



Training Manual on IP Crime Prosecution

1. INTELLECTUAL PROPERTY CRIMES: OVERVIEW



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IP crimes

IP crimes

- are created by national laws and
- may take many forms.

We concentrate on elementary forms of:

- Trademark counterfeiting, and
- Copyright piracy.

“Intellectual property” is a generic name

The most important IPRs are:

- Patents;
- Trademarks;
- Industrial designs;
- Copyright; and
- Rights related to copyright (“neighboring rights”).



How do these rights arise?

- Patents, trademarks and industrial design rights - registration by the registering authority.
- Copyright and related rights - by virtue of creation

Not all infringement of IPRs is criminal

- Trademark and copyright infringement give rise to civil liability.
- Civil liability is a pre-requisite for counterfeiting and piracy.
- Criminalization is limited to certain forms of infringement and requires in addition
 - willful infringement
 - on a commercial scale.

Elements of trademark counterfeiting

Basic elements are:

- Registration (local).
- Infringement through
 - identical or
 - indistinguishable trademark.
- On a commercial scale.
- Committed willfully.



Elements of copyright piracy

Basics:

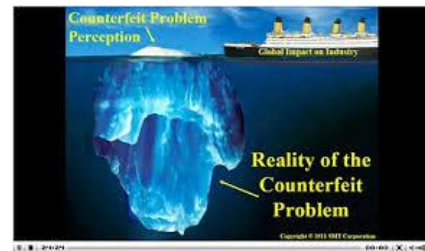
- Copyright subsistence in terms of national law.
- Infringement by direct or indirect copying.
- On a commercial scale.
- Willful.

Clear-cut copies of printed works, sound recordings, audio-visual works and computer software.



Why are counterfeiting and piracy criminalized?

- Private rights
- Basically matter for civil law
- Civil law ineffective
- Public policy considerations



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Coalition letter to President of the EU Jan 2017

- Counterfeit goods remain part of an increasingly professionalised business model and are key facilitators and financiers of organised crime.
- Their manufacture escapes any type of certification, norms and quality checks.
- Counterfeiters are now able to reach and to mislead consumers more easily than ever before online, posing as genuine companies in ways not possible without large investments in the physical world.

Scale: OECD Report April 2016

- 2.5% of world trade (\$461 billion).
- 5% of imports in 2013 into EU (= €85 billion).
- 62% of seizures concerned postal shipments.
- Sizes of seized shipments tend to be small (<10)

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EU 2015

The top categories of detained articles were cigarettes which accounted for 27% of the overall amount followed by other goods (10%), toys (9%), labels, tags and stickers (8%) and foodstuff (7%).

Small consignments.

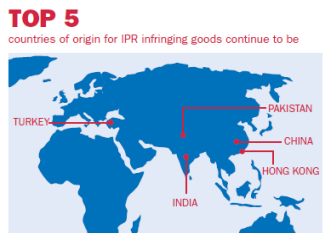
Postal and courier traffic still accounted for 77% of all detentions even if detentions in postal traffic went down with more than 20%.

Domestic retail value: € 642 108 323

Scope and scale of IP crime in the UK



Countries of provenance. EU 2015



- China continues to be the main country of provenance.
- Benin for foodstuff,
- Mexico for alcoholic beverages,
- Morocco for other beverages,
- Malaysia for other body care items,
- Turkey for clothing, Hong Kong,
- China for mobile phones and accessories, memory cards, computer equipment, CD/DVD and lighters,
- Montenegro for cigarettes and
- India for medicines.

Public policy requires protection of:

- Property rights (intangible) of owners
- Public health and safety
- Tax and customs and excise income
- Local and regional industries
- Foreign investment and investor confidence
- International trade relations
- Prevention of corruption and organized crime
- Compliance with international standards and obligations.

Protection of property rights

- Criminal law protects private rights: theft, fraud and malicious damage to property.
- IPRs are not illusory.
- They are real, they are valuable and they amount to genuine property.
- Owners entitled to the same level of protection from dishonest appropriation as the owners of tangible property.

Effect on private rights

- IP infringement harms IP owners through
 - lost revenue,
 - the costs of IP protection,
 - damage to reputation and
 - decreased incentives to innovate.
- Consumer has to pay the cost.

OHIM - 2015

The economic cost of IPR infringement in the cosmetics and personal care sector
Quantification of infringement in the manufacture of perfumes and toilet preparations sector.



The economic cost of IPR infringement in the clothing, footwear and accessories sector
The economic cost of IPR infringement in the clothing, footwear and accessory sector study looks into the direct and indirect industry revenue losses and job losses due to the presence of counterfeit products. It also looks at the impact on public finance.



