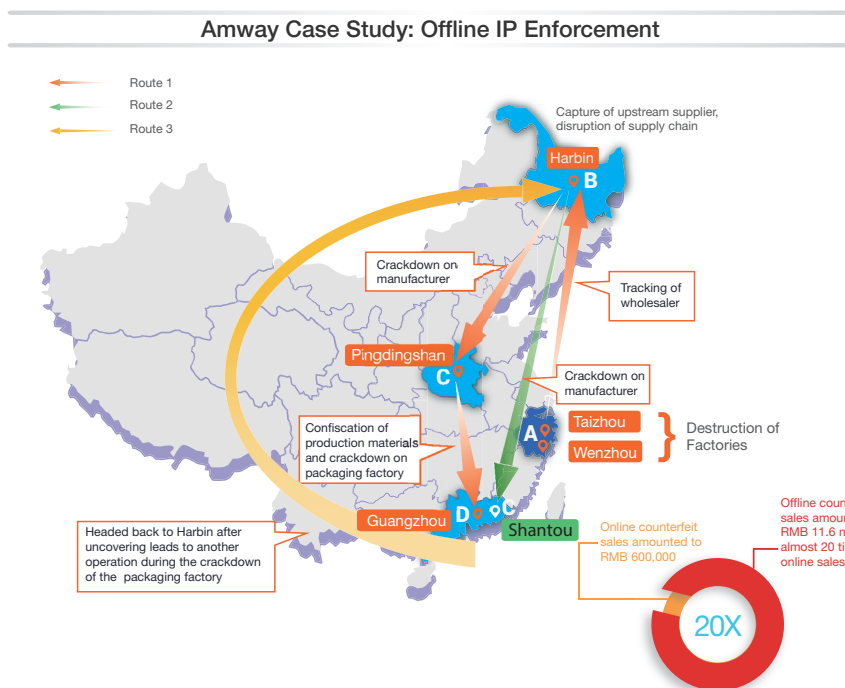


Number of Suspects Arrested



Total Worth of Merchandise Seized

In 2016, Alibaba Group, the Zhejiang Provincial Office of the National Leading Group for Combating IPR Infringement and Counterfeits, and the Zhejiang Public Security Bureau carried out an offline investigation special project named “Operation Cloud Sword,” which resulted in 474 captured suspects, destroyed 417 offline locations, and resulted in the seizure of counterfeit goods worth an estimated RMB 1.43 billion. Following this successful operation, Alibaba established the “Cloud Sword Alliance” with the provinces of Zhejiang, Anhui, Jiangsu, Jiangxi, and the city of Shanghai.



## Case Study

---

In March 2016, Alibaba and Amway together helped police smash two counterfeit manufacturing gangs in the cities of Wenzhou and Taizhou by using the data provided by Alibaba to quickly identify the physical premises of the syndicates. In April, Alibaba helped police track the source of fakes to Heilongjiang Province and captured the wholesalers in the city of Harbin.

Subsequently, the task force went to Henan and Guangdong provinces, and helped shut down factories in Pingdingshan and Shantou. In Henan, investigators acting on information gained from a suspect, shut down raw materials and packaging plants in the city of Guangzhou, where the police unearthed evidence of another sales group based in Harbin, and landed yet another targeted crackdown operation there.

This marked the end of an offline operation which lasted nearly four months and spanned four provinces. The entire supply chain of manufacturing and distribution was eliminated, demonstrating how intelligence gathered from online and offline investigations and cooperation between Alibaba, the police, and the brand can effectively root out and eliminate a sophisticated counterfeit network. The value of the online sales of this network was estimated to be RMB 600,000, with offline sales estimated at RMB 11.6 million.

## V. Maximize Transparency and Join Forces with the Industry

In 2016, Platform Governance made further improved the transparency of its work, and encouraged broader collaboration among various stakeholder groups. These include upgrading Intellectual Property Protection (IPP) complaints system that integrates cross-marketplace user accounts and allows for more interactions and inquiries; an IP Joint Force System that gives rights holders the ability to partner with Alibaba in identifying infringing listings; working with trade associations to strengthen international collaborations; and in establishing new alliances to promote product authenticity.

