

The following speech, delivered by Alibaba Group President Michael Evans, was the keynote address at the International AntiCounterfeiting Coalition's annual meeting held May 19, 2016, in Orlando, Florida.

Thank you for the kind introduction, Dawn (Atlas, IACC Chair), and thank you, Bob (Barchiesi, IACC President), and the entire Board, and the brands for the opportunity to speak to you today. I'm very pleased to be here.

Ambassador Baucus, terrific to be with you. Thank you for your leadership and support on this important issue. I couldn't agree more with your call to action on industry collaboration.

It's been an interesting few weeks, to say the least. But, I have to say, we did not expect the announcement of our membership in the IACC to be the catalyst for such a strong reaction. In any event, I am pleased to be here to address the issues head on.

At the most basic level, we believe the future of Alibaba – and the future of many of your companies – will depend on us working closely together to fight counterfeits. And by the end of my remarks, I hope this is what you will take away.

As the global leader in e-commerce, we have both the responsibility and the commitment to be the global leader in anti-counterfeiting. We are 100% committed to fighting this battle. We see no path to success other than working closely with you, the brands. And we have the tools to change the way this war is waged. Together, using data and technology, we can become the Special Forces that take on and defeat the counterfeiters. Ambassador Baucus called it a war. He is right! It is a war! And we plan to win, working with all of you.

I have been involved with Alibaba for over a decade, first, as an advisor at Goldman Sachs, then as an Independent Board Member when the company went public almost two years ago, and today as Group President, responsible for our international strategy and business development.

Matthew Bassiur, who is in the audience today, leads our global anti-counterfeiting efforts and reports directly to me. He is currently building out his team around the world to make sure we have anti-counterfeiting experts working in the same countries and speaking the same languages as our brand partners.

A big part of my responsibility includes helping to protect your brands and executing our anti-counterfeiting strategy. So I own this, both inside and outside of China. This responsibility means coming up with new and innovative solutions to tackle a difficult, complex and long-standing problem, together.

Let's agree on a few basics. Counterfeits are as old as brands themselves. Many of the methods used to fight them have remained essentially unchanged. Is that working? Maybe, but we don't think so. I believe that unless we try something dramatically different, the only winner in this battle will be the counterfeiters.

So, we can either let the war drag on through lawyers and litigation, or through mud-slinging in the court of public opinion, or, we can think more creatively and partner differently to make a real difference.

I know some of you, maybe many of you, are skeptical of Alibaba. And you see us as part of the problem, not as a problem solver. Why might that be?

First, we are big. Just last month, Alibaba became the largest retail commerce company in the world with almost half a trillion dollars of sales, more than 400 million consumers shopping on our platforms, tens of millions of sellers and more than one billion individual product listings.

Second, we also operate principally in China, the manufacturing hub of the world, which sadly also includes manufacturers of counterfeit goods.

And third, it's possible that some of you have experienced first-hand frustrations dealing with us and dealing with counterfeits of your brands on our marketplaces. So we get it. It's easy to point the finger at us as the source of the problem.

But let's also look at it through another lens. Our size, where we operate, our insights available through technology and data, and our commitment mean we have the tools and resources to make a significant impact on this issue.

Our goal is not just to be the global leader in e-commerce, but also the global leader in anti-counterfeiting. The responsibility for both goes hand in hand. That commitment sounds like the kind of partner you should want on your side.

But whatever you think of us, set your perceptions aside for a moment, because counterfeiting goes far beyond Alibaba. It is a massive and pervasive industry issue, not unique to Alibaba or even China. Counterfeiting stems principally from the offline world. It happens on our platforms and on every other e-commerce platform globally. It is happening everywhere around the world, not just in China.

The global counterfeiting market is nearly \$500 billion (based on 2013 OECD data), and growing. But why is this happening?

