

Combating Counterfeit Products, Licensing

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How to protect against counterfeiters; what to do when they visit

Some years ago, a well known company found that there were complaints as to quality of certain of its products in Germany. The German distributor on receiving examples of what he thought were gray exports found that they were of poor quality and sent them to England for examination.

The experts identified the goods as counterfeits. Accordingly, legal action was recommended. At that time, proceedings in respect of industrial property infringements were authorized only by a Director who would be required to mention it at a Board Meeting. There was a requirement to have an opinion by counsel as to the chances of success.

All the procedures took a long time, but then actions for industrial property infringements were rare.

The German distributors were urging action, but none followed for some two months and during that time a "Break Out" occurred. A break out is when the market is flooded with counterfeits.

Once there is a break out one has to move very quickly to stop it, and one is thinking in terms of not just one action but many, for one will have to go for the retail shops.

At length, action was commenced and after a few months the import of the counterfeits was abated and the sales stopped. Much damage was done, for the word had gotten out that there were counterfeits in the shops, and the customers were concerned that they might purchase a counterfeit. In a rising market sales of that particular product dropped, and the loss of reputation and consequential damage

continued for the next year, too.

In addition, there was severe loss of goodwill in the trade. The distributor thought the company should have acted much more quickly. Indeed we should have. But we did not know how to deal with counterfeits, and we had to learn the hard way.

We commenced "Back Tracking." Back tracking is the course of going back from retailer to wholesalers to importer and so eventually to source of manufacturer, and in each case being able to prove that the undertaking was handling the spurious products.

In this case we back tracked in one incident to Switzerland, which led to Hong Kong. In the other incident it led to Hong Kong direct. There were two handlers of the counterfeit products in Hong Kong.

We commenced proceedings of an Anton Piller nature in Switzerland. In Hong Kong we obtained an Anton Piller on both handlers, which we executed simultaneously.

From Hong Kong we back tracked to a "Front Company" in Taiwan. A front company is an organization having an office, two or three staff members, and no assets. It is used to buy counterfeit products from manufacturers in Taiwan and sell them onwards. It is the barrier that often prevents back tracking to source of manufacture.

In this situation we did manage to get back to the source of manufacture. There was a slip in disclosure on the documentation so we were lucky. The manufacturer was a company that made similar products for the company, and they decided to make some others of the same brand for their own account but using a trademark only employed for high-quality goods.

LESSONS

Anti-counterfeiting work is a skill of its own, but some of the more important features may be summarized as follows:

- a) Act quickly.
- b) Commence proceedings without bureaucratic formality.
- c) Choose one's litigant — it is not always necessary to sue everyone.
- e) First priority — remove counterfeits from the shops.

Anti-counterfeiting work should be learned, if possible, from others, before one encounters the problem. The course of learning can be very expensive.

These lessons are as valid in 1988 as they were 10 years ago.

ACG — ANTI-COUNTERFEITING GROUP

This association has nearly 100 members comprising companies that are affected or likely to be affected by counterfeits and a few firms of solicitors and others who have expert knowledge in this field. There are also some overseas members.

ACG is governed by a council and has as its permanent secretary a solicitor who is well known in the motor industry, and is the author of a work on consumer law in the motor trade. She has been the secretary since ACG was formed in about 1979.

The broad objective of ACG is practical help to its members. This is achieved largely by pooling experience.

Another objective is law reform, and arising out of that is dealing

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with problems of a quasi-legal nature in various countries.

POOLING EXPERIENCE

Members report on difficulties they encounter. These are usually problems that have arisen outside the U.K.

The reports show among other things who are the lawyers to go to in certain countries (and who not), whether there are suitable inquiry agents and any particular points that have arisen.

ACG has a bank of information on the situation in many countries. If, for example, one has a problem in Korea, one can inquire as to the solicitors recommended. One can also arrange to see a member company that has had practical experience of counterfeiting problems in that country. In some countries, and Taiwan is one, one will also find out that one can sometimes achieve one's objectives by a course other than legal proceedings. This information bank is extremely valuable to newly afflicted companies.

