



**Submission of the
International AntiCounterfeiting Coalition, Inc.**

To the

**United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508**

Special 301 Recommendations

February 11, 2005



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Ms. Sybia Harrison
Special Assistant to Section 301 Committee
Office of the United States Trade Representative
600 17th Street, NW
Washington, D.C. 20508

Request for Public Comment--Identification of Countries Under Section 182 of the Trade Act of 1974 (as amended), 70 Fed. Reg. 134 (January 3, 2005)

Dear Ms. Harrison:

On behalf of the International AntiCounterfeiting Coalition, Inc. (IACC), and its members, I respectfully submit the following report in response to the United States Trade Representative's request for comments identifying countries that deny adequate and effective protection and enforcement of intellectual property (IP) rights. This year the IACC reports on fifteen (15) countries.

The IACC is the largest multinational organization representing exclusively the interests of companies concerned with IP enforcement, i.e., product piracy and counterfeiting. Our members consist of approximately 150 corporations, trade associations, and professional firms and represent total revenues of over \$650 billion. The intellectual property owners represent a cross-section of industries, consisting of many of the world's best known companies for the various products that they develop, manufacture and distribute in the entertainment, automotive, pharmaceutical, motion picture, consumer goods, personal care, apparel and other product sectors.

The IACC is committed to its mission of combating counterfeiting and piracy and working with domestic and international lawmakers, enforcement officials and intellectual property owners to improve IP protection and enforcement. We look forward to working with the USTR to address the issues raised in this report and to assist in its efforts to promote intellectual property protection and enforcement worldwide.

Respectfully submitted,

Timothy P. Trainer
President

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INTRODUCTION

The International AntiCounterfeiting Coalition, Inc. (IACC), takes this opportunity to respond to the United States Trade Representative's (USTR) request for written comments, pursuant to Section 182 of the Omnibus Trade and Competitiveness Act of 1988, 19 USC § 2242 (Special 301), regarding governments that deny adequate and effective protection and enforcement of intellectual property (IP) rights.

In our effort to promote better IP protection and enforcement, the IACC has continued to work with government and industry through our involvement with the INTERPOL IP Crime Action Group and the UN Economic Commission for Europe's IP Advisory Group. In addition, we have participated in programs in cooperation with the U.S. Patent and Trademark Office, WIPO, OECD and the Japan Patent Office. These activities provided opportunities for participation in programs in China, Croatia, Oman, Poland, Romania, and the United Arab Emirates.

Our member companies have also continued their efforts to combat counterfeiting and piracy around the world through their enforcement actions as well as training programs. The efforts of the IACC and its member companies are extensive and global. However, a cursory survey of available information demonstrates that product counterfeiters and pirates are also involved in an extensive global effort.

A non-exhaustive data search of the past 13 months (January 1, 2004-January 31, 2005) resulted in 769 articles from global sources reporting on intellectual property enforcement activity. Of these articles, 35% reported the number of products involved and this numbered over 623 million pieces of counterfeit and pirate products. Only 36.5% of the articles made any reference to the value of counterfeit and pirate products involved, which was over \$2.2 billion dollars. Globally, the types of counterfeit and pirate products manufactured and intended to be sold are frightening due to some of the consumer health and safety risks that are implicated. The types of infringing goods found around the world included:

- cell phone batteries
- power tools
- perfume
- Champagne
- crystal
- table salt
- Christmas decorations
- toys
- olive oil
- paint
- body creams
- steroids (human growth hormone)
- cars and autoparts
- power bar
- curling irons
- detergent
- pesticides
- contact lenses
- contraceptives
- sugar
- juices, mineral water
- electrical cords
- alcohol
- baby formula
- air conditioners
- ovens
- canned goods and cream
- toothpaste
- soy sauce and sweetened vinegar
- distilled water and sesame oil
- motorcycle chains
- maize seed
- diapers
- air freshners

Such an array of counterfeit products made and distributed with the intent that consumers would use these products demonstrates the disregard counterfeiters have for the health and safety of the consuming public.

Organized Crime

Highly respected law enforcement officials from the international community and major U.S. cities have recognized the dangers and challenges posed by product counterfeiters and pirates who are well organized and well financed. Ron Noble, INTERPOL's Director General, and Ray Kelly, the New York City Police Commissioner, have both addressed this issue publicly, identifying the global challenge and a city's challenge to get this problem under control.

