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Effective Measures For Curbing Counterfeiting and Piracy in Online Transactions

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OUR COVER

The only constant in technology is change. To change, to improve, with the leaps and bounds in tech can define success for any institution.

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EFFECTIVE MEASURES

FOR CURBING COUNTERFEITING AND PIRACY IN ONLINE TRANSACTIONS

BY DORIS ESTELLE LONG

There is little doubt that the development of a global digital marketplace has been a boon to business. Small companies and large multinationals alike can sell their goods and services to an international audience without the need for expensive bricks and mortar offices, billboards or any other physical structures. Yet, as everyone knows, with such great opportunity always comes counterbalancing risks. For those engaged in online transactions, one of the most daunting risks is the seemingly ungovernable ability of pirates and counterfeiters to take advantage of those same business opportunities. Fortunately, there are steps businesses and countries can take to reduce that risk.

One of the most difficult aspects of regulating e-commerce is the dual nature of piracy. On one hand are copyright pirates who can provide their illegal goods in digital format so that traditional methods for tracking and seizing their goods are relatively ineffective. On the other hand are trademark counterfeiters who must deliver their goods in physical format to online customers. Hard goods undoubtedly provide opportunities for shutting down the Pirate Chain that do not presently exist for digital goods. But both present the same problem with regard to the pivotal role that websites play in supporting their illegal distribution.

Combating Pirate Websites

Online pirates and counterfeiters often create their own mirror or spoof sites to sell their illegal goods. **The best way at present to combat these sites is through routine online audits and affirmative steps to remove them. You should also reserve domain names (DNs) containing your company's most critical marks.** DN registrations will deny others the ability to create sites that confuse consumers into believing they are buying your goods. You should also conduct periodic DN and website audits to spot sites that may be using misspellings or other typographical



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errors to misdirect consumers. For example, if your DN is dorislong.com.ph, a pirate may register such variations as doris_long.com.ph or dorisslong.com.ph. These registrations should be immediately challenged. The World Intellectual Property Organization provides online dispute resolution services for DNs containing the .ph country code. More information, including model complaints can be found at www.wipo.int/amc/en/domains/cctld/ph/index.html.

Online pirates and counterfeiters often use third party websites, such as Lazada, as a third party platform to sell their illegal goods. **Many countries, including the U.S. have laws that require removal of pirated material upon notice from the copyright**

owner. Even in those countries where no such special laws exist, providing information demonstrating your ownership of the contested copyright or trademark in question, along with specification of the location on the website of the illegal material and a demand for its removal, often results in its takedown. If it does not, then you have arguably provided a basis for a claim of willful copyright or trademark infringement under local laws. The best way to locate a website owner's identity is through the WHOIS Database located at www.whois.dot.ph.

The Special Problem of Foreign Pirate Sites

Most pirates and counterfeiters operate outside national boundaries yet domestic courts generally have limited abilities to exercise power over foreign-based servers and webhosts. **But even on the internet there are physical points of attachment that can be the basis for domestic protection when foreign pirate sites are involved.**

End users are the easiest point of attachment because they are always downloading pirate content or ordering delivery of illegal goods.

For example, in the U.K., courts have ordered technological blocks to prevent domestic end users from accessing Pirate Bay and other foreign pirate websites based on the evidence of the illegal downloading of pirated materials by UK-based end users. In the U.S., end users prevented the dismissal of a criminal indictment against Artem Vaulin, the owner/operator of KickAss Torrent. In *U.S. v. Vaulin*, the court rejected Vaulin's attempt to have the indictment dismissed for lack of jurisdiction because he was a Polish resident: "The core theory underlying the indictment is that Vaulin *aided, abetted, and conspired* with users of his network to commit criminal copyright infringement in the United States." This underscores the critical need to include conspiracy and aiding and abetting charges in criminal prosecutions involving online piracy to assure the ability to reach all actors. It also underscores the need to include such potential violations in statutes governing criminal IP violations.

If the size of local end user demand is large enough, there may also be servers or even third party platforms and other webhosts located within the Philippines that can serve as a jurisdictional "hook." In MegaUpload, for example, U.S. prosecutors seized domestic servers located in country as part of their enforcement actions against the foreign pirate site. Even if there are no servers in country, websites with the ".ph" country code can be seized since the domain name itself serves as a "res" or thing located in country. In coordinated attacks U.S. Customs seized over 839 DNS and websites over a period of two years under "Operation Copy Cat." Finally, if counterfeit goods are being distributed in tangible, physical form, there will be distribution centers in country such as importers and delivery services that can provide the necessary jurisdictional nexus for enforcement.

