

Fighting counterfeiting: Importance of enforcement of intellectual property rights

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Abstract. Counterfeiting has currently been labelled as the crime of the twenty-first century. It has evolved into a much more lucrative business in very sophisticated ways. While there are many contributing factors to the proliferation of counterfeiting in recent years, the only real area where the government can make a difference is in setting up a responsive legal system that includes good enforcement. The aim of this paper is to examine the scale of counterfeiting activity derived from the seizure data issued by the World Customs Organization, emphasizing on the worldwide scenario. This is followed by examination on the motivations behind counterfeiting activity to identify gap in the existing enforcement mechanisms so that recommendations can be made to improve the competency of those mechanisms to address counterfeiting. The paper then critically examines and relates the reasons of why effective enforcement is necessary in the fight against counterfeiting.

1. Introduction

Many dictionaries associate the general meaning of counterfeiting with something that is forged, copied or imitated for the purpose of deceiving or defrauding. In Black's Law Dictionary, for example, "to counterfeit" is described as "to unlawfully forge, copy or imitate an item or to possess such an item without authorization and with intent to deceive or defraud by presenting the item as genuine"¹ while in Collins Dictionary,

¹ Garner, B.A. et al. (2009). *Black's Law Dictionary*. 9th ed. USA: West Group, p.402-403.

“counterfeit” is referred to as “made in imitation of something genuine with the intent to deceive or defraud”². In the context of intellectual property (IP), ‘counterfeiting’ usually refers to the “unauthorized reproduction of goods that is identical with or substantially indistinguishable from the genuine product which infringe the rights of IP proprietors”³.

Based on these definitions, it can be said that counterfeiting includes the unauthorized use of a protected trademark which is falsely presented as the genuine product. It also occurs when there is an infringement of registered trademarks. These goods are not manufactured by or on behalf of the owner of the trademark, but are traded to ordinary consumers in a form intended to be indistinguishable from the genuine products. In this regard, counterfeiting may therefore exist either in the physical product itself or the trademark attached to the product or both.

1.1 The Scale of Trademark Counterfeiting

Most studies of counterfeiting seem to suggest that the proliferation of counterfeiting activities is rampant in most countries across the world. In this study, the data used is mainly based on seizures by customs or enforcement agencies to identify trends in the development of counterfeiting phenomena. It must be noted that the data might be affected by level of notification, possibly rendering them incomplete because the customs do not measure items which escape seizure. However, it is argued that, although the selection of data is not exhaustive, it does cover the most important and relevant issues for the purpose of examining the scope and extent of counterfeiting problems in this study.

From the data gathered, the trends in counterfeiting activities in recent years can be summarized as in Table 1, which shows the outcome of counterfeiting and piracy seizures on an international level reported by the World Customs Organization (WCO)⁴. The data is based on the results submitted by members world-wide to the Customs Enforcement Network (CEN), a reporting framework developed by customs agencies through the WCO. For the 2008 and 2010 reports, 66 and 70 member countries submitted details of their activities in the respective years to the WCO although they were not obligated by law to do so. The reports were then filtered and the WCO only considered those seizures involving at least 50 articles and/or €10,000 authentic market value in any individual case in order to maintain the balance and consistency of all data in the report⁵. This means that seizures involving less than 50 articles were not taken into account.

Based on this report, the regional pattern of seizures in 2007 and 2008 indicates that the Regional Intelligence Liaison Offices (RILO) for the Western Europe region was well ahead of other regions, while North America was ahead of other regions in 2010 and 2011. The WCO also claimed that these four regions were responsible for 93% - 94% of seizures reported to the CEN in 2008 and 2010 respectively⁶. Within the four

² Hanks, P. et al. (1986). *Collins Dictionary of the English Language*. 2nd ed. London: Collins, p.357.

³ Blakeney, M., The Phenomenon of Counterfeiting and Piracy in the EU: Factual Overview and Legal and Institutional Framework, in Vrins, O. and Schneider, M. (eds). (2006). *Enforcement of Intellectual Property Rights through Border Measures: Law and Practice in the EU*. Oxford: Oxford University Press, p.4.