There are two important dimensions to this. Commerce as we know it is rapidly changing. It's global. It's connected efficiently through the internet. Buyers are sellers, and sellers are buyers. New brands are created every day. Offline and online activities are converging. It's a rapidly changing retail world, one that many consumers and brands have a hard time keeping up with. But it is also a rapidly changing world for counterfeiters: they are large, more sophisticated, integrated with the supply chain network, globally-connected, well-hidden and aided by technology.

Success in this battle means understanding both dimensions and developing collaborative and comprehensive strategies to beat them.

Look, as Bob indicated in his remarks, we have seen this movie before. When new technology meets traditional business, there is almost always a period of conflict and resistance.

Remember Napster and the recording industry? Yes, Napster lost. But ultimately, Napster's new model paved the way for iTunes, Spotify and Pandora. The industry found a way to work together collaboratively for mutual benefit. What about YouTube and the film industry? In the early days of YouTube (pre Google) there was immense opposition to copyright violations for movies, TV shows and music videos. At one point, YouTube removed 30,000 videos for copyright infringement. Today, media companies embrace YouTube as an opportunity.

What does the history of these events tell us?

- The battle is a long one. It took these companies years to work through their copyright and piracy issues.
- Litigation is not always the best solution, because it only stops people from working together effectively.
- Eventually, collaboration produces the best results, by learning to work together for mutual benefit.

Now I understand these examples are not perfectly analogous with the issues we face. But the point is that in the midst of the convergence of technology and traditional business models, we must find collaborative solutions.

Right up until last week, I thought we were heading in an exciting, new collaborative direction. Late last year, the IACC Board of Directors made the decision to create the general membership category. This was a bold and visionary move. It was the recognition that we will never win this war unless we all come together—the brands, retailers, online marketplaces, governments, law enforcement, and trade associations. A very creative and collaborative idea with enormous potential.

But, change is difficult. New ideas can be threatening, especially to those who benefit from maintaining the status quo. But we cannot and will not allow a tyranny of the minority to thwart progress in this area. So while the General Membership category continues to be evaluated by the IACC Board and its members, we will continue to focus on ways to collaborate in this war.

And if we are not invited to join you in this fight, then we invite you to join us. We have no competitors in this battle. Only a common enemy: the counterfeiters.

It's important you understand the context in which we operate and why tackling counterfeits is just as important for us as it is for you.

We founded Alibaba 17 years ago to help small businesses. Today, we have more than 10 million merchants running businesses on our marketplaces. And we have almost a half a billion users. That is almost 1.5 times the population of the U.S. Many people refer to us as the Amazon of China. We are not the Amazon of anything.

One of our biggest differentiators is the fact that we don't own any merchandise. We operate marketplaces. We connect buyers and sellers. This also means we are the police of our own platform.

Our business is comprised of multiple platforms. First, we have Taobao which accounts for most of the 10 million businesses I mentioned. Taobao merchants are manufacturers, farmers, brand owners, artisans and craftsmen. They are in cities and they are in rural China. Taobao has been a revolutionary force in helping entrepreneurs thrive, driving economic growth and creating jobs. You can find anything and everything on Taobao. So Taobao, in a sense, is a mirror of China's vibrant offline economy. When it comes to policing Taobao, it's an enormous and complex task. However, because of the scale of Taobao, we have the ability and the responsibility to make a big impact.

Tmall is our business-to-consumer marketplace—international brands selling to Chinese consumers. Many of you are on the Tmall or Tmall Global platform. We have thousands of the world's top brands on Tmall, including IACC members such as Apple, Burberry, L'Oreal, Nike, P&G, and Unilever, to name a few. Brands on Tmall run their own storefronts and connect with consumers directly. Tmall is the most important platform for these companies to build their brands and engage China's consumers today and in the future.

It's also important to mention AliExpress, a marketplace for Chinese merchants to sell directly to international consumers in countries like Russia, Brazil, but also in Europe and the U.S. While it's much smaller in terms of market participants and contribution to Alibaba's revenue, it is a high priority for us in terms of IP protection. I am personally leading the charge to revamp AliExpress and upgrade the quality of merchants and products on this marketplace.