Moving Up the Pirate Chain

Removing pirate sellers from the online market, through takedowns of websites and seizures of illegal materials is a critical step. Unlike hard goods markets, individual sellers on the internet have the potential to reach hundreds, and sometimes thousands, of sellers a day. **But just like the hard goods market, stopping the seller is only the first step. Moving up the Pirate Chain to reach the**

- ▷ BLOCKING TECHNOLOGY HAS PROVEN SO EFFECTIVE IN PREVENTING ACCESS TO WEBSITES, SERVERS AND OTHER FACILITATORS OF ILLEGAL GOODS AND CONTENT, THE RIGHT TO SECURE RAPID INJUNCTIVE RELIEF FOR THESE PURPOSES SHOULD ALSO BE CLEAR.



major distributors and, ultimately, the manufacturers is critical. To put it bluntly, if you end the manufacture of counterfeit goods, the illegal market dries up.

Like most other countries, many counterfeit goods being sold in the Philippines are manufactured in other countries. But their foreign origin does not prevent their removal if law enforcement applies the same investigation and surveillance techniques to track counterfeit goods from the sellers to the distributors, including the importers, who participate in this illegal traffic.

While identification and removal of links in the Pirate Chain is important, the seizure and destruction of illegal goods in a manner that removes them permanently from the distribution chain is equally critical. **But seizures should not be limited to the illegal goods**, it should also include labels, containers, tags, packaging, unbranded items, and any equipment used in the manufacturing processes of the counterfeit goods. In addition, all computers, cell phones, and business records should be seized and searched for identification of further links in the chain and further evidence of the scope of the illegal activity.



Taking the Profit Out of Piracy

For most people, piracy is a choice made because it is perceived to be a low risk, high profit, business opportunity. In addition to consistent enforcement efforts to remove the links in the Pirate Chain, penalties must be consistently imposed. Those **penalties should not only remove any potential profit the defendant might have made from his illegal activities, they must also be high enough to discourage that defendant and others from engaging in future piracy.**

In the U.S., counterfeiting penalties for first time offenders include fines up to \$2,000,000 and/or imprisonment for not more than 10 years. Corporations can be fined up to \$5,000,000 for a first offense. In some countries, such as Mexico, in addition to fines and jail terms, counterfeiters are required to pay restitution to the intellectual property owner. Other countries also impose additional fines and penalties for failure to pay the required taxes on the pirate's illegal income. South Africa recently imposed an obligation of restitution of three times the price paid by the buyer of the counterfeit goods so long as the buyer "cooperated fully" in the successful prosecution of the seller.

Creating Effective Legal Protections for Online Commerce

One of the most significant legal issues policy makers must decide is **the burden placed on service providers and webhosts for the illegal conduct of their end users.** Should such "online service providers"

(OSPs) be given a safe harbor from liability for the illegal actions of those using their services (“end users”)? If so, what conditions should be placed on the grant of such safety?

Some countries, such as China, reject safe harbors and impose joint liability on OSPs for the infringing conduct of third party users and sellers. In its latest Draft E-Commerce Regulation, China obligates both sellers and third party platform providers to remove infringing goods from online websites or face liability. It also requires removal and disabling of links when the platform operator either becomes “aware of an obvious intellectual property infringement committed by a business operator on the platform” or receives notice of an infringement by such business operator.

By contrast, the U.S. provides OSPs a safe harbor from copyright liability. Such safe harbors only apply to infringing material posted by third parties, without selection, editing or other input by the OSP. In addition, the OSP cannot have “actual knowledge” of the infringing nature of the material or be “aware of facts or circumstances from which the infringing activity is apparent.” (17 U.S.C. §512 (c)(1)). Most critically, as part of the “safe harbor bargain,” the OSP must comply with “notice and takedown” procedures (NTDs) for removing infringing content “expeditiously” from the website upon appropriate written notice from the copyright owner or his agent. Such takedown does not require court intervention. (17 U.S.C. § 512(c) (1)). Although the DMCA only applies to copyright liability, many third party platforms, such as Ebay, apply the same notice and takedown obligations to demands for removal of counterfeit goods.

It would also help to have specific laws that oblige DN registrants to provide their true name and address. DN registers should also be prohibited from allowing those who lose a DN through seizure or an adjudicated finding of cybersquatting or infringement from subsequently registering a similar DN. Because

blocking technology has proven so effective in preventing access to websites, servers and other facilitators of illegal goods and content, the right to secure rapid injunctive relief for these purposes should also be clear.

The manufacturers, sellers, and distributors of illegal content are not the only ones who make money out of the sale of counterfeit goods. **There are many indirect participants, such as payment service providers, internet advertisers and internet search engines, who are part of the “pirate money trail.” Preventing them from facilitating piracy would help reduce it.** The U.S. Stop Online Piracy Act (SOPA) obligated such indirect participants to take “technologically feasible and reasonable steps” to prevent provision of their services to pirate websites on receipt of the appropriate notice. Although SOPA was not enacted, many such indirect participants have agreed to work with IP owners to deny services to proven pirate websites.

There are no easy solutions to combatting the scourge of illegal goods in online markets. Concerted pre-planning, active involvement in the enforcement process, and the appropriate laws to allow rapid and effective relief, however, are a good place to start.

About the Author:



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