In view of the staggering volume of goods now illegally manufactured and distributed worldwide, there can be no other explanation for the volume other than the existence of networks and organizations ensuring the manufacture and distribution of counterfeit and pirate product to every part of the world. As our report indicates, IACC members find illegal products everywhere.

Because of the growing intellectual property crime problem, the inclusion of stronger criminal enforcement provisions in the free trade agreements (FTAs) is a must with all trading partners. The IACC supports the U.S. Government's efforts to obtain commitments for higher enforcement standards from trading partners.

Enforcement at the Border: Exports, Goods In-Transit and Free Trade Zones

We can no longer accept a TRIPS minimum approach to combating the international trade in counterfeit and pirate products. As the list above demonstrates, criminals trading in counterfeit and pirate products know no bounds and, therefore, greater efforts must be made to stop the flow of such goods wherever possible. The IACC commends the efforts of the U.S. inter-agency negotiating teams to raise levels of enforcement at the border in recent bilateral FTAs. The IACC believes that the threat from global trade in counterfeit and pirated goods requires no less than enforcement at the border to stop imports, exports, and goods in-transit, including increased efforts within free trade zones (e.g., Chile, Curacao, Panama, and the United Arab Emirates).

Finally regarding border enforcement, we have not included a formal report regarding the *European Union*. Nevertheless, the IACC wishes to point out that since the effective date of the EU's new border enforcement regulations (Council Regulation No. 1383/2003), numerous members have experienced difficulties in obtaining effective customs cooperation and enforcement due to the lack of implementation of the new regulations. The IACC requests that the relevant agencies of the U.S. Government monitor implementation by the member states so that right holders are not subjected to inconsistent implementation from one member state to another.

Eastern Europe

The IACC report does not include specific country reports on *Romania* and *Ukraine* because our members could report nothing new in either country. In 2004, the IACC recommended *Ukraine* for Priority Foreign Country and *Romania* for the Watch List. Having no desire to submit the same report this year, we simply underscore here the fact that our members would welcome the inclusion of both countries in USTR's final report with the same designations as in 2004.

Conclusion

The following points do not constitute an exhaustive list, but apply to most, if not all, the countries we have included in our report. In general, the IACC identifies the following needs:

- Increased political will to combat IP crime;
- Ensure that legislation permits ex officio border and criminal enforcement, including prosecution;
- Legislation to detain, seize, forfeit and destroy pirate/counterfeit goods being imported, exported and moving in-transit, including free trade zones, as well as seizure and destruction of equipment used to produce such goods;
- Sentencing guidelines that require more stringent penalties (fines/imprisonment);
- Linking IP crime to organized crime with regard to penalties;
- Laws and regulations relating to optical media production (inspections/closure, etc.);
- Increased disclosure of information to IP owners to permit legal actions and investigations in third countries; and
- Transparency regarding the results of enforcement actions (raids, administrative and judicial proceedings, etc.).

IACC RECOMMENDATIONS

1997-2005

	97	98	99	00	01	02	03	04	05
Argentina				WL	WL	WL	--		
Australia			WL	--	--	--	--		
Belize								WL	PWL
Bolivia							WL		
Brazil				WL	WL	WL	--	WL	
Bulgaria						WL	--	WL	
Canada				WL	OO	WL	WL	PWL	PFC
Chile		WL		--	WL	WL	WL		WL
China	PFC		306	306	306	306	306	306	PFC
Colombia			PWL	--	--	WL	--		
Greece		PWL	PWL	--	--	--	--		
Hong Kong					OO	--	--		
Hungary						--	WL		
India							WL	PWL	WL
Indonesia	PWL	PWL		--	WL	PWL	--		
Italy				WL	WL	WL	--		
Japan					WL	WL	--	WL	
Jordan								WL	
Kazakhstan						WL	--		
Korea		WL	WL	WL	--	--	--		
Kuwait									WL
Lebanon								PWL	
Libya								WL	
Malaysia				WL	PWL	--	PWL	PWL	PWL
Mauritius								WL	
Mexico		OO	WL	WL	OO	WL	WL	PWL	PWL
Pakistan								WL	
Panama							WL	WL	WL
Paraguay					306	306	306	306	
Philippines						PWL	PWL	PWL	PWL
Poland						PWL	PWL	PWL	
Romania								WL	
Russia				PWL	PWL	PWL	PWL	PWL	PWL
Saudi Arabia						WL	WL	WL	WL
Singapore				PWL	--	WL	WL		
South Africa					WL	WL	WL		
Taiwan	OO	OO	WL	WL	PWL	PWL	PWL	WL	WL
Thailand				PWL	--	WL	WL	WL	
Turkey						--	WL	WL	WL
Ukraine					WL	PFC	--	PFC	
UAE						WL	WL	WL	WL
Venezuela								WL	
Vietnam						WL	WL		