For those who have the information there is yet another source of self help. Front companies' names and addresses change frequently, but what is more difficult is for individual's names, telex and telephone numbers to change. Several ACG members keep data banks of information on companies that have been mixed up in counterfeiting activities, and when a new suspect arises, though the company name is new, his telephone number might have arisen some years previously in a confirmed case.

It is through this method that one was able to settle proceedings very satisfactorily in Vienna, where there was a threatened break out.

LAW REFORM

ACG has been very active. The first notable example was with the Rank Case (*Rank Film Distributors v. Video Information Centre*, [1981] 2 WLR 688). This case, which was finally adjudicated by the House of Lords on 8 April 1981, held that the defendant in an Anton Piller action was entitled to refrain from giving information to the plaintiff if to do

so would be likely to incriminate him. This had the effect of severely damaging the Anton Piller process, because the more criminal the activities of the counterfeiter the more he was protected.

ACG commenced an intensive lobby and by the end of July 1981 the mischief in the Lords' decision had been remedied by a suitable amendment to the Supreme Court Act.

ACG is very active in lobbying with others for suitable changes in the present Copyright Bill now before the Commons Committee. The most notable amendment is that counterfeiting a trademark can result in the criminal receiving up to 10 years' imprisonment.

The call for quick amendments to the laws of Hong Kong has also been brought to a successful conclusion by ACG activity, acting with others including the U.S. Anti-Counterfeiting Coalition.

DEALING WITH PROBLEMS ABROAD

ACG has joined with various national associations under the umbrella of Association Europeenne des Industries de Produits de Marque (AIM) of Brussels. The objective is to work together to deal with counterfeiting problems. The last chairman was David Carlisle, recently retired from Distillers and the new chairman is Robin Hadfield of Turner & Newall plc. A tribute to the professionalism of ACG members is that they have been invited to provide successive chairmen.

When proposing measures of law reform it is hoped that there will be unanimity of thought either for the EEC or for individual countries so that measures proposed will have international support. Taiwan has been one of the major countries offering problems, but as a result of pressure by ACG and others including the then Minister of Trade, the Taiwan Government has taken significant steps to alleviate the problem.

It is still there and is serious, but nothing like it was, and the problem can perhaps best be dealt with by discussions with the Taiwan

Government.

ACG also works closely with several other organizations as diverse as the U.S. Anti-Counterfeit Coalition, the Commonwealth Secretariat, and the Institute of Trading Standards Officers. This last body is most important in dealing with the problems in this country. Its members are the most dedicated public servants I have come across.

ANTI-COUNTERFEITING WORK

One is asked, "How does one deal with the problem as a practical matter?"

Reports come in from a number of sources of counterfeits being on the market. The source may be a distributor, Trading Standards Officers, a private investigator, a product being returned under complaint, or an anonymous communication.

How one deals with the problem depends on where it arises, but every company that has products likely to be the subject of counterfeiting should have an organization of at least two people ready to deal with the matter so that if a problem arises there is a settled procedure for dealing with it.

It is similar to firefighting. Be ready, for if one's products are good they will attract the counterfeiters.

AN EXAMPLE

1. You receive a fax from a distributor in Belgium indicating that a counterfeit has been found on the market.

2. Standing instructions require the distributor to buy the suspect product, obtain a receipt, put the two together and send them by air freight for examination by an expert of his principal.

3. On receipt of the fax you telephone your Brussels lawyer, inform him of the facts, and ask what evidence is required if proceedings are to be commenced.

4. As it is likely that the product will be one of a certain type of counterfeit, a draft statement from the expert witness can be faxed to the lawyer — this will be confirmed

as soon as examination of the product has taken place.

