

COMBATING COUNTERFEITING AND PIRACY : AN OVERVIEW*

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Counterfeiting and Piracy along with all cognate expressions like passing off, faking includes wide range of illegal activities linked to IPR infringement. Spread of Counterfeit goods (Commonly called knock-offs) have become Global. Traditionally, counterfeiting was associated with money-laundering, fake documents etc. Counterfeit is an imitation which is fake or sometimes better than the original made usually with the intent to deceptively represent its content or origins, thus, increasing sales appeal due to the reputation of the original brand product.

Magnitude of the Problem

Although adequate and credible research data may not be available, the problem of counterfeiting and Piracy is more prevalent in developing and poor countries. China and India figure very high in the list. Moreover, pirated goods are manufactured and sold more in small towns and villages where surveillance is weak and relatively higher profits make it an attractive proposition. Counterfeiting and Piracy are on the increase the world over via criminal networks and organized crime. The international trade in pirated goods may be in excess of US\$500 billion on rough estimate. This amount is larger than the Gross domestic product of more than 100 countries. The threat is more serious in cases of pharmaceuticals, drugs, optical disks, cosmetics, electronics, automobile parts, food and drinks, software, tobacco and house-hold gadgets and garments.

According to European Commission, in terms of overall seizures of quantities, China is the principal source with 79% of all articles seized originating from China. Counterfeit industry accounts for 8% of China's GDP. In Pharmaceutical sector, India and UAE are the principal sources accounting for 31%, followed by China. Together, these three countries account for 80% all Counterfeit medicines.

The Indian Scenario

After China, India figures most frequently in Counterfeiting and Piracy.

a) Fake Medicines constitute 15 to 20% of total market.

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- b) 40% of Music Productions are copied and sold illegally and loss comes to 600 crores annually.
- c) Likewise, Bollywood makes more films than Hollywood, yet its revenue is only 2% of Hollywood. Counterfeiting and Piracy costs Indian Entertainment industry a loss of US\$ 4 Billion and loss of approximately 800,000 jobs annually. India has the highest level of Piracy of films in all the English -speaking countries. Hindi movie “KAMINEY” was down-loaded over 350000 times on BIT TORRENT with 2/3 down-loaders located in India. This is just Online piracy Offline piracy with CDS and DVDs is in addition India ranks Fourth in all sorts of illegal downloads after US, UK and Canada.
- d) One in every three automotive parts is fake and this accounts for 37% of the total market share.
- e) 10% of major soft drinks and 10 to 30% of cosmetics, packaged food are fake.

A random survey of registered Indian Companies reveals that more than 60 companies start with the word “NIKE”, 65 with the name “ROLEX”, 217 companies with the word “INTEL”. This phenomenon is not limited to multinationals only. 136 companies start with the word “TATA” and over 400 with the word “RELIANCE”.

Factors that lead to Counterfeiting and Piracy

- a) Generally, people perceive counterfeiting on a victimless crime.
- b) Lure of High Profit Margins: Pirated and Counterfeit goods and service are cheap to produce because (i) No taxes are paid (ii) Labour employed is cheap (iii) sometimes child labour are employed with no compliance with labour standards.
- c) The buyer and end-user save upto 20 to 60% on the price of branded goods
- d) Some consumers buy counterfeit either unwittingly or they can not distinguish between the fake and the genuine.
- e) Sometimes buyer buy counterfeits knowingly and deliberately because they are cheap and such fakes do not harm their health and safety. One would willingly buy a fake garment but may not like to buy a fake medicine.

