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Feature

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The essential guide to taking on counterfeiters

Brand owners need to be ready to enforce their rights anywhere in the world through all available means, including alternatives to trademark remedies. Using a fictional narrative, tracing distribution of counterfeits from China to the United States and Europe, via Dubai, IP experts provide tips on how to tackle the problem in each jurisdiction

There is a growing market for counterfeit products. The Organization for Economic Cooperation and Development estimates the value of counterfeit and pirated products sold internationally at over €150 billion a year, which is more than the gross domestic product of some 150 countries. Besides the tremendous impact that such trade has on the global economy, counterfeits can cause serious health and safety problems to consumers.

Counterfeiters are becoming increasingly cunning and brand owners need to be more resourceful in turn. Counterfeits are typically produced in developing countries, which offer cost-effective manufacturing capabilities, and then shipped to their final destination, often through transit countries.

Through a fictional narrative, this article follows specific counterfeit products from their country of production (China) to their final destination (the United States and the European Union), via a transit country (Dubai), providing, along the way, tips on how best to tackle each situation. As it is not always possible to rely on trademark rights, the narrative includes a focus on alternative solutions.

The story so far

Messrs Zhao, Qian, Sun and Li are four individuals living in Ningbo, Zhejiang Province, China. They are all involved in the production and sale of counterfeit goods.

Mr Zhao makes bags that copy the design and trademarks of an Italian luxury brand, Bruno. Mr Zhao conducts his business through a company which is duly registered with the local Administration of Industry and Commerce (AIC).

Mr Qian makes and sells counterfeit electronic products such as MP4 players, memory cards and batteries for digital cameras. Mr Qian places the trademark of Katy, an internationally renowned maker of consumer electronics, on the products. Mr Qian conducts his business through a company that is also registered with the AIC.

Mr Sun makes counterfeit movie DVDs through a company which has not been registered with the AIC. A lot of the movie





Ningbo Port is the eighth largest in the world in container throughput

titles that Mr Sun sells are counterfeits of the well-known US movie company NKU.

Mr Li's company makes counterfeit car parts. The car parts are copies of those sold by US company Storma.

Bruno, Katy and NKU have all registered their trademarks in China, Dubai, the United States and in several EU countries. Katy has also registered several patents in China, the United States and Europe in relation to the technologies incorporated in the electronic products. Unfortunately, Storma registered its trademark and design rights only in the United States and some EU countries, but neither in China nor Dubai. Mr Li, on the other hand, registered both utility models and design patents in China for the car parts originally designed by Storma.

The counterfeiters are exporting their products from China to the United States and the European Union (through the port of Rotterdam) via Dubai for sale in trade fairs, on markets and online.

Tips for China

Bags

Mr Zhao's activity amounts to straight-forward counterfeiting. Administrative proceedings will afford the fastest and most cost-effective approach. Bruno should conduct a thorough investigation into the details of the infringement before launching a complaint with the AIC (the competent authority here) as it will have no control over and little involvement in the proceedings once the case has been accepted. The investigation should preferably be carried out by an experienced firm and should uncover:

- the exact location and scale of the infringing operation;
- the channels through which the bags are distributed, including the ports through which they are exported; and
- details of Mr Zhao's company (eg, key personnel and finances).

It is also critical that Bruno develops a good working relationship with the AIC.

Bruno should also register its trademark with the Central Administration of Customs. Such registration will ensure that the local customs authorities monitor goods for any infringement of the registered mark. Another benefit of the voluntary registration is that the bond required for seizing suspected infringing goods may be lowered. For example, if the trademark has been registered, the bond is capped at Rmb100,000. However, the bond will be equal to the value of the goods (without any cap) if the trademark has not been registered. Bruno should also engage closely with Customs – for instance, by providing educational programmes regarding its products.

With regard to the sale of Mr Zhao's counterfeit bags on auction websites such as Taobao, Bruno should take advantage of the websites' notice and takedown procedures. Such auction sites often use monitoring software that automatically searches on specific (brand) names or manually monitor the sites.

Additional Chinese actions

Unfair competition affords another cause of action against the counterfeiters. For example, under the Chinese Anti-unfair Competition Law, the use of a confusingly similar name, packaging and decoration of a famous product to mislead consumers constitutes an unfair competition practice.