Bottom line on all this: our future success depends on trust. Brands we work with are relying on us to protect their IP. And consumers are relying on us to ensure they are buying quality, authentic products. It is critical that we earn the trust of both groups.

So let's talk about how we are attacking the counterfeit problem. We have three principles that define our anti-counterfeiting strategy.

First, we are proactive. Second, we partner with you, the brands. Third, we collaborate with governments, regulators, agencies, and law enforcement. All three principles are built on our strength in data, data management and analytics.

Our first principle: We are proactive. Some of you may think that we don't act until we get a complaint from a brand. That is not the case. For example, we have a large team whose sole responsibility is to manage and monitor our platforms continuously using our Big Data IP Enforcement Program to prevent and take down counterfeit product listings.

Our anti-counterfeiting system is now processing 100 million pieces of data per second. We're talking about 8.64 trillion pieces of data each day. In 2015, we were able to block and proactively take down around 120 million suspicious product listings on Taobao. That's before any of you asked us to do anything.

We also spent more than \$15 million last year to buy products from merchants on our platform who we thought might be trading in counterfeit merchandise. When we find violators we make sure they are punished.

Because of our relationship with Alipay (our payments affiliate), we also regularly freeze the accounts of those we suspect are dealing in counterfeits. Some frozen funds have been used to refund payments to customers who received fake products. Last year, we froze over \$72 million in accounts and refunded more than \$12 million to customers.

Our second principle: Brands are our partners. We are in this together. No one knows more about your IP than you. While we do as much as we can proactively and on our own, the closer we can work with brands, the more effective we can be.

That's why we work directly with brands themselves and through industry associations such as the IACC, the Business Software Alliance, the Motion Picture Association of America, The Recording Industry of America, and many others.

Now, some brands have complained that they shouldn't need to be involved at all, that we should just handle it. I want to explain why this isn't possible.

As I discussed earlier, Taobao is a third-party platform, and it's free for merchants to list items for sale. We do screen for suspicious listings, but as the operator of the marketplace, not a rights-holder, in some cases it's impossible for us to judge with sufficient accuracy whether or not a listing is legitimate or not.

For example, it's easy to conclude a Gucci bag selling for \$20 is a fake, but what about a Gucci bag selling for a few hundred dollars? Could it be last season's inventory or a refurbished genuine item? We cannot automatically assume that every off-price item is not a genuine listing. We need to work with brands to make that determination.

So we are creating programs to make it easier and less costly for brands to execute their take-down requests. One example is our "good faith takedown program" which makes it easy for brands to submit take-down requests. Once they do so, we take the listings down. No questions asked, no further evidence required. We currently have 580 brands participating in this program including Samsung, P&G, Microsoft, Louis Vuitton, Hewlett Packard and Burberry

We wanted to expand the benefits of "good faith" to more brands, which is why we supported the creation of the IACC MarketSafe program with you. We started this program back in 2013 with a small number of brands so we could test and learn what works and what doesn't.

In this context, the IACC serves as a neutral arbiter between brands and Alibaba to give participating brands instant good-faith status with us. Eventually, our goal is to establish this mutual trust with every single brand on our platform.

The feedback and results from MarketSafe have been very positive. Since its launch, and with only 16 participating brands in our pilot, MarketSafe has removed 100% of product listings when the brand stands behind its claims. We have shut down nearly 5,000 storefronts and permanently banned them from our platforms. And more than 180,000 infringing product listings have been taken down.

All that for just 16 brands. Imagine what we could do with hundreds or thousands of brands. That is where we are headed. Based on the success of the MarketSafe program to date, we jointly announced a significant expansion of the program based on what we heard from brands.