5. In cases of this nature you are usually confident that the expert evidence will confirm the original opinion, and you will, if the seller is well known or thought to be honest, get the distributor to seek at once a meeting with the seller of the counterfeit. You risk being wrong (the product is genuine), but experience teaches that the risk is more apparent than real.

In any event, the meeting must take place that day, and the seller of the counterfeit told of your suspicions, and that as he would not wish to deceive his customers perhaps he will cease selling if the suspicions are confirmed. When this happens the retailer should be asked to give a full account of the number of counterfeit products purchased/sold and, from whom obtained and all other relevant details.

The seller should also be informed that, providing the degree of selling is not high and he cooperates in full, no further action will be taken. This normally is sufficient. The seller should also be asked not to mention the problem to the firm from whom he received the products.

◀ Dishonest ▶

If the seller is thought to be dishonest or unlikely to cooperate, one waits until the expert's report is in hand before taking action. There can be an exception with those cases where one is almost certain that the product is counterfeit and the expert's opinion is a necessary formality.

In the latter case, you make full preparation for action and instruct the lawyer to proceed as indicated in the next paragraph. In the former case, you await receipt of the expert's opinion.

6. As soon as the expert has seen the product and confirmed it as counterfeit (and in every case of counterfeiting with which I have been concerned, the original suspicion has been confirmed). This information is telephoned through to the lawyer in Brussels and proceedings will hopefully commence

that day.

7. It is most important that there is continued pressure on the infringer by exerting your rights and at the same time there should be willingness to settle on suitable terms.

8. Legal proceedings are normally settled, because there is rarely a good defense. One should indeed help a defendant deceived by his supplier to recover monies from the supplier.

9. Quick action causes the goods to be removed from the market within a week, and that is the first objective.

10. The second objective is backtracking to source.

11. The third is to obtain suitable undertakings.

12. As soon as information on the case comes to hand you should check the information bank to see if there is a record, and of course, if there is not, then all the new information goes onto the data bank.

The above is a fairly straightforward case being dealt with by a full-time anti-counterfeit team. In the example, legal proceedings were not commenced, one back tracked to source and stopped the counterfeiting in a matter of days. The manufacturer was in Hong Kong, and suitable undertakings and monetary payments were made.

COMPANIES IN U.K. WITH NO ANTI-COUNTERFEITING TEAM

Every company should know its local Trading Standards Officers, not only for counterfeiting reasons. It is also useful in case the company gets into difficulties over a wrong description. If they know you and understand the company they will be more sympathetic if you run into trouble. Not that that will stop a prosecution, if one should be made.

A company should have a system whereby any Trading Standards Officer will, if he suspects a counterfeit is on the market, get in touch with a nominated person. If an expert witness is required, that person will organize one to accompany the officer when examining suspect products.

If a "break out" is suspected or likely, it is most important to brief

the Trading Standards Officers as soon as a company is aware of the situation and the infringer's products will be looked for throughout the kingdom. Dealing with Trading Standards Officers does not cost anything and they have the countrywide detective organization expert in anti-counterfeiting work to help deal with these problems.

HIGH COURT OR TRADING STANDARDS OFFICERS

It is much cheaper to commence proceedings by way of the Trading Standards Officer than in the High Court. One can even get a measure of compensation (if one is lucky) but Magistrates' Courts are very fickle on this matter. One also gets witness expenses.

An inconvenience is that the case may take a long time to come before the court and often the penalties are slight.

However, if one is being plagued with counterfeits at the retail level, the Trading Standards Officers are ideally suited to deal with the problem.

At levels other than retail, it might be more appropriate to commence action in the High Court, always with speed so that one does not lose the opportunity of obtaining an interlocutory order.

If the counterfeit products are likely to be dangerous when used, it is better to commence proceedings in the High Court, though this is very expensive. If there is likely to be a fatality arising out of use of a counterfeit, one should endeavor oneself to abate the menace, for one has a responsibility to one's customers and therefore one should keep charge of the proceedings.