⁴ WCO Customs and IPR Reports 2008 – 2011, available at: <http://www.wcoomd.org/en/topics/enforcement-and-compliance/activities-and-programmes/ep_intellectual_property_rights.aspx>.

⁵ Ibid.

⁶ Ibid.

years period, it can be inferred that counterfeiting and piracy activities generally were still increasing in most of the regions examined, or at least that Customs detection and intervention was increasing.

It is argued that, the results from the above data generally appear to be consistent with most previous literatures, which also claimed that counterfeiting phenomenon is growing and expanding either in scope, scale or complexity, and that it is affecting almost all countries across the world⁷. This finding, while tentative, suggests that the problem of counterfeiting will continue to increase for a relatively long period, and therefore should be considered as a serious problem that needs to be addressed. The uniform and widely-held view on this issue implicitly confirms the value of IP in driving the economic growth of a country⁸.

Table 1: Data on the Scale of Counterfeiting and Piracy from the WCO

Reports	No. of cases (2007)	No. of cases (2008)	No. of cases (2009)	No. of cases (2010)	No. of cases (2011)
WCO Regional Intelligence Liaison Offices (RILO) Region					
Western Europe	4,963	6,615	7,066	6,744	6,281
North America	0	4,021	8,653	10,950	9,762
Asia/Pacific	1,407	1,810	3,527	6,084	1,212
CIS Region	51	459	199	178	362
Eastern & Central Europe	1,615	1,641	1,161	886	693
South America	265	259	475	194	219
Eastern & Southern Africa	33	79	25	245	24
Middle East	15	49	825	1,232	1,992
North Africa	65	44	4	20	76
West Africa	2	4	5	1	0
Total	8,416	14,981	21,940	27,606	20,932

The range of product categories that have been counterfeited has also shifted, from luxury goods as practiced a few decades ago to all kinds of consumer goods including not only software, music, spare parts for vehicles and aircraft⁹, cosmetics, razor blades, washing powder or clothes, but also food and pharmaceuticals. Ultimately, this kind of practice has significant adverse effects and is no longer simply a problem for trademark

⁷ See for example Chaudhry, P. & Zimmerman, A. (2009). *The Economics of Counterfeit Trade: Governments, Consumers, Pirates and IPRs*. Berlin: Springer, p.11; Rosler, H. (2006). Anti-counterfeiting in online auctions from the perspective of consumers' interests, *International Review of Intellectual Property and Competition Law* 37(7)771-778, p.772.

⁸ See for example discussions in Mengistie, G. (2010). Intellectual Property as a Tool for Development: The Ethiopian Fine Coffee Designations and Trade Marking and Licensing Experience. *International Trade Law & Regulation* 16(1) 8-10; Bird, R.C., IP Enforcement in a Global Economy: Lessons from the BRIC Nations' in Yueh, L. (ed). (2009). *The Law and Economics of Globalisation: New Challenges for A World In Flux*. Cheltenham: Edward Elgar Publishing Limited.

⁹ See for example US Immigration and Customs Enforcement, '2 Miami-based aircraft parts suppliers plead guilty in procurement fraud scheme, 4 others previously convicted for their roles in counterfeit airplane parts scheme', News Releases, 12/04/2010, <<http://www.ice.gov/news/releases /1004/100412miami.htm>> accessed 28/03/2012.

owners, but also for consumers and national economies as well as for public safety and health¹⁰.

1.2 The Motivation behind Counterfeiting Activity

In order to examine the existing legal enforcement measures for fighting counterfeiting and to assess their adequacy, it is essential to explore and understand first the driving factors behind counterfeiting activity. This is important in identifying any gaps in enforcement mechanisms so that improvements can be made to ensure that they are suitable for addressing the counterfeiting problem.

Commentators have identified several motivating factors for the production and consumption of counterfeit products¹¹, and it can be said that all these factors are in fact interrelated. Among the most prominent contributing factors include:

- a) high profit with low risk of criminal sanction compared to other crimes;
- b) the weaknesses in the current legal system, including inappropriate legislation, ineffective enforcement, non-deterrent penalties or a complete absence of laws; and
- c) the globalization of businesses.