**IPP System Upgrade.** As an internet company, Alibaba is constantly innovating and exploring new technologies to promote intellectual property protection. In 2016, Platform Governance merged two separate online IPR protection systems, Aliprotect<sup>1</sup> and Taoprotect<sup>2</sup>, into one upgraded Intellectual Property Protection (IPP) platform – a one-stop destination where rights holders can register accounts, and file notice-and-takedown requests whether they are on Taobao, Tmall, 1688.com, Alibaba.com or AliExpress.

The new IPP platform was a significant step forward for rights holders, streamlining the notice and take down processes. In 2017, Platform Governance will further enhance the IPP platform to improve the

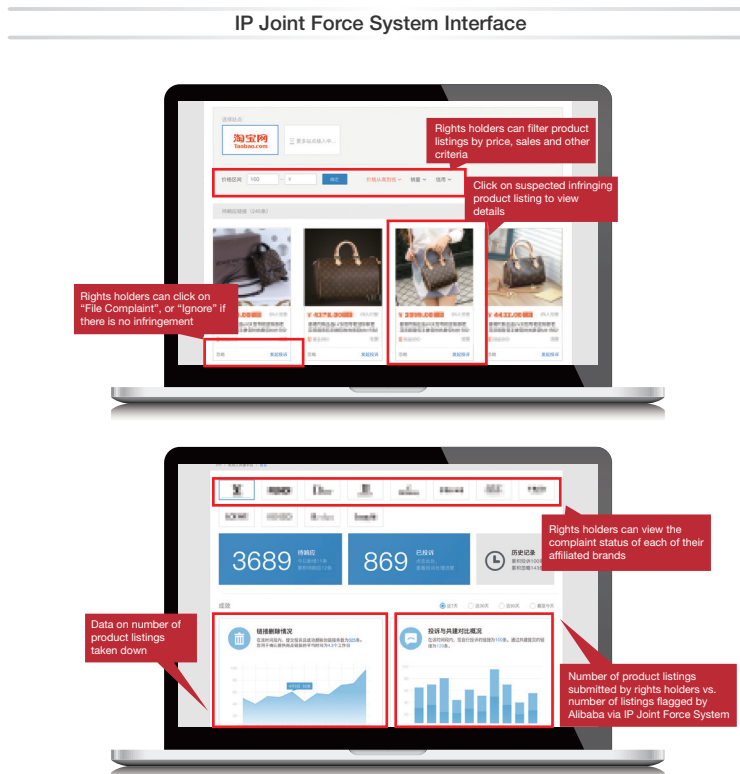
---

<sup>1</sup> AliProtect is the IP enforcement platform that serves notice-takedown requests regarding listings on AliExpress, Alibaba.com or 1688.com.

<sup>2</sup> TaoProtect is the IP enforcement platform that serves notice-takedown requests regarding listings on Taobao and Tmall.

user experience, such as providing clearer instructions for submitting notice-and-takedown requests, communicating more information about Alibaba’s IP protection policies, tools, and resources, as well as posting the latest news on the company’s effort of promoting IP protection. Rights holders will also be able to make inquiries and interact directly with the Platform Governance team

**Empowering Rights Holders through Deeper Collaboration.** Intellectual Property Rights are privately held, and the brands and businesses owners have the best knowledge and understanding of how their own intellectual property is registered and should be exercised or enforced. While Alibaba is committed to cooperating with rights holders to help them protect their IP, rights holders have the responsibility and obligation to enforce their IPR. In today’s internet era, most e-commerce platforms, including Alibaba, cooperate to ensure the successful enforcement of IPR such as through notice-and-takedown programs that allow for the removal of listings that allegedly infringe IPR. Alibaba does not limit its IP protection efforts to its reactive notice-and-takedown program, but also dedicates manpower and leverages technology to proactively monitor our marketplaces for potentially IP infringing or potentially problematic product listings. However, the effectiveness of this effort depends heavily on rights holders’ cooperation with Alibaba. To maximize the effectiveness of Alibaba’s IP protection efforts, Platform Governance launched the “IP Joint Force System,” (“IPJFS”) – a system that combines the technical expertise Alibaba has developed over the years through proactive monitoring efforts with notice-and-takedown functionality for rights owners. The IPJFS refers to participating rights holders’ listings that have been flagged by our platform-surveillance tools as potentially problematic, but which does not rise to the level for Alibaba to proactively remove with confidence.