- f) Counterfeiters flourish because of lesser risk of detection and lack of certainty of penalties. Police and other authorities have other priorities and treat piracy and counterfeiting as petty crimes. Sometimes, there is lack of political will and enforcement is weak. Unscrupulous counterfeiters may have political protection and can pay hush money.
- g) Sometimes, counterfeits are produced in the same factory which produces authentic products, using the same material. The factory owner, unknown to the trade mark owner, orders intentional “OVER-RUN”. Identical manufacturing and material make this type of Counterfeiting impossible to detect and distinguish the product from the authentic article.e.g. Production contractor manufactures 5000 articles against an order of only 2000 articles and excess products are of the same quality and standard.
- h) Another serious practice which promotes counterfeiting is the manufacture of an entirely NOVEL product, using quality material or incorporating more features in it than in the genuine product and by using prominent brand names and logotypes. The example is the imitation “NOKIA” cellular phones with features like WiFi, touch screens or T.V. which are not available in the original NOKIA.
- i) Lack of effective National and International legal framework, lack of effective technological and electronic detection systems and Jurisdictional problems encourage the counterfeiters, particularly, on-line pirates.
- j) Some of the companies which are victims of counterfeiting silently suffer because of the fear that their brand name would be impacted adversely with the exposure, sales would go down and consumers may switch to other brand products.
- k) Piracy and Counterfeiting in some cases like music, films, perfumes has become a parallel industry and some Governments may be deliberately indifferent because pirated products provide local employment and earn much needed money.
- l) Sometimes, unfriendly conditions, unreasonably high pricing, and anti-competition practices at the cost of public interest promotes counterfeiting and piracy and consumers with low purchasing power buy cheaper counterfeit products because they cannot

afford genuine high-priced goods. Anti-competition practices must be curbed with iron-hand through competition laws. Compulsory licensing should be introduced by statutory authorities wherever public interest so demands.

- m) Some relate counterfeiting to Globalization. More and more MNCs move manufacturing to third world where labour is cheap and laws are weaker and they earn higher profits. The new producers do not owe any loyalty to the MNC and feel that MNCs earn profits only through advertisement of brand products, and therefore, they see the possibility of removing the MNC as a middleman and reach the consumer direct
- n) The advantage of anonymity, flexibility of counterfeit operations from easily movable sites, low investment, lack of legal accountability and quick movement to other jurisdictions where IPR legislation and enforcements are weak are the factors that encourage Piracy and Counterfeiting.

Impact and consequences of Counterfeiting and Piracy on Stakeholders

These illegal activities have multiple adverse direct and indirect effects on various stake-holders.

Impact on National economy, security and welfare

- Loss of Revenue due to tax evasions
- Loss of jobs
- Workers' exploitation, due to low wages, unsafe and unhealthy working conditions,
- Exploitation of women, Child Labour and illegal immigrant workers
- Negative impact on environment and public health
- Criminals, terrorists and the corrupt flourish
- Foreign direct investments flow is lower
- Foreign trade structure and volume may suffer on account of distrust about quality of products.
- Higher costs of anti-counterfeiting operations.

Impact on entrepreneurs, Investors and Manufactures

- Innovation and creativity is undermined
- Damage to brand value and goodwill
- Lower sales and profits of the enterprise
- Costs of litigation for enforcement of IPRs and other Rights.
- Reduced incentive for investment and expansion of business

Impact on consumers / buyer and end-user

- Higher exposure to health and safety risks
- Experience lower consumer utility due to poor quality
- Total or partial loss of money due to very low quality.

Existing Anti-Counterfeiting Systems

Today, counterfeiting is a global phenomenon and in varying degrees, it happens in all countries. India, probably after China, ranks second in manufacturing, marketing and use of counterfeit products. As such, control strategies have been evolved both at international and national levels. As stated above, counterfeiting is increasing for variety of reasons like lack of well articulated policy, legal frame-works and enforcements.

International Legal Framework

Counterfeiting in goods and services happens off-line in the real world and on-line in the virtual world of cyberspace. Inter-governmental initiatives include a comprehensive multilateral legal framework within W.T.O. as well as cooperation in number of specific fields. On enforcement side, WIPO (the World Intellectual Property Organization), Interpol, World Customs Organization, and World Health Organization are supporting specific initiatives. TRIPS (Trade Related Intellectual Property Rights Agreement) contains a comprehensive legal frame-work for protection of various IPRs. TRIPS has evolved certain standardized norms regarding Intellectual Property Rights, has proscribed uniform procedures for ratifying States to implement through their national laws. India, being a signatory of such agreements, is obliged under Article 253 of the Indian Constitution to implement the same through appropriate national laws.

The merit of the TRIPS agreement is that it seeks to universalize the Intellectual Property Rights and to bring about uniformity of basic laws and procedures without undermining the national legal systems. Thus such

agreements enable the nation States to meet the challenges of Counterfeiting and Piracy against Intellectual Property Rights. TRIPS introduced Intellectual Property Law into international trading system for the first time. TRIPs ratification is necessary for W.T.O. membership and all members must enact TRIPS Compliance Law to have access to various International Markets. TRIPS have a powerful mechanism for enforcement through WTO Dispute Settlement mechanism.