Nevertheless, it is important in cases where dangerous products are involved, that the appropriate authorities are informed; this may require leave of the court, if evidence has been obtained pursuant to an Anton Piller Order.

COUNTERFEITING AND LICENSING

Companies sometimes have difficulty recognizing counterfeits of their products owing to the nature

of the product.

Counterfeit whiskey will sometimes be sold with the genuine bottles and labels of the manufacturer, or the bottle may be genuine and the labels copies (which can be difficult to detect, though it is easy to prove a label is counterfeit once suspicion is aroused).

Aircraft products of mild steel as opposed to hard cannot usually be detected, save with special equipment available to a limited extent.

Detection of counterfeit retail products such as luxury sports goods and clothing is much easier.

If a company is the only one entitled to make a particular product, then it is usually not too difficult to assess if there are counterfeits on the market. It may be difficult on occasion to differentiate between the genuine and counterfeit.

The problem is severe when one licenses another to make in effect copies of one's products, for if a suspect counterfeit appears, is it the original manufacturer's product, that of a licensee or a counterfeit product of either manufacturer or his licensee? There are many examples of this difficulty.

Example 1

A U.K. footwear manufacturer licenses a Korean company to manufacture shoes to the U.K. company's design, specification and get up. The contract terms are such that the licensee will sell only to the licensor, save in South Korea where he may sell to the local market, but with no export rights.

This arrangement is common in the Far East.

The problems that can arise are:

1. The licensee exports the licensed products in breach of his license.
2. The licensee subcontracts the manufacture of the licensed products and the subcontractor exports the licensed products.

Example 2

A U.K. company, and in this case we can take the advertised example of the Slazenger company who licensed their trademark rights to Courtaulds in respect of clothing.

Suppose that a Hong Kong manufacturer makes copies of a Courtaulds garment (made in its Por-

tugese factory).

The garment carries Slazenger trademarks. How can the trademark owner, Slazenger, prove that the Hong Kong counterfeit is such? How will Slazengers know the product is on the market?

Example 3

A U.K. auto component manufacturer licenses companies in Germany and France to manufacture belting for the car industry. The counterfeiters introduce copies into the same market, but a copy of the French licensee's product to countries outside France, and a copy of the German licensee's product to countries outside Germany.

How does one detect that the counterfeits are on the market and also that they are counterfeit?

Example 4

A U.S. corporation takes a trademark license to manufacture and sell products in the United States. By agreement with the licensor he sources the goods in the Far East, some are delivered late or are not up to specification and the licensee rejects them. The Far Eastern manufacturer then puts the products on the local market.

DEALING WITH THE PROBLEM

It must be recognized that the legal route to prevent counterfeiting in some of the examples is not efficient, so one should consider additional means.

The first and most important step in all the examples is to make certain the license agreements deal with the counterfeiting possibility. To this end they should have the following provisions:

1. Quality control (which trademark licenses should have in any event).
2. Requirement to cooperate in dealing with infringers (which includes counterfeiting) if the problem arises in the licensee's area of manufacture or sale, or the product emanates from these. Preferably, the cooperation should extend to paying costs, full costs not just legal ones, though parties may agree to share them.

3. The licensee should be fully responsible for the action of its subcontractors.

4. Trademark licenses should contain all the necessary protective provisions and they must be strictly observed. In this connection there should be strict observance of the legal requirements as to marking with regard to trademarks, including suitable labelling, also registered user agreements or similar.

5. The licensee is required to monitor his territory or that where any of his subcontractors operate.

Many of the above points are self evident, but there are far too many companies who regard a license as an exercise in obtaining money for doing very little after having passed over the know-how. This is especially so with regard to trademark licensing where licensees often are allowed to get on with it providing they pay the royalties.

Trademarks are in the forefront of the battle against counterfeiting.

Consider the following, which appeared in the 1987 "Wimbledon Sports Programme" under the Slazenger name. One imagines that Slazengers have been advised and that subsequent Wimbledon programs have been correct.