Abbreviations

PFC: Priority Foreign Country
 306: Section 306 Monitoring
 PWL: Priority Watch List

WL: Watch List
 OO: Other Observations

CANADA

Recommendation: Priority Foreign Country

Background

IACC members continue to experience extremely high levels of frustration with Canada's IP enforcement system. Although some members see no improvement in enforcement efforts by any of Canada's enforcement authorities, some members applaud the efforts of the Royal Canadian Mounted Police (RCMP) and its efforts to stop the trade in counterfeit and pirate products and its IP training and education programs during the past year. The RCMP is viewed as surrounded by Government agencies and authorities unwilling to do anything positive toward IP enforcement.

Other than the RCMP's own efforts, IACC members see no movement by the Canadian Government to initiate any meaningful steps, through legislation or otherwise, to implement an effective IP enforcement *system*.

Indeed, the level of right holder frustration has risen to the point where some IACC members believe that the ability of obtaining enforcement assistance in China is much better than any chance of meaningful enforcement in Canada.

Finally, Canada, in practice, provides no border enforcement. In view of the fact that Canada has not changed its legal regime to provide customs with the authority to take action absent a court order and the related details required, as explained in prior years, right holders are subjected to a border that invites counterfeit and pirate products to enter. The comparative numbers tell the tale regarding border enforcement efforts. While we have had only a handful of border enforcement actions in Canada since January 1, 1996 (no new customs seizure information was provided, but giving Canada the benefit of the doubt), perhaps a dozen, U.S. authorities have seized over 37,000¹ shipments during the same period.

Copyright Piracy

Generally, IACC members from the copyright industries do not see any marked change in Canada's IP enforcement efforts to combat piracy.

Copyright industry members are now describing a landscape of copyright piracy that brings back images of Hong Kong and other Asian markets. Members whose companies produce entertainment software are now finding that pirate activity is not limited to flea markets, but has now expanded into shopping malls. Illegal duplication is now occurring in shopping malls with no need to conduct the activity in "underground" locations. Retailers are now displaying pirate products on shelves in shopping malls, which demonstrate the absence of any effort by Canadian authorities to take sustained enforcement actions to seize pirated goods and to punish the individuals involved. In addition to the outright piracy of software, hardware is also being modified so that pirate software can be used.

¹ In the IACC's 2004 Special 301 submission, the "score" was US seizures 30,403 to Canada's 6. In fiscal year 2004, the U.S. Bureau of Customs and Border Protection reported over 7,000 shipments seized.

Copyright owners complain that there are insufficient enforcement resources to pursue pirate product in Canada. The absence of any border enforcement leaves the enforcement in the domestic market to the RCMP, which is unable to combat effectively the piracy that exists at all levels—production, distribution and retail—in Canada.

Unfortunately, copyright owners suffering from piracy in these malls have been told by RCMP in 2004 that, because of extremely limited resources and absent an ability to demonstrate health and safety issues or linkage to organized crime, RCMP will not pursue charges against retailers, even if the copyright owners can identify multiple retailers of pirated goods in one centralized location. Thus, even if a copyright owner can identify multiple retailers offering pirate products in a particular mall or night market in the key cities, enforcement actions are unlikely. In addition, RCMP is unwilling to take any ex officio action without the copyright owners first ensuring they have developed evidence of the pirates being put on “notice” to fulfill requirements of “intent.”

Some members estimate that upwards of 20% of the market is now pirate product.