High profits and ineffective legal enforcement become the prime motives and the most obvious reasons for the growth of counterfeiting because counterfeiters take every opportunity to gain quick and huge profits from this trade. It was revealed that the enormous profit margins from counterfeiting are so convincing, and sometimes might even match or exceed those from drug trafficking, that it even attracts other forms of organized crime to move into this trade¹².

Compared to other type of crimes, the nature of counterfeiting offences is also considered as having a low risk of penalties. For example, counterfeiting offences in Malaysia are punishable with criminal sanctions under the Trade Description Act (TDA) 1972 and the Consumer Protection Act (CPA) 1999 for a maximum fine of RM250,000 for group offenders and up to RM100,000 for each individual, or imprisonment not exceeding 3 years, or both¹³. In contrast, for some drug-related offenses, offenders can be punished either with life imprisonment or the death penalty¹⁴. It is obvious here that such a gap between huge profits with relatively low risks of penalty would certainly attract those involved in illegal activities to engage in this kind

¹⁰ Benczek, A. (2003). EU: IP - Recent Initiatives at EU Level against Counterfeiting and Piracy. *European Intellectual Property Review* 25(8)126-128, p.126; Vagg, J. and Harris, J.(2000). False Profits: Why Product Counterfeiting is Increasing. *European Journal on Criminal Policy and Research* 8(1)107-115.

¹¹ Avery, P. et al. (2008). *The Economic Impact of Counterfeiting and Piracy*. Paris: OECD Publishing, p.46-59; Breitzkreuz, G., 'Counterfeit Goods in Canada – A Threat to Public Safety', (Report of the Standing Committee on Public Safety and National Security, 1st. session of 39th Parliament, May 2007), p.9.

¹² Chaudhry, P.E. & Walsh, M.G. (1996). An Assessment of the Impact of Counterfeiting in International Markets: The Piracy Paradox Persists. *Columbia Journal of World Business* 3(31) 34-48, p.37; Hetzer, W. (2002). Godfathers and Pirates: Counterfeiting and Organized Crime. *European Journal of Crime, Criminal Law and Criminal Justice* 10(4) 303-320, p.303.

¹³ TDA 1972, ss.18(1) and (2); CPA 1999, ss.25(1) and (2).

¹⁴ Malaysian Dangerous Drugs Act 1952, s.39B(2).

of business. If no effective measures are taken by the authorities, it is not surprising if counterfeiting will continuously be on the rise.

Associated with the above factor is the weakness in the current IP legal system. It is argued that these weaknesses do not necessarily stem from a lack of existing substantive law or the complete absence of law, but might relate to how the law is enforced¹⁵. Thus, effective IP legal system requires both the enactment of IP legislation as well as the effective enforcement of rights. Otherwise, professional counterfeiters will take advantage to avoid prosecution and will exploit legal loopholes and inaction on the part of the authorities wherever they operate¹⁶ which then allows them to flourish in particular areas.

In addition to the above factors, the globalization of business has also facilitated the development in counterfeiting trade. Counterfeiters for example, manipulate the advantages of free trade zones and free ports as safe venues for the “trans-shipment” of counterfeit goods¹⁷. By operating across international borders, it has become common to find manufacturers in this trade in one country, distributors in another and sellers in yet another in an effort to confuse the authorities tracking their activities.

Returning to the question posed at the beginning of this section, it is now possible to state that all of the above factors have combined to form a good platform for the growth of the counterfeiting industry across the world. Since there is direct relationship between the strength of the enforcement regime and the prevalence of counterfeiting activities as discussed above, more attention and priority should be given by governments to this matter. Therefore, it can be said that the stronger the enforcement, the less likelihood there is of counterfeit goods to be on the market.

2. What is enforcement?

It is first necessary to consider the meaning of enforcement to establish why this element is important in combating counterfeiting. Generally, the word *enforcement* means “the act or process of compelling compliance with a law, mandate, command, decree or agreement”¹⁸. In compelling compliance, enforcement is often equated with prosecution, a formal legal process in which a court imposes a sanction for violating the law¹⁹.