Until recently, Chinese courts awarded fairly low levels of damages which had very little deterrent effect on IP rights infringers. However, a growing number of civil courts are now awarding large damages in IP cases, which is very encouraging.



If Mr Zhao's activities reach a certain level, Bruno could also seek civil and criminal remedies.

Electronic products

Katy will need to be mindful that most of the consumers that buy Mr Qian's counterfeit products in China will think that they are genuine Katy products. This is because counterfeit electronic products are often sold in so called 'electronics malls' where it is difficult for consumers to tell which vendors are authorized to sell branded products. Katy should therefore take advantage of the various governmental consumer awareness campaigns to educate the general public as to Katy's trademarks.

Besides launching administrative and customs actions similar to those described above, Katy should report Mr Qian to the Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), on the basis that the counterfeits pose a risk to consumers' safety. The AQSIQ will order the cessation of the infringing activities and impose an administrative penalty.

Katy could also rely on its Chinese patents to sue Mr Qian. However, it is generally difficult to resolve patent infringement issues through an administrative proceeding because the in-depth technical analysis that is often required is beyond the capability of an administrative agency. Katy will thus have to file a civil court case.

DVDs

Unless Mr Sun operates a large counterfeiting business and has an establishment for such activity, it will probably be ineffective to pursue him because it will be very easy for him to avoid detection. The fact that Mr Sun's company is not registered with the AIC also means that it would be more difficult to track him or his operation's financials down. NKU should work closely with the authorities to build a case (bribes are not necessary) and provide them with as much information as possible. NKU should also work closely with other members of the professional associations, such as the China Software Industry Association, to benefit from any collective efforts made.

Car parts

By not registering its car parts as utility models and design patents, Storma left the door open for Mr Li to do so. This was possible because applications to register such rights are not subject to a substantive review before being granted. Now that Mr Li holds these rights, however, it will be difficult for Storma to invalidate them. Fortunately, the recently passed third amendment to the Patent Law extends the scope of prior art considered for novelty and inventive step determinations to public use of an article anywhere in the world. Previously, only publication anywhere in the world and use in China were considered. Mr Li did not disclose the patents in China before Storma did. Storma should firmly and actively seek to invalidate Mr Li's patents citing its own early public disclosure.

Storma can also try to rely on rights that are not predicated upon registration, such as copyrights (since it does not hold trademark rights in China either). Although car parts do not fall under traditional types of work protected under copyright law, 'practical artwork' is protected under the Berne Convention for the Protection of Literary and Artistic Works, to which China is a signatory. The car parts will need to satisfy the requirements of being both practical and artistic to enjoy protection under the practical artwork concept. However, because this is a new concept to many Chinese courts, there is no guarantee that Storma's claim will be upheld.

Tips for Dubai

Dubai harbour remains a popular port of transit between the East

and the West, with Dubai Customs handling over 11 million containers a year. Tackling counterfeiting in such a busy port is challenging. However, advanced customs monitoring and control systems are helping. Random inspections, as well as intelligence gathered by Customs, enable the customs authorities to intercept and seize goods upon arrival.

Generally speaking, Dubai Customs acts vigorously against goods destined for Dubai as opposed to goods in transit. Transit goods usually enter free zones temporarily upon arrival in Dubai and although the Customs Law prohibits the entry of counterfeit goods and goods infringing other IP rights, in many cases Customs chooses not to act against goods in transit because such goods are not destined for Dubai and therefore are not violating any laws in the United Arab Emirates (UAE). Thus, it is unlikely that Dubai Customs would help Bruno, Katy and NKU. Dubai Customs seeks to avoid as far as possible policing goods destined for other markets and would encourage rights holders to go directly to the port of destination (eg, in the United States and the European Union) to request the authorities there to seize the goods.

Bags, electronic products and DVDs

Bruno, Katy and NKU could file a complaint with Customs, requesting seizure and destruction of the counterfeits upon arrival from China, if they suspect the counterfeits are destined for the UAE market. Bruno, Katy and NKU will have to identify the vessel name and container number at least 24 hours prior to arrival of the container to give Customs sufficient time to obtain the orders for seizing the containers and suspending the release of the goods that are the subject of the complaint. In addition to accurate details about the targeted container(s), the brand owners will have to submit their UAE trademark registration certificates.