Trademark Counterfeiting

Product counterfeiting in Canada involves many product sectors from electrical and auto parts products to apparel and luxury goods. While the RCMP has made some effort to combat product counterfeiting, the border remains open for imports of all goods.

As in the past, trademark owners complain that right holders continue to be victimized by an open border where the border measures are basically non-existent. Despite some complimentary remarks by right holders regarding efforts to fight counterfeiting, other trademark holders have concluded that Canada’s efforts to curb trademark counterfeiting fails to meet the efforts of the Chinese authorities.

Because Canadian Customs continues to lack the authority to take action, right holders’ frustrations are aggravated by the lack of any information from customs that would help right holders take action after the goods are released.

Conclusion

The actions of the Canadian Government defy logic. Canada participates in INTERPOL’s Intellectual Property Crime Action Group and believes that more enforcement must take place to combat trans-national IP crime. However, it takes no concrete Government action to enact strong and effective legislation that would instruct and empower its enforcement authorities to combat intellectual property theft either at its borders or within the domestic market.

The IACC and its members reached out to the Government of Canada in an effort to have direct discussions about these issues. No meetings were held between the IACC and the Government of Canada except for one meeting in 2004 that was arranged with the direct assistance of USTR.

The IACC believes that after several years of identifying Canada's lack of an effective enforcement system and the continued lack of action by the Government of Canada, Canada has earned our recommendation for identification as a Priority Foreign Country.

The continued lack of effective enforcement in Canada signals the Government's lack of seriousness to acknowledge the existence of organized crime involved in the manufacture, distribution and sale of counterfeit and pirate products and the international involvement of such groups in this trade. Moreover, Canada's lack of action is evidence of an attitude that it is better to leave to others the difficult work of combating this global problem. During the past two years, we have seen new European Union directives and regulations. In addition, China has recently issued new judicial interpretations. But, in Canada, we have seen no such effort to improve its enforcement regime.

The IACC requests that USTR now insist on concrete evidence of Canada's efforts to improve its enforcement system. The Government of Canada should:

- Adopt policies that recognize intellectual property protection and enforcement as one of its priorities;
- Implement an effective border enforcement system that
 - Eliminates court appearances and court orders;
 - Eliminates detailed information requirements that deter right holders from using the system;
 - Provides customs with the authority to provide samples to right holders and for the disclosure of information regarding importers, exporters, country of origin, etc., similar to the U.S. regulatory provisions;
- Implement an overall border and domestic enforcement system that provides for ex officio actions;
- Enact clear provisions providing for the seizure, forfeiture and destruction of pirate and counterfeit goods whether the goods are detected at the border or in the domestic market;
- Issue guidance instructing government agencies and law enforcement to exchange information regarding suspect goods in order to improve enforcement;
- Increase resources for RCMP, prosecutors and customs in order to effectively combat counterfeiting and piracy; and
- Impose judicial and administrative penalties that will deter counterfeiting and piracy.

People's Republic of China

Recommendation: Section 306 Monitoring

Introduction

Based on available statistics and reports from our members, China has no equal either as a source of counterfeit and pirated goods to the world or as a market in which fakes are produced and sold locally. Articles 41 through 61 of the TRIPS Agreement obligate China to implement *effective* enforcement procedures and provide remedies that have a *deterrent* effect. Despite right holders' abilities to prompt administrative raids and recent changes in the law, China's enforcement system still fails to afford intellectual property owners with effective enforcement which has a truly deterrent impact. This is due mainly to insufficient criminal enforcement and weak administrative sanctions. Current trends suggest China will remain the world's worst violator of intellectual property rights unless decisive action is taken to fix the problem.

IACC members report that little has fundamentally changed in the market since the IACC's most recent submission in September 2004 concerning China's compliance with WTO commitments. China continues to pose the greatest threat to IACC members' intellectual property (IP) assets as compared to other countries in the world. Despite significant improvements in China's IP legal regime over the last few years, which the IACC has noted in previous filings, the enforcement system continues to be fraught with weaknesses and inefficiencies that facilitate massive counterfeiting and piracy.