It is argued, however, that this process is not necessarily subject to formal procedure alone such as by commencing civil or criminal proceedings with a view to, amongst others, ceasing an unlawful activity or claiming compensation for harm done. It may also include informal techniques such as the education of consumers, advice, and negotiation settlement.

In fact, some commentators argue that inducing compliance by negotiation involves elements of exchange between the inspector and firm, and it is motivated by cost-

¹⁵ Treverton, G.F. et al. (2009). *Film Piracy, Organized Crime, and Terrorism*. Santa Monica: RAND Corporation, p.129-130; Chaudhry and Zimmerman, (n.7), p.24-25; Avery, P. et al., (n.11), p.16.

¹⁶ Union des Fabricants. (2004). *Counterfeiting and Organized Crime Report*. Paris: Union des Fabricants, p.7.

¹⁷ Ibid, p.8; Chaudhry & Zimmerman, (n.7), p.21.

¹⁸ Garner, B.A. et al. (n.1), p.608.

¹⁹ Abbot, C. (2009). *Enforcing Pollution Control Regulation: Strengthening Sanctions and Improving Deterrence*. Oxford: Hart, p.9.

savings to each party from not going to court²⁰. It is best characterized in terms of an “enforcement game/game theory” where strategic bargaining and bargaining power play crucial roles. What the enforcement official must do is persuade the offender that compliance is the cheapest and most convenient course of action, whereas it will be in the offender’s self-interest to persuade the official that compliance is unfeasible or extremely costly²¹.

All formal and informal approaches are therefore considered important in the process of enforcement as long as compliance can be achieved and endorsed by the parties in dispute. Colston and Galloway, for example, state that enforcement is a product of the combined effect of rules of evidence, procedure, litigation, remedies, criminal offences and systems of alternative dispute resolution²². This means that, whatever the form of legal rules, compliance must be induced by some means; the law must be enforced if it is to have any impact. Legal rules and their enforcement shape the incentives and deterrents that attempt to alter the behaviour of those regulated and induce compliance with the law. In this regard, we can say that law enforcement is a society’s formal attempt to obtain compliance with the established rules, regulations and law of that society. In the context of IPRs, all these methods could be used to prevent the infringement of conferred rights or obtain remedies for infringement²³.

3. Why Enforcement of IP Rights (IPRs) Important?

The World Intellectual Property Organization (WIPO), an agency responsible for the promotion of the protection of IP throughout the world, stresses that the IP protection system is only worthwhile if the right-owners are capable of effectively enforcing their rights, particularly in a world where the infringement of protected rights has accelerated to a hitherto unprecedented extent²⁴. This means that they must be able to take action against infringers, not only to recover the losses incurred, but also to call on the state authorities to deal with counterfeiters to prevent further infringement. Otherwise, an IP system will have no value²⁵.

In this respect, the reasons why enforcement of IPRs is important may be classified into three:

- a) reinforce the meaning of law;
- b) damage caused by counterfeiting; and
- c) are there deficiencies in the current law relating to counterfeiting?

3.1 Reinforce the Meaning of Law

²⁰ Veljanovski, C.G., ‘The Economics of Regulatory Enforcement, in Hawkins, K. and Thomas, J.M. (1984). *Enforcing Regulation*. Boston: Kluwer-Nijhoff, p.179; Phillips, J. (2007). How to Win at Monopoly: Applying Game Theory to the Enforcement of IPRs. *Journal of Intellectual Property Law & Practice* 2(8) 540-552, p.542-543.

²¹ Ibid.

²² Colston, C. & Galloway, J. (2010). *Modern IP Law*. 3rd ed. Oxon: Routledge, p.775.

²³ Mohamed, K. (2012). *Trademark Counterfeiting: Comparative Legal Analysis on Enforcement within Malaysia and the United Kingdom and at Their Borders*, PhD Thesis, Newcastle University, United Kingdom.

²⁴ WIPO, *WIPO IP Handbook: Policy, Law and Use*, (2nd ed., WIPO 2004), p.207, available at: <<http://www.wipo.int/export/sites/www/about-ip/en/iprm/pdf/ch4.pdf>> .