Customs will inspect the shipment and may conclude the matter independently by confiscating and destroying the infringing goods. It may also choose to transfer the matter to the public prosecutor

Counterfeiting in the United States

The US Bureau of Customs and Border Protection estimated in 2005 that counterfeiting costs the United States \$200 billion annually. The financial costs of counterfeiting, as well as the dangers that accompany the sale of counterfeit goods – such as the growth of organized crime and the harm to consumers arising from the substandard quality of counterfeit goods – have led to the enactment of statutory laws specifically intended to combat counterfeiting. The arsenal of weapons includes both civil and criminal remedies.

Since 2004 the US government has passed a number of acts that have created and increased the civil and criminal penalties that may be imposed in response to the sale of counterfeit goods. The most recent of these acts is the Prioritizing Resources and Organization for Intellectual Property Act of 2008. This act:

- enhances the statutory remedies in civil actions (essentially doubling the awards previously obtainable);
- requires convicted infringers to pay restitution to rights holders; and
- provides for a more uniform statutory approach to forfeiture and destruction of infringing goods and the equipment used to manufacture the goods.

The law also seeks to improve the implementation, coordination and accountability among the various government agencies involved in IP rights enforcement.

for criminal prosecution.

Customs may also suspend the release of the goods at issue after the rights holders have paid a security deposit.

A random inspection of containers may lead to the identification of counterfeit products. However, the number of such inspections compared to the number of containers handled is very small and cannot serve solely to safeguard against incoming infringing shipments.

Car parts

Even in the absence of a UAE trademark registration, Storma may have several options to stop counterfeit car parts going through Dubai Customs. First, Mr Li is likely to have made false declarations in its customs documents when shipping the counterfeits, as car parts are among the most commonly counterfeited items identified by Dubai Customs (and thus declaring goods as car parts is likely to attract greater scrutiny). Under the UAE Customs Law infringing

Counterfeiting in the European Union

Some 37,000 containers of counterfeit products were stopped at the EU borders in 2006 and 43,000 in 2007. This increase is the result of stronger partnerships between Customs and businesses. Although most counterfeit products found at the EU borders were fake cigarettes and fake clothes, the highest increase concerns counterfeit medicines, electronic equipment and personal care products.

The European Union harmonized its legal framework to act more successfully against the trade in counterfeits. Several routes can be taken:

- the (administrative) customs enforcement route, under the Customs Regulation (1383/2003);
- the criminal enforcement route, which is frequently invoked in countries such as France and Italy; and
- the civil enforcement route under the IP Rights Enforcement Directive (2004/48/EC) and national IP laws.

Although the EU market is designated as a destination market in this narrative, the Customs Regulation would still apply even if the goods were in transit from a non-EU state to another non-EU state (regardless of whether the party seeking to enforce its rights has a registered office in or outside the European Union). Products that are in transit towards a non-EU country could still have effect on the EU market. This is because counterfeiters could disguise counterfeit goods as goods in transit in order to introduce these goods fraudulently onto the EU market. To determine whether goods in transit infringe IP rights, the Dutch courts, mentioned here because in our narrative the counterfeits enter the European Union through the port of Rotterdam, apply a legal fiction according to which goods in transit are regarded as goods which have been produced in the Netherlands. The former version of Article 6(2)(b) of the Customs Regulation has been the basis for this legal fiction (confirmed by the Dutch Supreme Court in *Phillips/Princo* (NJ 2007/85, March 19 2004)). Although the current version of Article 6(2)(b) no longer provides for this legal fiction, the lower Dutch courts still apply the legal fiction based on Recital 8 of the Customs Regulation.

A recent agreement on an action plan for closer cooperation between the customs authorities of the European Union and China on IP enforcement (IP/09/193) and the EU-China Project on the Protection of Intellectual Property Rights provide for:

- the exchange of information on IP risks;
- operational cooperation between key ports; and
- exchange of officials and developing partnerships with the private sector in China.

goods can be seized on the basis of a false declaration and penalized by a fine. Unfortunately, Customs has the authority to re-export and/or release the goods after payment of the fine, in which case the counterfeit car parts may again be challenged in China if the goods are re-exported there.

