

Working together to fight counterfeiting

As counterfeiting rates hit record levels, rights holders are fighting back through a series of international coalitions and agreements

By **Candice Li**, International Trademark Association

Counterfeiting is quickly becoming the crime of choice for criminals around the world. The problem is being compounded by lax penalties, loose international regulations and the advent of a traceless marketplace on the Internet. Illegal fake and knock-off items are costing national economies legitimate, tax-paying jobs, corroding brand reputations and hurting consumers at an incredible rate.

IP-based industries employ more than 18 million people in the United States and account for approximately US\$5 trillion of US gross domestic product.

Combating trademark counterfeiting remains a high priority for businesses and governments, as counterfeiting negatively impacts on the economy and hurts both large and small businesses. As some have noted, approximately 1.2 million jobs are being lost in the European Union as a result of counterfeiting and piracy. A recent study by Frontier Economics – commissioned by the International Chamber of Commerce's Business Action to Stop Counterfeiting and Piracy (BASCAP) initiative – found that 2.5 million jobs in G20 countries have been affected as a result of counterfeiting and piracy. It is estimated that governments have lost US\$86 billion (or €62 billion) in tax revenues. The Organisation for Economic Cooperation and Development (OECD)

estimates that the trade in counterfeit and pirated goods may have amounted to as much as \$250 billion in 2007. However, these numbers, significant by any standards, only scratch the surface of the problem: the growth in fake pharmaceuticals, personal care products, automotive and aircraft parts, and food and beverages has serious implications for public health and safety.

Counterfeiters compete unfairly against legitimate businesses, skirting legal boundaries and constraints and ignoring guarantees of quality and safety to consumers. In numerous cases we see consumers unwittingly buying counterfeits believing they have paid for a genuine product, only to discover that their purchase is not only fake, but also potentially dangerous. The pervasiveness of the problem around the world, as well as the rise in new avenues through which counterfeits can be sold, presents challenges not only for businesses, but also for governments, which are responsible for establishing laws and enforcing penalties to combat counterfeiting.

The impact of counterfeiting is having broad ramifications, particularly on a sluggish world economy. In May 2009 an article in *BusinessWeek* highlighted the current problems and concerns faced by printing and ink companies in an environment in which the industry is already predicting a drop in ink usage as people print fewer pages due to companies closing and workers being made redundant. As these companies struggle to cope with a reduction in sales during the economic slowdown, they are also being adversely affected by counterfeiters, whose illegal activities have cost the industry approximately \$3 billion in sales. Hewlett-Packard's printing and imaging group lost more than \$1 billion to counterfeits in 2008.

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Where anti-counterfeiting was a low priority for Hewlett-Packard in previous years, the current market and threat of lost sales to counterfeits have spurred the company to re-energise its anti-counterfeiting efforts, with the support of its chief executive officer.

Hewlett-Packard and other large printing and ink manufacturing companies are not the only ones affected. The article also featured the challenges faced by a North Carolina company, part of whose business is reselling Hewlett-Packard ink cartridges, some of which were bought online at a discount. Suspicions were first raised by customer complaints about sub-standard cartridge quality; Hewlett-Packard experts later confirmed that the US\$40,000 sum that the company had spent on buying the ink cartridges online was in fact unwittingly spent on counterfeit ink cartridges, which leaked ink and damaged customers’ printers. Not only did Hewlett-Packard miss out on sales to the North Carolina company, but the smaller company is now faced with angry customers, one of whom, according to the article, cancelled his contract as a result.

Loose international regulation and weak enforcement

The increasingly globalised nature of today’s economy, technological advances and enhanced trade between countries give consumers access to more products and choices than ever before. However, while a global marketplace offers many benefits to both industry and consumers, it also raises new and more complex challenges in protecting IP rights and combating counterfeiting.

Just as legitimate businesses are benefiting from more open borders and improved trade relations, counterfeiters are

also taking advantage of the same conditions to manufacture and sell counterfeit products. The practices of passing goods through free trade zones or free ports, or transshipping them through multiple ports, have created opportunities for counterfeiters to disguise the goods’ true country of origin. Counterfeiters also take advantage of territories where border enforcement for transshipped or in-transit goods is known to be weak, with the intention of passing the goods through those territories to their ultimate destination.

Differences in laws and anti-counterfeiting efforts between countries exacerbate the problem. Counterfeiters are aware of and able to exploit legislative and enforcement loopholes between countries to conduct their illicit business.

In late 2007, in recognition of increasing challenges in combating counterfeiting and piracy, Australia, Canada, the European Union, Japan, Mexico, South Korea, Switzerland and the United States announced that they would commence negotiations on the Anti-Counterfeiting Trade Agreement (ACTA) – a plurilateral agreement intended to establish a stronger set of common standards for IP enforcement among the signatories.

The proposed ACTA is intended to provide for increased international cooperation, including sharing of best practices in enforcement and alignment of provisions of legal frameworks to ensure that adequate criminal, civil and border protection measures are in place to disrupt the flow of counterfeits across borders. The International Trademark Association (INTA) has expressed support for ACTA’s general principles and objectives, and applauded efforts taken to discuss the agreement. INTA has also collaborated

with more than 20 national, regional and international industry associations, many of which are based in the negotiating countries, to provide collective business perspectives on the topics under discussion by ACTA negotiators. The group has urged negotiators to deliver an agreement that will significantly improve international enforcement by establishing stronger standards for government performance and more effective national regimes for protecting IP rights.