In addition to alerting rights holders to potentially infringing listings, this platform also gives participants the ability to review the listing details to help confirm possible infringement, and facilitate the online submission of a notice-and-takedown request so that reported listings can be removed more quickly and efficiently. The IPJFS also enables participating rights holders to review certain related statistics which are intended to increase communications between rights holders and Alibaba, and increase visibility regarding their respective IP enforcement efforts.

As of the end of December 2016, 252 brands (184 international and 68 domestic) had joined the IPJFS. Rights holders responded to more than 95% of listings proactively flagged and referred by Alibaba, confirming 14% of them as fakes. These statistics show that (i) participating rights holders were making cautious, responsible assessments of the links Alibaba alerted them to, and (ii) verifying the authenticity of a product through information listed on the internet is a tremendous challenge for both e-commerce platforms and brands themselves.

**Strengthen Collaboration with International Trade Associations.** Alibaba has been, and remains, committed to working closely with trade associations around the world through open and constructive dialogue and the exchange of ideas, to jointly fight the global war against fakes. In 2016, Alibaba engaged in in-depth dialogues and joint efforts with numerous organizations to explore ways to better protect intellectual property rights online, enhance accuracy and efficiency in enforcing IPR, and discuss common challenges that the industry is facing. These groups include the China Anti-Infringement and Anti-Counterfeit Innovation Strategic Alliance (CAASA), China-Britain Business Council (CBBC), Walpole, Anti Copying in Design (A©ID), Motion Picture Association of America (MPAA), the Business Action to Stop Counterfeiting and Piracy (BASCAP), International Publishers Copyright Protection Coalition (IPCC), Japan External Trade Organization (JETRO), Korea Trade-Investment Promotion Agency (KOTRA), Korean Intellectual Property Protection Association (KIPRA), International Criminal Police Organization, ICPO-INTERPOL (INTERPOL), the Business Software Alliance (BSA), Confindustria, Union des Fabricants (Unifab), INDICAM, Secura Monde International (SMI), the Toy Industry Association (TIA), among others. Alibaba also signed memoranda of understanding concerning intellectual property matters with CAASA, the China Children's Publication Anti-Piracy Alliance, the Italian Ministry of Agriculture, and KIPRA.

In May 2016, Alibaba Group and the International Anti-Counterfeiting Coalition (IACC) announced the creation of the IACC MarketSafe Expansion Program, which enables participating rights holders – including businesses of all sizes, members and non-members alike – to enjoy an expedited process for notice-and-takedown requests submitted to Alibaba, free of charge for up to a year. The goal of the program is to educate participating companies on Alibaba's notice-takedown system, and to facilitate brands in eventually graduating to having a direct relationship with Alibaba as members of the Good Faith Program.

In July 2016, Platform Governance hosted the inaugural "Alibaba Group Rights Holders Collaboration Summit" to enhance industry cooperation in the collective fight against IP infringement. More than 120



domestic Chinese and international brands and trade associations attended the event, including Mars and HP.

**Establishment of the Alibaba Group Anti-Counterfeiting Alliance (“AACA”).** In January 2017, Alibaba announced the establishment of the AACA with more than 20 international brands. Founding members of the alliance include Louis Vuitton, Swarovski, and Dulux, among others. The AACA is committed to using big data and internet technology to combat intellectual property infringement more effectively, efficiently and transparently, with the goal and purpose of breaking through the traditional model of property protection, where e-commerce companies, law enforcement agencies, and brands fight fakes independently. The AACA believes all parties must work together in a collaborative fashion, with increased communication and exchange of information to halt the production of infringing goods. Alibaba is committed to supporting this industry-wide AACA effort through its prowess in big data and technology, and ongoing industry cooperation for the establishment of a healthy and safe environment for commerce.