Second, Storma's logo may qualify for protection as a copyrighted work. Article 2 of the UAE Federal Law Regulating Authors' Rights and Neighbouring Rights (the Copyright Act) broadly defines 'copyright' as the "creative authorship in literary arts or sciences, no matter the medium of expression, no matter the importance or purpose". As such, the Copyright Act enables trademarks that have a creative element to enjoy copyright protection. The Copyright Act does not require registration of a copyrighted work. However, in practice, enforcing copyright through criminal means will require Storma to present a certificate of recordal. The process of recording a copyrighted work is quick and simple, substantially easier and cheaper than registering a trademark.

Tips for the United States

Bags

Although apparel and accessories account for 45% of the counterfeit goods seized by the US Customs and Border Protection (CBP), Mr Zhao's bags slipped through (apparently the counterfeit labels portraying Bruno's mark were affixed after the bags had arrived in the United States, which does not make Mr Zhao any less culpable under US anti-counterfeiting laws).

Upon discovering the sale of the counterfeit bags on eBay, Bruno should immediately notify the online auction site and, based on its IP rights, request the removal of the listings for the counterfeit bags under eBay's Verified Rights Owner programme. Assuming that the listings for the counterfeit bags are promptly removed, Bruno is unlikely to pursue successfully financial remuneration from eBay through a claim of contributory infringement for the bags that had been sold prior to the removal of the listings (see *Tiffany (NJ) Inc v eBay Inc* (576 FSupp2d 463 (SDNY 2008)), (holding that "it is the trademark owner's burden to police its mark and companies like eBay cannot be held liable for trademark infringement based solely on their generalized knowledge that trademark infringement may be occurring on their websites").

To obtain damages based on the sales of the counterfeit bags and to prevent future sales, Bruno should hire an investigative company to identify Mr Zhao and his associates. Assuming that the bags turn out to be housed and sold out of a warehouse in New York City, Bruno can send a cease and desist letter to the landlord of the warehouse:

- notifying it that the bags housed in the warehouse are counterfeit; and
- requesting that it immediately take reasonable steps to rid the premises of the illegal activity.

If the landlord fails to take action, under New York real estate law Bruno may file a claim against the landlord for the illegal counterfeiting by its tenants as well as a claim for contributory trademark infringement. Bruno may seek treble damages and an injunction requiring, among other things, that the landlord:

- post notices;
- evict the tenants involved in counterfeiting; and
- submit to monitoring.

Finally, Bruno should work closely with the US government and the New York Counterfeiting Taskforce to determine whether it would be worthwhile to seek the prosecution of Mr Zhao and his associates under the statutory provisions of the Money Laundering

Act. Should Mr Zhao and his associates lose, the court will impose a fine or prison sentence and mandatory forfeiture of:

- any property Mr Zhao and his associates derived from any proceeds obtained through trafficking in the counterfeit bags;
- the property used to traffic in, facilitate, aid and abet the trafficking of the counterfeit bags; and
- the counterfeit bags themselves.

For a US court to enforce US laws against a Chinese company such as Mr Zhao's company, the court must first satisfy due process by finding that it has personal jurisdiction over Mr Zhao's company. A court has personal jurisdiction over a foreign corporation where the corporation has satisfied the minimum contacts test and the exercise of jurisdiction would be reasonable. Merely placing products in the "stream of commerce" is insufficient to provide minimum contacts with the states where the products end up. The minimum contacts and reasonableness tests may be satisfied:

- by a defendant's systematic and continuous activity in the state;
- where the defendant purposefully availed itself of the resources of the state; or
- where the cause of action arises from activity in the state.

Electronic products

Katy learns that Mr Qian's counterfeit electronic products have entered the US market when it starts receiving customer complaints regarding certain gadgets.

