



# Brand enforcement strategy; public and private enforcement considerations

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**A**s far as governments are concerned the enforcement of IP rights has to compete with other higher priorities and therefore there is a constant struggle to allocate adequate publicly held resources to the problem. It should also be stressed that the rights being protected are privately held rights. It is therefore time to focus on this private aspect of enforcement for the well known brands. The debate should be to what extent should governments support complement the enforcement of such rights. REACT has always viewed this as an important public-private partnership, but increasingly that partnership is becoming polarised and the strategies divided.

## **General development in anti counterfeiting remedies**

The spectrum of enforcement measures to fight counterfeiting of trademarks has increased significantly since the introduction of the GATT treaty in 1986. Businesses, supported by governments are nowadays able to stop and seize counterfeited goods at the borders, on the internet and inland: in marketplaces, in shops, in warehouses and factories.

The creation of this anti counterfeiting service industry started off mostly in the US and Western Europe in the 1990s followed by Eastern Europe and more recently by impressive developments in Asia. Particularly in China, considered by all brands as the prime market to be protected, the investments in anti counterfeiting remedies have been massive.

More recently, the Latin American countries have introduced legal remedies and many anti counterfeiting experts found new employment in this region as well. Many countries in Africa and Central Asia are showing positive signs of reforming their laws and introducing remedies; so equivalent activity is expected in those regions in the future.

It is however not all positive for the anti counterfeiting industry. In past years we see a change in government's support, mainly in Europe. Most obvious example is the rejection of the Anti Counterfeiting Trade Agreement by the European Parliament in 2012.

Not only at a central government level, rights owners may have experienced reduced interest in their issues, also at a local level, they are often confronted with customs officials who are reluctant or hesitant to intercede in protecting

their rights and police officers prioritizing other crimes. The economic crisis in Europe is obviously a contributory factor resulting in governmental budget cuts as well as the strong movement for a free Internet. Whereas the momentum towards effective enforcement by European authorities has been dissipated, authorities in other continents like Asia and Latin America have proved to be unreliable and inconsistent in their support for enforcement of intellectual property rights.

Rightly or wrongly, brands need to face these developments and evaluate even more carefully how the various enforcement mechanisms work in practice when building their IP strategies. In the current climate in our view it is certainly not advisable for businesses to place too much reliance on public enforcement capabilities, rather they should consider how to build more private legal remedies into their strategies.

Counterfeiting confronts nearly all brand owners and despite the huge growth of anti counterfeiting services, the trade in fake products has not declined significantly. On the contrary, counterfeiting is no longer confined to prestigious consumer brands that focus on protecting their product integrity, high levels of quality and relatively high net margin. The low cost production model in Asia has enabled copies to be made of virtually any type of product.

This coupled with the rapid expansion of Internet auction sites provides ready access to a huge global market to purchase cheap plausible and increasingly high quality counterfeit goods. This new trade makes it attractive for counterfeiters; hence the flow of fake goods all over the world has been achieved at extremely low cost with the result that almost all popular goods are under threat from copying. The counterfeiting industry has become a dangerous phenomenon and the more we let it grow, the more difficult it is becoming to address.

## **How to build an effective strategy to prevent or repress counterfeiting**

When products are being counterfeited, each IP rights owner wishes to take action at the earliest stage possible to prevent damage to its sales and its reputation. Requesting governmental authorities to protect your IP rights is often ineffective. A robust anti counterfeiting strategy can

however, be developed based on private preventive and repressive measures.

Before the problem even occurs, steps need to be taken by the rights holders to enable swift and effective anti counterfeiting measures. First of all by identifying the products at risk and provide these products with unique features to distinguish them from fakes. This could be a security device but just as well a unique coding. Secondly, consider the trademark portfolio in key markets; meaning those where you generate a substantial part of your revenues and those you want to develop over time. Thirdly, make sure you have your own supply chain secured and your suppliers can be verified at all stages in the distribution channel. The latter requires sound contractual arrangements and built-in control mechanisms.

### **The internet**

The internet has facilitated the trade in counterfeited goods, but is equally helpful to trace and combat it. Almost all the trade is nowadays visible somewhere on the internet. By consistently monitoring the internet for suspected offers for sale and the abuse of your brands, actions can be taken to prevent further damage. Despite the free bits movements and their political support, most courts support rights owners in their enforcement actions on the internet. Furthermore, internet service providers like auction platforms, host ISP's and social media platforms, tend to provide support to rights owners.

Unlike European Parliament members and the Pirate party supporters, the ISP's mostly care about their users/consumers and do not want them to be deceived by counterfeited goods. Possible Internet related anti counterfeiting remedies include, the removal of auctions and webshops offering fakes. With a sophisticated internet search mechanism, clusters of trade in fake goods can be discovered and removed, therefore making the web a more difficult platform for offering fake goods. Civil remedies to recover damages should be considered to target major sellers.