There were three whole page advertisements.

1. Advertising the Slazenger tennis ball. It did not claim it as a registered trademark or who the owner was.

2. Advertising Slazenger Sport toiletries. ® against one mark but © against another on the picture of the product. It does not state who are the owners of the mark. The products are made under license by Beacham, as is made clear if one looks at the product.

3. Advertising sports clothing collection by Slazenger, Slazenger Sportswear, a division of Courtaulds Clothing Ltd. There is no suggestion that Courtaulds are licensed and it appears from the advertisement that they are the trademark owners.

This example shows that the licensor has not got his trademark house quite in order. This may not matter if done occasionally. But if there is a continual disregard (and it is not suggested there is in the

Slazenger case) of what is required, such as by display on products, monitoring licensee's products, strict quality control, claiming ownership and proper marking, then one is putting the trademarks at risk for not following the law's requirements.

The trademark position is singled out because it is one of the most important aspects of licensing and also in anti-counterfeiting work. It can be used to advantage by the licensor and licensee, but failure to follow the rules is at one's peril.

Consider how one deals with the problems of counterfeiting in the light of the four examples of licenses given above.

Example 1 — The U.K. footwear manufacturer licensing a South Korean enterprise.

The license is in effect a sourcing agreement whereby the licensee sells only for export to the U.K. company but can sell in South Korea.

The contract is to protect against counterfeiting or infringement in Korea (for goods exported are unlicensed products) by authorizing the licensee to do that which would otherwise be unlawful.

Make the contract a valuable one for the licensee so that the penalty of losing the contract is too big to justify the risk. By valuable one has in mind a two or three-year production agreement.

This also has the effect that the licensee will be keen to produce products having the right quality and on time.

The agreement should also provide that the licensee must monitor the market, take action against infringers and also pay for quality

control visits by the licensor's technical people.

The license must be registered.

In this type of agreement it is common to set off royalty income from sales in the territory against purchase price of sourced products.

Example 2 — The Clothing License

This is very similar to the Korean agreement in the sense that there must be strict monitoring of the products and an agreement by the licensee to support the licensor.

The licensor should have a quality control and monitoring team and must be fully informed of every product that the licensee proposes to manufacture and sell.

The licensee must cooperate with the licensor in keeping infringing products off the market, and helping with Trading Standards Officers and the like.

Any license such as this should have annual targets to be achieved by the licensee and this will encourage him to be aware of counterfeits.

It is important in cases such as this that, if Trading Standards Officers are asked to assist, it be done by the licensor. At all times the licensor must be seen as the trademark owner exercising his rights in the way the law requires.

Example 3

This example is very different from the previous examples. There is a potential danger problem if counterfeits are put on the market.

Apart from the considerations given above which should be covered in the agreement, with potentially dangerous items, the monitoring exercise should be very exacting, not only from the quality

control point but also from the standpoint of numbers on the market.

If one is granting a license for belting for road vehicles, one must know exactly what vehicles are catered for and how many vehicles are being sold on the market.

If there are 70,000 models of a vehicle produced annually that use belting, being the licensed product, there will be assuming two belts per vehicle, 140,000 belts sold as original equipment each year. If the replacement market is estimated at 10% of the vehicles in service per year, then total number of belt products from the manufacturer and licensee can be calculated.

One is then in a position to know what the total number of sales should be, if the figure is much lower then the belts are being obtained from other sources. This needs investigating and the results may be shown to be honest competitors, own name products or counterfeits.

As the parts market for the auto industry is so important to it, there should be no difficulty in using available information for detecting counterfeits.

Example 4

The U.S. trademark licensee's sources products in the Far East and does not accept them owing to failure of quality or delivery on time. The Far East manufacturer wrongly puts the goods on the local market.

The original license agreement must provide that in any such circumstances that the licensee is wholly responsible and will pay all legal costs and damages.