To protect itself from potential product liability suits, Katy should immediately issue a notice to consumers warning them of the counterfeit electronics and launch an educational campaign to teach retailers, consumers and the CBP how to distinguish the counterfeit electronics. Katy should notify the US Consumer Product Safety Commission (CPSC) and issue a recall of the counterfeit electronics. Katy should also recommend that the CPSC consider pursuing Mr Qian for his violation of the laws enforced by CPSC pertaining to the specific types of electronics that Mr Qian has counterfeited. The CPSC can also issue an order, to be enforced by the CBP, prohibiting the importation of products that are in violation of the CPSC standards under 15 USC §§ 2051-83. In addition to the CPSC, Katy can ask the US Department of Transportation and/or the US Postal Service to stop the sale of the counterfeit batteries based on Mr Qian's failure to label the shipment boxes "Surface mail only" and "Primary lithium battery – forbidden for transport aboard passenger aircraft".

To help prevent the future importation of counterfeit electronics, Katy should file an action with the International Trade Commission against Mr Qian under Section 337 of the Tariff Act, based on Mr Qian's infringement of Katy's US patents. The action should seek a general exclusion order that could be filed with the CBP and a cease and desist order against Mr Qian in connection with his current conduct.

DVDs

NKU learns of the presence in the United States of Mr Sun's



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counterfeit DVDs following a raid by the New York Counterfeiting Taskforce on a building where the DVDs are stored. Under the Prioritizing Resources and Organization for Intellectual Property Act of 2008 (the PRO-IP Act), not only are the DVDs seized, but so too are the related business records documenting the manufacture, sale and receipt of the infringing DVDs by the building in New York, which allow NKU to identify Mr Sun and seek:

- criminal sanctions against him (under 17 USC § 506(a) and 18 USC § 2319);
- restitution for the sale of the counterfeit DVDs; and
- the forfeiture and destruction of any remaining infringing DVDs (under 18 USC § 2323).

NKU should work with the US government in determining whether Mr Sun would make a good target for either a civil or a criminal action under the Racketeer Influenced and Corrupt Organizations Act based on his trafficking in counterfeit goods (18 USC § 2318 and 2320). In addition, NKU should be able to bring a civil action against Mr Sun for copyright infringement and against the landlord of the property where the DVDs had been stored, based on the landlord's vicarious liability for copyright infringement.

To prevent the future importation of the DVDs, NKU should notify the CBP so that the CBP can enforce the provisions of 17 USC §§ 101-120 restricting the import of the counterfeit DVDs based on NKU's copyrights.

Car parts

Storma should work with the US government to seek criminal sanctions against Mr Li under Title 18 (Crimes and Criminal Procedure) as amended by the PRO-IP Act, which provides for a sentence up to life imprisonment for knowingly or recklessly causing or attempting to cause serious bodily injury from intentionally using counterfeit marks. Furthermore, to minimize the harm that could be done to consumers and to Storma's reputation through the sale of Mr Li's counterfeit auto parts, Storma should:

- notify its customers and the consumer market in general of the existence of Mr Li's counterfeit parts; and
- educate customers and CBP as to how to distinguish Mr Li's counterfeit parts from Storma's parts.

Tips for the European union

Bags

An investigation agency hired by Bruno finds out that some of Bruno's bags are sold on eBay and eBay's Dutch subsidiary Marktplaats.nl. Bruno should request the sites hosts to take down the listings, as under the E-commerce Directive (2000/31/EC) websites that host third-party information have an obligation to adopt a notice and takedown procedure.

If the auction websites fail to take down the listings for the counterfeit bags, Bruno could seek an interlocutory injunction against them under Article 1019e of the Dutch Code of Civil Proceedings (DCCP) (corresponding to Article 9(1)(a) of the IP Rights Enforcement Directive 2004/48/EC).

Under Article 1019f of the DCCP (Article 8 of the IP Rights Enforcement Directive), Bruno could request that the auction websites disclose information on the origin and distribution networks of the infringing goods.

Electronic products

Katy should file a national and EU application for customs action with the Dutch customs authorities (as well as potentially with Customs in other EU member states) so that Customs can seize and

“ Be aware that in many cases, Dubai Customs does not act against counterfeit products in transit ”

detain any goods it suspects of counterfeiting Katy's IP rights. Katy should also educate the police and customs officers about its products and provide tips on how to identify counterfeits, with special attention given to its patented products.

