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Those selling counterfeit goods also win 'gold' at London Olympics

With the sounds of the closing ceremonies ringing in our ears, we are discovering that athletes at the London Olympics are not the only ones "taking home the gold." Even before the opening ceremonies, British customs were busy seizing counterfeit Olympic merchandise across England. Within Westminster alone, at least 10,000 pounds of Olympic knock-offs were seized. The tale of counterfeit Olympic merchandise is an object lesson in steps every trademark owner should consider to reduce enforcement costs.

A recently released report by the U.S. Congress Joint Economic Committee Chairman's Staff, the Casey Report, said three-fourths of the value of counterfeit goods seized in the United States from 2004 to 2009 were goods from China. In 2011 alone, U.S. Customs and Border Protection agents seized at least 24,792 counterfeit goods, representing about $1.1 billion in lost sales. The Casey Report describes a promised Joint Strategic Plan by the Office of the U.S. Intellectual Property Enforcement Coordinator (IPEC) as "an opportunity to improve the protection of intellectual property." While we await IPEC's new plan, there are several steps trademark owners can take now to start reducing the costs of counterfeiting.

As a practical matter, counterfeit goods start at the plant. Although the Summer Olympics were in London, 65 percent of all legitimate Olympic merchandise was manufactured in China. China has been unable to reduce significantly the stream of counterfeit merchandise produced in its factories, even during a period of focused trademark enforcement — the Beijing Summer Olympics. Manufacturing goods in China does not automatically guarantee that counterfeit versions will be readily available. But with China's problematic enforcement record, it undeniably makes it more likely. In selecting manufacturing facilities, the lure of purportedly reduced production costs must be balanced against predictably higher enforcement costs in China and other countries where IP enforcement is lax.

If such reduced costs remain attractive after this calculation, an enforcement plan must be established before the first branded products come off the plant floor. This plan should include trademark registrations in the country of manufacture and in those countries in which counterfeits are most likely to be sold. Registered marks should also be recorded with the relevant customs agencies in each of these countries. Without such registrations, seizure of counterfeit goods becomes problematic at best. Most countries decline to enforce unregistered trademarks, even if the mark is arguably "well-known."

Unfortunately, consumers often see counterfeit goods as a simple economic choice — lower prices for similar goods. Even Egypt's Olympic team admitted to purchasing counterfeit goods simply because they were less expensive. Educational outreaches to consumers advising of differences in quality between legitimate and counterfeit goods are critical to an effective enforcement plan. Consumers often ignore the safety issues involved in purchasing counterfeit goods. They don't realize that counterfeit shampoos can burn the scalp. They don't look inside counterfeit Rolex watches to discover the plastic parts or inside fake luxury purses for poor linings that tear apart easily. Educating consumers regarding the risks involved in purchasing counterfeit goods is one of the most critical, often overlooked steps, in crafting an effective international enforcement plan.

Disposal contingencies for counterfeits should also be created before any seizures occur. The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) does not require countries to destroy counterfeit goods. Article 46 only requires that such goods be "disposed of outside the channels of commerce." (Fortunately, it does require the removal or obliteration of trademarks before any such disposal occurs.) To deal with counterfeit Olympic merchandise, the Southwark Borough Council, overseer of many Olympic venues, established "green" disposal methods.

These methods included distribution of debranded clothing and footwear to African orphanages and providing fake designer purses and DVD cases to police for use in training police dogs to sniff out drugs and other illegal substances. Other counterfeit goods were shredded and recycled. Creating similar in-house disposal programs will meet demands by local authorities for charitable distribution of counterfeit goods when a seizure is made. Advertising such techniques could also provide valuable goodwill among consumers increasingly concerned with social justice and environmental issues.

Despite the global nature of counterfeit enterprises, border control measures remain largely ineffective. Although TRIPS requires the seizure of counterfeit imports, it does not require customs agents to seize goods "in transit." Thus, identified counterfeit goods may remain in a free zone and be shipped onward without violating present international norms. While the United States allows regulation of in-transit shipments, recent attempts to fill this gap internationally have failed. Article 16 of the Anti-Counterfeiting Trade Agreement (ACTA) expressly permitted countries to "adopt or maintain procedures with respect to suspect in-transit goods" that would allow customs authorities to "act upon their own initiative" to suspend and detain "suspect goods." ACTA's collapse places these new standards in jeopardy.

Similarly, the European Union Court of Justice in *Koninklijke Philips Electronics NV* held that European customs could not hold goods in-transit unless there were "indications suggesting that the goods in question will be put on sale in the European Union." Such indications include "a commercial act directed at European Union customers, such as a sale, offer for sale or advertising." Although the court recognized that other factors might allow customs to seize goods in-transit, such as evidence that the goods pose a risk to consumers' health and safety, this narrow reading of customs' ability to impede the forward transit of counterfeit goods to other territories underscores part of the present challenge in reducing global counterfeits.

One reason that counterfeiting remains economically viable is the lack of sufficiently severe penalties for engaging in such activities. Although U.S. law has imposed harsh fines and even criminal penalties for trafficking in counterfeit merchandise that "cause[s] serious bodily injury" (18 U.S.C. §2320(2)), similar provisions are lacking in most countries. Until the economic "benefits" of counterfeiting are removed, trademark owners will have to continue to be creative in their efforts to enforce their rights globally and leave the pursuit of "gold" to those who most deserve it.

GLOBAL IP

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