²⁵ Ibid. See also Matthews, D. (2010). The Lisbon Treaty, Trade Agreements and the Enforcement of IPRs. *European Intellectual Property Review* 32(3) 104-112, p.104.

An efficient IP system must have three elements: appropriate legislation, management mechanisms and enforcement²⁶. Appropriate legislation provides for a sufficient level of protection in the form of exclusive rights which cover various forms of exploitation of the protected subject matter. Management mechanisms for IP usually consist of IP or industrial property offices and their operations for the registration of rights. Enforcement is the system of sanctions applied in case the rights offered under the IP law are infringed, thus assuring that the rights are respected²⁷.

These three elements are consistent with the characteristics of a law as offered by Hart in *The Concept of Law*²⁸. According to Hart, law is marked by three essential characteristics:

- i) In any system of laws, there will be both primary and secondary rules. The primary rules will be directed to everyone falling under the law's jurisdiction and will describe the rules of conduct prescribed by law. These laws will be validated by secondary rules of three types; 'rules of recognition', 'rules of change' and 'rules of adjudication';
- ii) A system of rules can properly be called a legal system only if its rules are systematically enforced and generally obeyed;
- iii) At least some of the officials responsible for administering the system must voluntarily accept that the law is binding on themselves and others over whom the law claims authority. [It is suggested here that the presence of corruption would undermine obedience to the rules. Even a reluctance to investigate or take action in the face of more pressing calls on resources may result in sub-optimal enforcement.²⁹]

It is clear that, to give meaning to a law, it must be enforced so that the existence of the law will provide the benefits expected by the society. Any law will only be meaningful if it is respected by and can be imposed upon society. Indeed, people in any society create rules and regulations on how to conduct themselves in a manner accepted by the majority of the population.

In terms of social life, the purpose of law is supposed to be for the protection of society. Law is used as a guideline to facilitate social order so that people may live and interact in an organized and harmonious way³⁰. This means that, if the rules or laws are violated, the wrongdoer must be charged or punished accordingly to enforce obedience. In fact, "enforceability" is one of the important features that must exist to give meaning to a law. Otherwise, no matter how good the idea in principle is, any law will become meaningless if it is impossible to enforce. Bentham, for example, said that, "laws which impose no obligations or sanctions are not *complete laws* but merely parts of laws"³¹.

In terms of protecting IPRs, enforcement is believed to be one of the effective solutions to deal with the infringement issues and in particular to address counterfeiting problems. In terms of the "game theory/enforcement game" referred above, it is argued

²⁶ Vandoren, P. & Martins, P.V., 'The Enforcement of IPRs: An EU Perspective of a Global Question', in Pugatch, M.P. (ed). (2006). *The IP Debate: Perspectives from Law, Economics and Political Economy*. Cheltenham: Edward Elgar Publishing Limited, p.74.

²⁷ See 1.2 above on the weaknesses in the current legal system.

²⁸ Hart, H.L.A., *The Concept of Law*, (Oxford 1961), cited in Cragg, W., *Practice of Punishment: Towards a Theory of Restorative Justice*, (Routledge 1992), p.67.

²⁹ Mohamed, K. PhD Thesis. (n.23 above).

³⁰ See for example Williams, G. (2006). *Learning the Law*. 13th ed.. London: Sweet & Maxwell, p.2.

³¹ Wacks, R. (2005). *Understanding Jurisprudence: An Introduction to Legal Theory*. Oxford: Oxford University Press, p.57.

that effective enforcement will increase the counterfeiters' cost of doing business, thus reducing the motivation to produce the products and making it harder for consumers to find and purchase them³².

In this regard, it is argued that a reduction in the supply of counterfeits would cause an increase in demand for genuine products and perhaps encourage producers of high-end products (with medium to long commercial life) to provide consumers with an extended range of choice. The incentive to innovate may also enable producers to offer goods with cheaper prices as an alternative for consumers³³. Indeed, there is also suggestion that efforts to strengthen IP enforcement regimes should not be viewed only as protecting the legitimate interests of rights-holders and the health, safety and expectations of consumers, but also as long-term investments for the purpose of economic development and society³⁴.