To date, the negotiating governments of ACTA have concluded the eighth round of negotiations, but have yet to release a draft text. There has been much criticism of ACTA with regard to the lack of transparency during the negotiating process and debate among the negotiating countries over the scope of IP rights to be covered. However, if done right, ACTA will go a long way towards overcoming shortcomings in international IP enforcement that continue to hinder the efforts of rights holders to protect their marks by creating a basis for a global framework to deal with this global problem.

Solutions and challenges offered by the Internet

The sale of counterfeits on the Internet is arguably one of the most hotly debated subjects within the anti-counterfeiting arena. The number of consumers using the Internet as a marketplace is growing exponentially due to the rapid development of online commerce. Unfortunately, sales of counterfeits have also exploded as counterfeiters find new and easier means of promoting and selling counterfeit products. Even social networking sites, which have grown in popularity in the last few years, are being used to sell counterfeits.

The worldwide reach of the Internet, the ease and speed of creating fraudulent websites, the use of online payment systems and the anonymity available from operating online have all contributed to the growth of counterfeit sales online. Counterfeiters and consumers are no longer limited to “bricks and mortar” establishments or to cash payments. Counterfeiters can use deceptive websites and product offerings to fool consumers into believing their products are genuine. Just as legitimate businesses are benefiting from better opportunities to market their products and reach a wider range of consumers through the Internet, counterfeiters are exploiting the same avenues to sell more fake products to a wider audience.

Increased sales and access to counterfeits pose serious threats to the economy and to public health and safety. The OECD noted in a recent study, entitled “The Economic Impact of Counterfeiting and Piracy”, that the Internet has provided counterfeiters with new and powerful methods of selling their products, suggesting that a significant share of the counterfeit trade is attributable to the Internet. The Internet has also facilitated counterfeiting activities carried out by organised criminals. The report shows that criminal networks and organised crime receive significant revenue from counterfeiting and piracy activities. Public health and safety are also put at serious risk by counterfeit pharmaceuticals, aircraft and automotive parts, and electronic goods that are made with sub-standard and possibly toxic materials.

While the link between increased sales of counterfeits on the Internet and the harm caused to businesses and the public is clear, the solution to the issue is complex and challenging. Questions of who is responsible for curbing or policing the Internet and what legal, policy and/or voluntary measures are needed have been widely discussed in industry and government forums.

Manufacturers of luxury goods and other goods targeted by counterfeiters are taking these matters to court in various jurisdictions in the United States and European Union, with contradictory decisions being handed down. At the international level, the negotiators of ACTA are discussing measures to address this issue. Meanwhile, government entities, such as the European Commission – through a working group of rights holders and internet service providers – and industry associations such as INTA are attempting to find practical ways to combat the sale of counterfeits on the Internet.

In 2009 INTA released a set of voluntary best practices for rights holders and internet-related companies aimed at facilitating online trademark protection. These best practices were created by two taskforces that examined and developed recommendations on practical ways for rights holders, online marketplaces, search websites and payment service providers to address the sale of counterfeits over the Internet. The taskforces also created and shared a list of contact information for online service providers – this allows rights holders to notify them quickly of sales of counterfeits on the Internet, an important step in halting or disrupting such sales. Yahoo!, eBay, Google, American Express,

MasterCard, Visa, Discover and PayPal were among those that participated in the INTA taskforces and also contributed contact information to the best practices.

Addressing the sale of counterfeits online will continue to present a challenge. Continued technological advances and innovations mean that the Internet will evolve and allow sellers and buyers to interact in multiple ways in the virtual world. Government and industry approaches to tackling this problem must include increasing consumer awareness of the risks of buying counterfeits online.

Looking ahead

Rapidly evolving methods of manufacturing and selling counterfeit goods, as well as the mushrooming negative impact that counterfeiting is having on the economy, public safety and business profitability, will ensure that anti-counterfeiting efforts remain a high priority for years to come.

At the global level, ACTA is the focal point through which governments can enhance cooperation and strengthen their legislative frameworks. The negotiations should draw to a conclusion soon so that the proposed agreement can be debated and acted upon by the legislatures of the participating countries. Those countries sitting on the sidelines should seriously consider joining in this commendable initiative.

Various countries are already making efforts to improve their IP enforcement.

A case in point was the recent passing of the Pro-IP Act in the United States, which promotes IP enforcement and strengthens criminal penalties against counterfeiters. Of great significance is an INTA-sponsored transshipment provision in the act that explicitly prohibits the transshipment or export of counterfeit goods or services. The European Union has embarked on several initiatives to harmonise criminal sanctions and enforcement measures among its member states, and to address the thorny issue of counterfeit sales over the Internet.

Government and industry organisations are also banding together in public-private partnerships such as the Global Congress on Combating Counterfeiting and Piracy – a collaboration between the World Intellectual Property Organisation, INTERPOL, the World Customs Organisation, INTA, the International Chamber of Commerce's BASCAP and the International Securities Management Association. By pooling the resources and expertise of its respective partners, the Global Congress works to raise awareness of the growing problem of counterfeiting and piracy, to develop strategies and to identify solutions to the problem.

Rights holders need to continue their strong support of and participation in these initiatives. Together we can beat back the advances of counterfeiters and regain the high ground for legitimate business and consumers. **iam**



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