Luxury brand fallacy



- IP crimes were not introduced to protect luxury brand names.
- It is about the general good.
- The state, too, has an interest in the protection of luxury brands but luxury brands are not the reason for protection.
- Objective is to enhance trade and promote a legitimate economy and to provide consumer protection.



WHAT DO YOUR FAKE FASHIONS SAY ABOUT YOU?

“I’m a phony.”

Like designer clothes and products, you know that you think, buying counterfeit products amounts to stealing. The dollar you save seems as if it isn't for others. These products are often cheaply made under sub-standard conditions using hazardous materials under less rigorous controls that pose risks and the risks to workers. What kind of behavior does that say?

Counterfeits Hurt. You Have the Power to Stop Them. Avoid counterfeit products. Visit NCPIC.ORG/GETREAL.



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Protection of public interest

Fake pharmaceuticals and foodstuffs, not all being counterfeit. They may:

- Be branded or generic products
- Have fake packaging as to identity or source
- Be products with correct ingredients or harmful ingredients
- Be without active ingredients or with insufficient active ingredients.

Can you tell the difference?



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Nigeria 17 May 2013

- A Nigerian court sentenced two officials from a pharmaceutical company to seven years in prison, over the sale of an adulterated teething drug.
- 84 babies died from renal failure after taking the painkiller.
- It contained high levels of diethylene glycol, a poisonous solvent mostly used in brake fluid and as an engine coolant.

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Switzerland Oct 18, 2013

- Customs agents seized one million fake anti-anxiety pills in transit at Zurich airport.
- The shipment was on its way from China to Egypt.
- The drugs contained no active ingredients.

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Other public health risks

- Agricultural chemicals (pesticides and insecticides)
- adhesives
- dry cell batteries containing cadmium
- electronic goods containing mercury
- alcohol
- personal care products
- consumer electrical goods,
- cigarettes,
- motor vehicle parts,
- fire extinguishing equipment, industrial, electrical wiring and equipment and security equipment.

Prevention of organized crime

- Counterfeiting and piracy more attractive than drug trafficking
- High potential profits without the risk of major legal penalties.
- Profitability beginning to exceed that of drugs and arms, on a profit/weight basis.
- Trade routes were developed for the smuggling of drugs and arms provide an existing infrastructure.

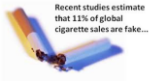
Protection of state income

- Counterfeiters and pirates do not pay tax and they evade customs and excise duties
- Undercut right holders
- Defraud governments
- Tobacco and liquor products, which attract a heavy tax duty, account for a major part of illicit traffic.





- UK
April - September 2015 :
- 619.1m cigarettes and
 - 137.8 tonnes of hand-rolling tobacco seized
 - £232m unpaid duty if they had not been seized.



Recent studies estimate that 11% of global cigarette sales are fake...

- 2014:
- prosecuted 417 people,
 - prevented £746m revenue
 - 1.8bn cigarettes seized
 - 313 tonnes of hand-rolling tobacco seized.

Law enforcement priorities

- Nature and level of general criminality
- Comparable economic crimes
- Nature of the particular instance determines priority.
- For example, with counterfeit drugs public health is at stake.

International obligations

- Obligation to criminalize imposed by international agreement to which governments have subscribed.
- Failure to criminalize affects
 - international trade relations and
 - investor confidence

Recent examples



- Egyptian athletes (at least some) wore fake Nike clothes to the Olympics provided by its Olympic committee

Target of criminal enforcement

- Committed by different persons with different degrees of moral blameworthiness
- Culpability of offenders depends on their proximity to the source of the illicit goods
 - Mastermind
 - Final link in distribution chain.

Parallel importation (grey goods)

- They are genuine goods
- Marketed by the right holder in another country and imported contrary to its wishes.
- They are diverted from the right holder's authorized distribution channels and are distributed by unauthorized entities
- Contractual issue
- Not unlawful.



Generic drugs

- Generic drugs are not per se illegal.
- When a patent for a drug expires, it can be manufactured without license by anyone.
- But this does not mean that anyone may use the registered trademark of the right holder.

International obligation to criminalize: The Trips agreement

- Obligation to provide for criminal sanctions in local law derives from TRIPS
- Required for willful trademark counterfeiting or copyright piracy on a commercial scale.
- Imprisonment and/or monetary fines to be sufficient to provide a deterrent
- seizure, forfeiture and destruction.



National laws differ

- Countries are free to determine the appropriate method of implementing the provisions of TRIPS within their own legal system and practice
- Flexibilities
 - “at least”
 - level of penalties



June 2016

Louis Harms (Judge)
South Africa