The exports of counterfeit and pirated products continue to flow from China causing lost sales and damage to brand image. China sourced counterfeits range from medicines and auto parts to home electrical products, to apparel and footwear. In addition to the impact on IACC member companies, China's counterfeiting industry has a direct impact on foreign governments. For FY 2004, the U.S. Department of Homeland Security's Bureau of Customs and Border Protection (CBP) reported the seizure of 2,826 shipments from China containing counterfeit and pirated product, having a domestic value of over \$87 million dollars.² Based on these statistics, China accounted for 63% of the total monetary value of intellectual property seizures in FY 2004. The types of products coming from China seized by CBP included, but were not limited to, wearing apparel, cigarettes, consumer electronics, toys, batteries, watches, sunglasses, and automotive components. Similarly, the European Union has also found that China is the leading source of counterfeit and pirated products to its borders.³ Anecdotal accounts of particular counterfeiting cases reveal the staggering scope of China's counterfeiting capabilities.

² Both of these statistical measures were increases over FY 2003 when CBP seized 2,056 shipments with a domestic value of over \$62 million.

³ See http://europa.eu.int/comm/taxation_customs/resources/documents/counterf_comm_2003_en.pdf (accounting for 60% of articles seized by EU members).

- On June 3, 2004, agents from the Department of Homeland Security's Bureau of Immigration and Customs Enforcement arrested at least 12 people and seized six shipping containers as part of an undercover operation that targeted an organization involved in large scale smuggling of counterfeit merchandise into the United States from China. The six seized containers were valued at about \$24 million. The organization is believed to have smuggled at least \$400 million in counterfeit goods into the United States in one year. Of the six containers seized, five held counterfeit handbags, luggage and wallets and the sixth contained counterfeit cigarettes. Agents also seized \$174,000 in cash and 11 bank accounts (two in Los Angeles and nine in New York). Officials said the suspects probably imported about two containers per week with each container having a profit margin of \$2 million to \$4 million.⁴
- In another case that evidenced the wide range of criminal activity increasingly associated with sophisticated and highly organized domestic Chinese counterfeiting operations, federal officials from the offices of the United States Attorney for the Southern District of New York announced the unsealing of indictments against members of two Chinese organized crime groups operating in New York City. The three indictments unsealed in November 2004 charged *fifty-one* defendants with a wide range of various crimes, including trafficking in counterfeit goods. As part of the investigation, federal investigators seized \$150,000 in cash and \$4 million worth of counterfeit merchandise falsely bearing the trademarks of Chanel, Gucci and Coach from warehouses in New York City. Other assets confiscated included a \$900,000 home belonging to one of the defendants, four vehicles and a restaurant in Florida. Other crimes detailed in the indictment included racketeering (RICO) offenses, numerous conspiracies, attempted murder, extortion, extortionate debt collection, alien smuggling, money laundering and the operation of large scale illegal gambling businesses.⁵

⁴ See *NY ICE Breaks \$400M IP Smuggling Group*, Inside ICE (Volume 1, Issue 4); *ICE Breaks \$400 Million Intellectual Property Crime Smuggling Case*, The Cornerstone Report (July 2004); Madison J. Gray, *Feds Bust Fake-Handbags Operation, Arrest 14*, The Associated Press State & Local Wire (June 3, 2004); *Statement of the Honorable Michael J. Garcia, Asst. Secretary for U.S. Immigration and Customs Enforcement, U.S. Department of Homeland Security*, Testimony Before the Subcommittee on Trade of the House Committee on Ways and Means (June 15, 2004).

⁵ See *U.S. Indicts 51 Chinese Organized Crime Figures and Associates in Massive Coordinated Sweep*, United States Attorney Office for the Southern District of New York Press Release (November 12, 2004), available at <http://www.usdoj.gov/usao/nys/Press%20Releases/NOVEMBER04/Chinese%20OC%20Indictment.pdf>; *New York City Police Commissioner Raymond W. Kelly, et al. Announce 28 Arrests in the Takedown of an Organized Crime Operation*, New York City Police Department Press Release (November 12, 2004), available at <http://www.nyc.gov/html/nypd/html/dcp/pr-2004-121.html>; Julia Preston, *U.S. Charges 51 with Chinatown Smuggling*, New York Times, November 13, 2004, at B2; Larry Neumeister, *Dozens of Alleged Members of Violent Chinese Gangs Face Federal Charges*, The Associated Press, November 12, 2004 (available in LEXIS, News and Business Library, News Group File).