3.2 Damage Caused by Counterfeiting

Apart from reinforcing the meaning of law, the importance of enforcement of IPRs must also be viewed in terms of damage done by counterfeiting. Several studies have found that other than serious impacts on legitimate businesses, in an inter-connected economy, counterfeiting could also lead to negative consequences for the social, political and economic conditions of an entire country³⁵.

The economic impact can be classified as either direct or indirect. Rights-holders will experience a direct impact where counterfeiting could undermine the competitiveness of businesses and cause economic damage to industries through the loss of profit and deterioration of the quality and value of the trademark³⁶. This leads to a significant indirect impact when counterfeiting could also possibly destroy honest jobs, thus affecting the revenues of governments, foreign investment, trade and innovation and threatening the health and safety of consumers³⁷.

Its adverse effects on individuals and society as a whole requires a serious enforcement mechanism to be implemented to prevent anticipated greater harm in the future. It is recommended that, the precautionary principle³⁸ as practiced in most enforcement regulations in environmental law should highly be considered in the context of IP matters. This can be done using the existing legal provisions with certain improvements if necessary, such as precautionary seizures of the asset of suspected counterfeiters or by increasing criminal penalties or banning the use of certain ingredients identified as being used in counterfeit food, cosmetic or medicinal products, for instance.

³² See n. 20 above.

³³ Mohamed, K. PhD Thesis. (n.23 above).

³⁴ Business Action to Stop Counterfeiting and Piracy (BASCAP), 'The Impact of Counterfeiting on Governments and Consumers', (Executive Summary Report, May 2009), Frontier Economics Ltd. London, p.3.

³⁵ Ibid, Union des Fabricants, (n.16), p.5.

³⁶ Daele, K. (2004). Regulation 1383/2003: A New Step in the Fight against Counterfeit and Pirated Goods at the Borders of the EU. *European Intellectual Property Review* 26(5) 214-225, p.214; Nia, A. and Zaichkowsky, J.L. (2000). Do Counterfeits Devalue the Ownership of Luxury Brands? *Journal of Product and Brand Management* 9(7) 485-497, p.485.

³⁷ Ibid.

³⁸ See for example *Sara Lee Meats Europe BV v Ladyberg SpA* [2006] *ETMR* 87, para 23 where injunction was granted by the court as precautionary measure for future infringement.

3.3 Are there Deficiencies in the Current Law?

In addition, the need for enforcement is also closely linked to the question of whether or not there are deficiencies in the existing substantive law relating to counterfeiting. In this respect, the main difficulty in the fight against counterfeiting as identified from the evidence gathered thus far is not entirely found in the substantive law, but rather in the means available to and willingness of enforcement agents to apply the law strictly and efficiently. Indeed, as discussed earlier, sufficient and effective enforcement has been rated as the highest option that would yield the best result in curbing counterfeiting activities³⁹.

4. Conclusion

It is understood that enforcement is a process to compel compliance by using formal and informal approaches that range from a prosecution process at court to conciliation arrangements. This paper has identified that the substantive legal provisions in protecting IPRs do not necessarily determine the competency in fighting counterfeiting problems, but the concern is about the capability of the enforcement authorities to enforce such rights.

It is therefore argued that, while appropriate legislation and management mechanisms must exist in any IP system, enforcement is a key factor determining the efficiency of such system. In this respect, although if national IP laws are in place and correspondingly conform to international standards, continuous efforts in enforcement initiatives at the national level are still required to effectively protect both foreign and local investors' IPRs and interest.

For this purpose, and especially in terms of matters involving policy changes, obtaining the political commitment to address these issues is also crucial in ensuring the effectiveness of the law being implemented. It is also recommended that, joint efforts by government agencies and industries may facilitate the identification of weaknesses in enforcement efforts and thus enhance the effectiveness of the fight against counterfeiting.

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³⁹ See the discussion at 1.2 above on The Motivation behind Counterfeiting Activity.