Customs will contact Katy's IP counsel as soon as it discovers the suspicious container from Dubai. Katy should check the products to confirm that they are counterfeits. It has 10 days (with a possible extension of another 10 days) to initiate further civil court proceedings to remove the products from the commercial channels and destroy them.

Katy should request a pre-judgment attachment of the goods (because Customs can detain the products only for a limited period of 10 or 20 days) and initiate proceedings on the merits before a Dutch court. As part of its civil claim, Katy can file a request under Article 1019a of the DCCP (Article 6(1) of the IP Rights Enforcement Directive) to have additional information disclosed as to the origin of the counterfeits. In addition, Katy can request compensation for legal costs and damages before the Dutch court under Article 1019h of the DCCP (Article 14 of the IP Rights Enforcement Directive).

Katy will need to work closely with the Chinese authorities and instruct a Chinese lawyer to have the decision by the Dutch court enforced in China by a Chinese court, as Mr Qian's company has no subsidiary in the European Union.

DVDs

NKU should educate its customers about the increasing presence of counterfeit DVDs in all trade channels. NKU can affix a hologram on its DVDs that is recognizable only with special x-ray equipment that NKU can make available to Customs. This equipment enables Customs to recognize Mr Sun's products as counterfeits.

Because Mr Sun's operation disappeared soon after the counterfeit DVDs were produced, Mr Sun was not able to oppose destruction of his DVDs within the period prescribed by the Customs Regulation (1383/2003). Customs will consider this lack of action as a presumed abandonment of the goods for destruction, following the simplified procedure provided in Article 11 of the Customs Regulation. NKU will not need to initiate civil proceedings, as the goods will be destroyed under the supervision of the customs officers. This simplified procedure is applied by Dutch Customs even though Article 11 of the Customs Regulation has not been implemented in Dutch law.

Car parts

Storma finds out that Mr Li's counterfeit car parts are offered for sale during a trade fair in Amsterdam. Storma can initiate *ex parte* injunction proceedings and request the seizure of the records of the wholesaler as these probably contain information about Mr Li. This seizure will aim to safeguard evidence but will not give Storma access to the information itself. Storma should subsequently file a request with the court to access the information and to force the defendant to disclose additional information, based on Article 1019a of the DCCP. Storma should repeat this procedure until it finds out that Mr Li is the manufacturer (an approach known as "bottom-up" investigation). Storma should also inform the Food and Consumer Safety Products Authority about the counterfeit car parts as they can cause consumers serious harm.

Since Mr Li's company does not have any Dutch subsidiaries and its sole place of business is in China, Storma should, like Katy, instruct a lawyer in China and work closely with the Chinese and Dutch authorities to have the decision by the Dutch court enforced in China by a Chinese court.

Key lessons for brand owners

- Put in place sufficient investigative and monitoring capability in every country affected, starting with the countries of production. The sooner the mark owner discovers the production or shipment of counterfeit products, the better. Have a special agent in China that conducts thorough investigations and maintains close relations with the AIC.
- Register your IP rights in every relevant country, even the countries of production and transit, instead of solely in the destination markets. This will help to take action against counterfeits at an early stage.
- Be aware that in many cases, Dubai Customs does not act against counterfeit products in transit. To have more success, engage a firm that maintains a good relationship with Dubai Customs so that you can receive accurate details about the targeted containers and vessel names. Note that Dubai Customs also provides inexpensive ways to protect copyrights.
- Maintain a good relationship with the customs authorities and educate them about your products (especially with regard to patents). This enhances the possibility that Customs will discover counterfeit products at the borders and will enable the

detention of such counterfeits.

- If the counterfeits reach their destination, work your way from the bottom up and make use of specific national procedures to safeguard and access evidence (such as business records and administration) that may enable you to identify the manufacturer.
- If counterfeits are likely to cause serious health and safety problems, make sure that you educate your customers, especially to prevent large liability claims, and inform the relevant authorities so they can take action accordingly.
- Use technological measures to make it more difficult to counterfeit your products and to enable Customs or other authorities to recognize your products. Use covert authentication methods such as devices that are easily recognizable with x-ray.
- Coordinate and work together with the authorities in the countries of production, transit and destination.
- Be consistent and vigorous, regardless of the size of the infringer and infringement. [WTR](#)

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