- Other cases in 2004 illustrate the continuing threat posed by Chinese counterfeit goods to consumer health and safety. In July 2004, a federal jury in Houston, Texas, convicted Zheng Xiao Yi, a Chinese national, of six counts of trafficking in counterfeit merchandise. The counterfeit merchandise was imported from China and contained counterfeit versions of trademarks registered to companies such as The Gillette Company, Underwriters Laboratories (UL), Marvel Enterprises and Nike. The counterfeit goods imported from China by Zheng included Spiderman toys, Nike slippers, Duracell batteries and electrical extension and power cords that bore counterfeit UL certification marks. The most alarming part of the seizure was that none of the electrical cords seized from Zheng passed the Underwriters Laboratories tests required to earn the UL certification mark. The counterfeit cords actually burst into flames when tested under normal household conditions.⁶
- An enforcement action conducted by Cartier in 2004 uncovered a two-room office in Manhattan that contained more 550,000 fake watches. The watch parts were originally made in China, flown to New York via Hong Kong, assembled in workshops in Chinatown and then sold through hundreds of websites. The watch parts were valued at approximately five dollars and the counterfeit watches sold for \$150 to \$200.⁷

As with all illegal and criminal activity, IACC members have had difficulties in accurately measuring their losses resulting from counterfeiting in China. Indeed, many American companies and IACC members are victims of counterfeiting in China even though they have never maintained any type of formal presence in China. Counterfeit Chinese products are shipped not only to the United States, but to countries all over the globe.⁸ Countries where IACC members report finding counterfeit goods of Chinese origin include: Belgium, Bulgaria, Congo, Gambia, Germany, Greece, Indonesia, Israel, Italy, Japan, Jordan, Malaysia, Malta, Netherlands, Singapore, Spain, Russia, United Arab Emirates, United States and numerous other countries in the Middle East, Europe and Southeast Asia.

Multiple IACC members have also reported individual seizures of counterfeit Chinese goods where the counterfeit items discovered have been measured in the hundreds of

⁶ See *Harwin Drive Importer Convicted of Trafficking in Counterfeit Merchandise*, U.S. Department of Justice U.S. Attorney's Office Southern District of Texas News Release (July 20, 2004); Jennifer C. Kerr, *Feds Warn About Counterfeit Holiday Goods*, Associated Press (December 11, 2003).

⁷ See Peter S. Goodman, *In China, A Growing Taste for Chic*, Washington Post, July 12, 2004, at A1.

⁸ See, e.g., *Italy GDF Seizes 34 Mln Chinese Goods*, ANSA English Corporate Service, December 2, 2004 (referring to a seizure by Italian police of 34 million units of Chinese goods valued at \$133.6 million, including toys and holiday decorations that failed to meet European safety regulations).

thousands. An informal compilation of data from IACC members providing enforcement related data shows that approximately 3 million infringing items were seized within China's borders alone in 2004. One IACC member reported uncovering an underground factory that employed over 100 persons, while another reported actions against one particular infringer who operated literally dozens of stores – all dedicated to selling infringing merchandise. An auto industry member has indicated that 50-60% of counterfeit product found globally is produced in China. Finally, one member confirmed that even Chinese military personnel were engaged in infringing operations. Other companies have reported that the military has often been found providing rented storage facilities to counterfeiters – a strategy which has proven successful in most cases in preventing IP owners from amassing seizures of fakes

Adding to the complicated enforcement landscape in China is the Internet. In order to thrive, the business of counterfeiting needs suppliers, distributors, and retail outlets. And, just like legitimate businesses, counterfeiters are turning to the Internet to help establish these trading connections. Many of them find their niche at a “B2B” website, alibaba.com, whose operational base is in Hangzhou. This is the place to go to find suppliers and wholesale sources of counterfeit computer software, knock-off luxury goods and apparel, or clones of patented pharmaceuticals. Many alibaba-listed suppliers are high-volume dealers. For example, some suppliers of counterfeit anti-virus software will not accept orders for fewer than 300 pieces.⁹ A manufacturer of counterfeit cigarettes, claimed to be “98% close to original,” lets buyers start small by taking “trial orders” of “one 40 foot container.”¹⁰ Counterfeiters from all over the world converge on the alibaba.com site. Alibaba.com touts itself as “The World’s Largest Base of Suppliers,” and, as a result, is serving the counterfeiting world. In view of the activities of alibaba.com, Chinese authorities should shut down this site and prosecute anyone involved with manufacture, distribution, offering for sale and sale of counterfeit goods.