## VI. Increase Use of Litigation to Explore New Models of IP Enforcement

In 2016, Platform Governance initiated the use of civil litigation to combat sellers infringing on rights holders, malicious IP complaints and other deceptive practices, in order to more forcefully deter these fraudulent behaviors through legal means.

In December 2016, Alibaba sued two counterfeit Swarovski watch sellers operating on Taobao – marking the first time a Chinese e-commerce company had sued infringing sellers operating on its platform. In February 2017, Alibaba filed a lawsuit for the misuse of our IPP platform by intellectual property agency Hangzhou Network Technology Co. Ltd., which was believed to have submitted spurious and fraudulent IPR complaints to gain a competitive advantage on behalf of their clients. Alibaba is seeking RMB 1.1 million in damages, and is demanding a public apology. And in March, Alibaba filed another lawsuit against a Taobao seller allegedly selling fake Mars branded cat food. Alibaba will continue to use the law as a weapon against intellectual property violations and other malicious practices, which not only serves as an effective means to uphold the integrity of Alibaba’s platforms, but also helps increase public awareness of the need for legislative improvements around these issues.

# 3

## Conclusion

The online world is a microcosm of society at large. Problems that we see on the internet are often a manifestation of social problems that used to be hidden and scattered in the offline world. Maintaining the health of any ecosystem, online or offline, requires the contribution of all stakeholders involved. Brands, e-commerce platforms, and law enforcement personnel must work closely together for a healthy business and social environment.

A sound legal and judiciary system is the prerequisite of good governance. A comprehensive legal system can help drive and protect the development of a healthy online environment. In this day and age, electronic or digital evidence has replaced physical evidence. Although there is a unified standard in China surrounding the admissibility of electronic evidence, it is loosely implemented in the justice system, which can allow some criminals to escape justice. The treatment and admissibility of electronic evidence should be codified and uniformly administered to better protect society and punish criminals.

In 2016, through big data analysis, proactive monitoring, notices submitted by rights holders, consumer complaints, and test-buy programs, Alibaba's Platform Governance team identified and handled 4,495 leads related to counterfeiting. Law enforcement agencies followed up on 1,184 of these leads, but they were only able to establish 469 criminal cases, leading to just 33 convictions, according to public information. Alibaba looked at the 33 convictions and found that the cases involved 47 people, of which 79% of them, i.e. 37 people, received probation sentences.

Alibaba believes that China's laws and judicial penalties against counterfeiting must be toughened in order to deter the root of this problem, similar to how authorities, legislators, and the whole society came together to crack down on drunk driving several years ago.

In the next 30 years, internet technologies will continue to influence and disrupt various industries. The challenge for governments, brands, e-commerce companies and other stakeholders is how to fully utilize the internet for the purposes of optimizing resource allocation, finding new directions to improve productivity, and encouraging innovation within society.

As the first company to introduce the concept of "platform governance," Alibaba Group has consistently demonstrated its willingness to innovate and invest resources to provide industry leadership and come up with new and improved ways to govern its platforms, such as the creation of the Good Faith Program, and the IP Joint Force System. However, as an internet enterprise, Alibaba has limited power by itself to

maintain the overall health of global online commerce. It is a top priority for Alibaba to not only continue this fight against counterfeits on our platforms, but also get to the root causes of this global problem. Legal protection, government involvement, and collaboration with rights holders are all essential to safeguarding the development of a healthy and sustainable business environment.

Alibaba is wholly committed to intellectual property protection and the promotion of authentic and genuine products on our platforms. Alibaba's mission is to "make it easy to do business anywhere," and our success is predicated on trust.



PLATFORM GOVERNANCE  
DEPARTMENT