The results of this exercise largely depend on the reliability of the data collected by the ISP's regarding the traders. Taobao, for example, the world's biggest auction platform, provides fairly reliable data and hence, civil litigations against important sellers of fake goods on Taobao can be recommended. Other platforms however are much less strict.

Unfortunately, commercial traders on the internet do not have to comply with the usual trade rules imposed on each business operating in conventional trade. An improved control of registration of businesses using the internet to trade goods is where government intervention might be more effective in the future. Such a development would assist rights owners in enforcing their rights and protect consumers against fraud.

### **The borders**

Nowadays counterfeit trade in Europe, Asia and North America is mostly done through e-commerce, particularly for light weight consumer products. Whilst in Europe 40

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foot maritime containers full of goods is a declining trend, this is still the usual means of operation in Africa and Latin America. In other continents, the goods are mostly distributed through drop shipment, ordered on the internet and delivered by post/courier. In our view border protection procedures are not (yet) adapted to this new situation with high numbers of small consignments being the dominant theme. Customs authorities do not have the capacity to intensify their inspections to that extent, and rights owners find the increase in cases too much of a burden for their legal budgets.

In the revised EU Regulation 608/2013 which entered into force 1 January 2014, a specific procedure for small consignments was introduced with the objective to facilitate the interceptions of the small consignments. This procedure is unlikely to work because the rights owners are excluded from this procedure and vital information stemming from it, but they do have to pay the storage and destruction costs. Moreover, this procedure is questionable from a trademark law perspective because the authorities granted themselves the powers which are derived from the exclusive rights of trademark owners.

An effective practical solution was found in the Coventry, UK postal hub, whereby all the parcels destined for the UK between 2 and 30 kg are inspected with the support of the rights owners. At very low costs the rights owners managed to support the customs authorities in the interception of over 30,000 parcels containing fake goods yearly. This innovative procedure has achieved excellent results and has the potential for application by other European countries. Many consumers who have been deceived by counterfeiters are now being protected in this way. Unfortunately, the authorities in other EU countries have not so far shown sufficient flexibility in their approach to adopt this excellent way of working.

The Coventry example is embodied by partnership and is a good example of where combined public and private enforcement efforts can be effective. Unfortunately, as with the new EU regulation, enforcement in some other countries is becoming more polarised and compartmentalised. The spirit of the TRIPS Agreement always embodied this twin-track public private balanced approach – let's see if this current adverse trend towards separation can be reversed!

Following the Coventry example would be an enormous step forward in border protection. By ensuring rights owners can add value to border inspections procedures, the authorities will be less dependent on their finite human resources and

competition from other important priorities, such as illegal drugs, firearms, prohibited items and smuggled tobacco.

In TRIPS the role of customs authorities has always been to suspend the release of suspected goods and supervise the inspections of the consignments. It has always been the case that their actions can never be fully effective at the border without the active support of rights owners. Nowhere is this put to the test quite as graphically as in a busy international mail sorting office.

### **Inland enforcement**

Strong civil enforcement remedies which go beyond the usual civil claims, such as the detention of fakes, disclosure of supply chains, the freezing of asset and demands for damage compensation are readily available in the most important markets. Although intervention through public enforcement may not be absolutely necessary, in reality private enforcement becomes extremely expensive and unrealistic, especially when rights owners need to pursue multiple infringements. Not many rights owners may be able to sustain such a strategy over a sustained period. From a consumer protection point of view, it makes sense that market inspectors and economic police officers are empowered to take action and intervene.

Just as in the Coventry international mail example, in order for this inland scheme of control to work effectively, support from rights is absolutely essential. Rights owners can add logistical support and be ready to institute legal proceedings in appropriate cases. Such a public-private partnership is appropriate and facilitates a fast practical response to counterfeiting. The twin objectives of this approach being:

a) to prevent counterfeits from entering the consumer market, and;

b) to prevent governmental resources from being stretched to unrealistic levels.

### **Conclusion**

Private intellectual property enforcement is becoming increasingly relevant since governments are tending to allocate fewer resources to this problem. This situation can however be ameliorated if rights owners take steps to protect their own supply chains and provide logistical support to supplement public enforcement resources. This partnership approach requires excellent communication between the parties and the valuable public and private resources must be managed carefully and deployed strategically.

In this way public private partnerships may create opportunities for a stronger enforcement at lower cost for governments. For this approach to work effectively governmental authorities need to be open-minded and flexible in their approach. They must also be able to trust brand owners and be ready to establish formal public private partnerships.

This will require governments to impose the common registration requirements for commercial operations on the internet, enable rights owners to cooperate with the inspection of suspected parcels at the borders, take the consumer protection role seriously and intervene at outlets when there is evidence that consumers are being deceived. In this way, counterfeiting can be combated at each stage in the distribution process in an effective and low cost manner. ■