First, the expanded MarketSafe Program will be available to all brands large and small, IACC members and non-members, customers of Alibaba and non-customers. Second, we are encouraging as many brands as possible to participate by making the program completely free of charge. Third, we are working to expand the program to include our other marketplaces including AliExpress. Finally, what makes this program so effective is that it takes the burden off brands to provide support for their claims. What this means is, if you or the IACC tells us there is a listing that is violating your IP, we take it down, no questions asked. We will be ready to launch this program before the end of the year and we hope every brand represented in this room and many others will choose to be a part of it.

The question we ask ourselves is, why wouldn't you as brands want to participate in the MarketSafe Program?

I hope this clarifies why we need brands to be a part of the process and shows that we are working hard to make it easier for you. Over the last year alone, we had approximately 80,000 rights holders using our online notice-takedown system and we removed approximately 10 million product listings from Taobao based on their requests. We will continue to improve our systems and make it easy for you to be a part of this.

Our third principle: We collaborate with governments, regulators, agencies, and law enforcement.

Alibaba actively collaborates with governments, regulators and law enforcement on offline counterfeit investigations. It's not enough to deal with counterfeiting on our platforms, we have to get to the root cause of the problem.

With our data and our powerful data analytics, we help governments and law enforcement identify the manufacturers and dealers of counterfeit goods so they can be brought to justice. Over the past year our assistance led to the closing of approximately 600 production, storage or sales operations of counterfeit products.

Let me give you an example. Last year, we worked directly with the government of Zhejiang province law enforcement over a period of three months on what we called "Cloud Sword Operation." We used our big data to provide 385 leads to the Zhejiang investigative team. 169 cases were opened and 164 of them solved resulting in the arrest of 300 criminals. More importantly, 244 selling locations were destroyed including 46 manufacturing bases. The total value of product confiscated was around \$125 million.

We also work directly with brands to help them address offline counterfeiting operations. Last year, Louis Vuitton and the Guangzhou police came to us for help to track down a sophisticated counterfeiting operation run out of China and Dubai.

Using our data, we were able to help Guangzhou police identify the locations of four different groups of suspects and monitored their online sales activities. With our evidence, the police arrested seven suspects in four different locations in China and confiscated thousands of pieces of fake Louis Vuitton products, worth more than \$15 million USD. We then worked with Dubai authorities to track down the affiliated counterfeit groups there, leading to the arrest of two criminals and confiscation of more than 60,000 pieces of fake Louis Vuitton and Calvin Klein products.

This should give you a good sense of the work we are doing, but more importantly of the potential we have to have a big impact. In the last three years, we have helped put hundreds of counterfeiting criminals in jail.

We have the scale, we have the data and we have the commitment to be a global leader in anti-counterfeiting. Offline and online are inextricably linked when it comes to counterfeiting. And the relationship between platforms, brands and law enforcement needs to be the same if we hope to win. This is important today, but will be even more important in the future.

By 2020, Alibaba plans to generate sales of more than \$1 trillion and serve two billion consumers. Within the next five years, China will become the world largest e-commerce market for imported products. The opportunity for all of you and for us is enormous. The Chinese middle class is booming, already outnumbering the entire U.S. population. Incomes are rising. And because of e-commerce, China's consumers now have their choice of the world's best products at their fingertips.

Neither Alibaba nor brands can capitalize on this opportunity without trust in our marketplaces, which is undermined by the presence of counterfeits.

Let me conclude where I began. We believe the responsibility to be a global leader in e-commerce and the responsibility to be a global leader in anti-counterfeiting go hand in hand. We are 100% committed to fighting this battle. We don't see a path other than working with you, the brands. Together, using data and technology we can make real progress.

We want to work with you to help protect your brands; but also to help you grow your brands and your businesses. We have an opportunity to change the game. To do this differently. We have an expression at Alibaba. "If not us, then who?" United, I think we stand an excellent chance of winning this war. Join us! You'll be amazed at what we can accomplish together. Who knows, someday we may look back and observe, something important started here.

Thank you.