However, the ground reality on piracy and Counterfeiting is a matter of serious concern. For example, trademarks of reputed companies and names of well-known personalities have been being registered and misused as domain names. Situation became so alarming that even the US Government had to issue a White paper containing policy statement on management of Internet names and addresses seeking international support in this direction. As a consequence, the Internet Society, Incorporated in the US (ISOC) took initiative and Internet assigned Number Authority (IANA) also joined which led to the establishment of International Adhoc Committee (IAHC).

The International AdHoc Committee (IAHC) which is an international multi organizational body, is specifying and implementing policies, process and procedures concerning Top Level Domain Names.

The main steps taken by the authority which works under the Charter include:

- i) Internet Trade Market Domain Name Spaces to be created
- ii) User Friendly directories to be published and IAHC Report to be implemented.

However, major burden of enforcement of the IPRs against the counterfeiters lies with National Governments only. At international level, the requisite cooperation and consensus on some critical issues are yet to evolve. Moreover, some National Governments have yet to enact, amend and upgrade their Laws for effective enforcement. Moreover, there is no International Convention so far on extradition of counterfeiters and Jurisdictional problems are a big hurdle in brining Counterfeiter to Justice.

The Indian Scene

India has an excellent track Record of putting together a sound National Policy and Laws on Counterfeiting. At macro-level, the perception that enforcement mechanics in India are ineffective and slow may be only partly true. However, tide is turning against counterfeiter in India. The

important Laws that exist in India which directly and indirectly deal with Counterfeiting and Piracy include:

- The standards of weights and Measures Act 1956
- The Drugs and Cosmetics Act, 1940
- The Copy Rights Act 1957
- Indian Trade Marks Act 1999
- The Patents Act 1970
- The Customs Act 1962
- The Information Technology Act 2000
- The Intellectual Property Rights (Imported Goods) Enforcement Rules 2007

One of the major institutional deficiency in these statutes is that some of these do not treat violation of Intellectual Property Rights (IPRs) as criminal act and wherever they do, they still stress on 'Mensrea' as one of the essential component of such offence. The Indian Patent Act, 1970 and the Design Act, 2000, provide only for civil liability. Though the Copyright Act 1957 and Trade Mark Act, 1999, provide for criminal liability but sanctions are highly deficient and ineffective.

Domain Names is new electronic version of the traditional Trade Marks and the area of conflict is that registration of Trade Mark is governed by the Trade Marks Act, 1999, whereas registration of Domain Names on the Internet is done on the first come first served basis without any direct governmental control. Mostly registration of Domain Names is done by private organizations without any territorial limits and without any prior check of earlier Trade Marks registered under Municipal Laws of different countries.

In fact, Department of Electronics, Government of India, is exercising some control over the registration of Domain Names whereas in US and U.K. Such registration is an easy process which has led to mushrooming of registration of the Domain Names. There was an advertisement in the "Times of India", May 7, 1997 with the heading "Internet Property Auctions". Some important Domain Names which had already been picked up and were later sold back to the owners like BJP, Times of India, ONGC, TATAs and others. The advertisement also mentioned that "some Domain Names are still available". The minimum auction bid was stated to be U.S.\$ 1500 at the time of closing. In fact, the procedures evolved by the Department of

Electronics, Government of India have been more effective in controlling the misuse of Domain Names on account of some specific requirements like an organization seeking **Domain Name registration should have:**

- a) Its office in India
- b) An administrative contact in India, and
- c) An IP address with specific location in India

Unless these requirements are met, Domain Name can not be registered in India. One of the effects of the aforesaid procedure has been that the volume of registration of Domain Names has been very low in India.

The proposed Indian legislation seeks to strengthen protection of IPRs further. The Trade Marks (Amendment) Bill 2007, tabled in Parliament, seeks to make Trade Mark applications analogous to patent cooperation Treaty Filings. There is a proposal to enact the Optical Disc Law under which a license would be a prerequisite for manufacture of CDs and DVDs with secret coding on each disc for tracking. Again, the Innovation Act is on the anvil to promote research and innovation to evolve cutting-edge technologies including ones to detect and control counterfeiting and piracy.

The Judicial Response

There have been numerous judgments in India on infringement of Trade Marks through Domain Name registration in UK, Spain, Italy, France and others. Depending on the nature of the infringement, these violations have been called, in the absence of any standard terminology, by various names like Cyber-squatting, Passing-off, Name-grabbing etc. Nearer home in India, when a Website called <http://marksandspencer.co.uk> came up, Marks and Spencer Private Company Limited had to seek judicial remedy against the British Company named 'One in a Million' for a restraint order. It was held that the name Marks and Spencer could not have been chosen for any other reasons except that it was associated with the well known retailing group.¹ In another case, it was held that the Internet domain names are of importance and can be valuable corporate assets and that a domain name is more than an Internet address. A company carrying on business of communication and providing services through the Internet, carried a domain name "REDIFF" which had been widely published. The defendant company also started using the same domain name transcribing it as "RADIFF". It was found that the only object in adopting this domain name was to trade

1. *Marks and Spencer PLC v. One in Million*, 1998 FSR 265.

upon the reputation of the plaintiff's domain name. An injunction was ordered against the defendant in use of the said name."²

Despite multiple Laws on IPRs and lack of effective enforcement mechanism, Indian Judiciary has been remarkably creative in controlling and curbing the menace. Indian Courts have been fairly liberal and progressive in granting orders restraining defendants overseas in cases where infringement takes place through a website such as Domain Name infringement or on-line sale of counterfeit. In *Tata Sons v. Ghassan Yacoub*,³ an injunction was granted against registration of Domain Name "Tatagroup.com" where the defendant was in New York. In *Laxmikant Patel v. Chetanbhat*⁴ and *Microsoft Corporation v. Mr. Kiran*⁵ order known as ROVING ORDERS on ex-parte injunctions, search and seizure and appointment of Local Commissions and Receiver were passed. In *Time Warner v. Lokesh Srivastava*,⁶ punitive and exemplary damages were awarded.

Most common problem is that manufacturers often fail to obtain timely relief as identity of defendant is not easily ascertainable. The problem can be overcome by flexible open-ended Orders known as "JOHN DOE" Orders which operate against any potential defendant in regard to seizure of counterfeit products wherever they are. One such order was passed by Delhi High Court in *Taj Television Limited v. Rajan Mondal*.⁷

Perspective Planning for Multi-prolonged Anti-Counterfeiting strategy

To meet the challenge of Counterfeiters which has become global with a very large magnitude and intensity, the International Comity of nations and the National Governments have to pool their resources in terms of fullest cooperation to plan for and operationalise multi-prolonged Anti-Counterfeiting strategies at various levels.

Legislative Response

- International Convention on Extradition of counterfeiters.
- Consolidation, review and revision of national laws to make them compatible with TRIPS.

2. *Rediff Communication Limited v. Cyberbooth* , AIR 2000 Bom. 27.

3. 2004 (29) PTC 522 Del.

4. AIR 2002 SC 275.

5. 2007 (35) PTC 748 (Del).

6. (2006)131 Comp Lab 198(Delhi).

7. FSR 2003 (407).

- Counterfeiting be made universal cognizable offence.
- Simplification of procedures for detection, prosecution and speedy trial of counterfeiters.
- Anti-competitive practices to be curbed in larger public interest.
- Suspension and denial of licenses for manufacture to counterfeiters.
- Rigorous penalties including exemplary fines to make counterfeiting prohibitively expensive.
- Fines to be used for funding of anti-Counterfeiting operations.

Technological Response

- Adequate and reliable data collection on counterfeiting.
- IP registration to be made mandatory
- Safety measures like Hall-Marking, Secret Hidden Codes & Bar Codes to be made mandatory.
- Customs surveillance technology be made effective.
- Electronic data pool on identification of counterfeiters (Finger-printing, IRIS and Bio-metric identification)
- Computer forensics and other evidence collection methods to be made scientific and credible

Professional Response

- Computer Forensics should be compulsory subject in Law Schools.
- Specialized training of Judges, Police Officers and Lawyers.
- Special Courts to be set-up.
- Restorative justice to the victims of counterfeiting.

The Social Response

- Legal Literacy and consumer awareness through formal and informal methods
- Social action litigation by social groups
- Initiative by stakeholders, including, Consumer Associations, Chambers of Commerce and Industry and health Organizations.

- Extensive publicity of names of convicted counterfeiters
- Expulsion of counterfeiters from Business and Trade Associations.