In view of the counterfeiting activities both on the Internet and the old brick and mortar environments, gathering specific data detailing the scope of counterfeiting and enforcement related problems is especially difficult for small and medium size companies. Such information and data are difficult and expensive to obtain. Companies significantly affected by counterfeiters generally see a decrease in revenues. The decrease in revenues naturally leads to pressure to severely curtail costs; thus, making it even more difficult to budget the funds necessary to gather information addressing the problem (not to mention the funds necessary to do actual enforcement).

Local protectionism issues in China and the close ties between government and industry also make many legitimate companies hesitant to shine a spotlight on their counterfeiting problems in China. In many provinces, local government entities and agencies invest millions of dollars in the economic and physical infrastructure in the markets that sell

⁹ See http://www.alibaba.com/manufacturer/12569432/Sell_Norton_Software.html.

¹⁰ See http://www.alibaba.com/manufacturer/12571959/Sell_Marlboro_555_Cigarette.html.

infringing goods. These same bodies or their subsidiary agencies are also in charge of intellectual property enforcement. IACC members fear the economic reprisals that may result from complaining too loudly or too specifically.

IACC members certainly understand the need for industry to provide as much specific data as possible, but would also like to see the tables turned and place more of the onus on the Chinese to provide data proving that they are actually reducing the currently obscene levels of counterfeiting occurring within China and to improve transparency regarding the penalties imposed and whether counterfeiters and pirates are, in fact, paying fines and serving jail sentences.

On a positive note, the IACC applauds the long overdue decision by the Chinese authorities to permanently close the large counterfeit and pirate market known as Silk Alley in early 2005. Silk Alley, by itself, was responsible for hundreds of thousands of dollars in counterfeit sales every day. The IACC also applauds the support given by various local government departments in supporting brand owner efforts to partner with the government-owned companies that leased premises in the Silk Alley and other markets in Beijing, based on threats of civil and administrative enforcement against the landlords themselves.

Silk Alley is set to be replaced by a new indoor mall being built next door from the former Silk Alley. Many counterfeit vendors have complained that the rent is too high in the new building and that they will not conduct business there. Recent press reports, however, indicate that the developer of the new building is offering preferential policies to attract former Silk Alley vendors, including exemption from the property management fees and fifty percent rent discounts.¹¹ Even more disappointing, were reports that the government relaxed IP enforcement during the final days of Silk Alley so as to allow counterfeiters the opportunity to sell their excess inventories of counterfeit items.¹² There are also apparently no specific plans for enforcement at the new mall so as to prevent it from becoming an indoor version of “Silk Alley.”¹³ As of this writing, the affected brand owners have requested the Beijing government and the landlord to adopt stricter lease provisions to deter future tenants from dealing in fakes, but there appears to be resistance to acceptance of these provisions.

The IACC also applauds recent policies put into place in retail and wholesale markets in Beijing and Shanghai that ban the sale of any items bearing certain trademarks such as Louis Vuitton, Burberry, Chanel and some twenty other famous foreign brands. The Beijing AIC has recently requested brand owners to issue written declarations confirming that legitimate versions of their goods are not sold in Beijing markets, thereby facilitating future enforcement work. As nearly all items sold in such markets are counterfeit, it is

¹¹ See Lu Haoting, *For Market, It's End of Silk Road*, China Business Weekly, January 7, 2005.

¹² Craig Simons, *Faking It*, South China Morning Post, January 10, 2005.

¹³ See David J. Lynch, *China Closes Market for Pirated Goods*, USA Today, January 11, 2005, at 4B.

only practical to have such a rule in place.¹⁴ The IACC lauds this development which should lead to more trademarks being added to the list of protected brands, but the IACC expresses the hope that these experiments in Beijing will lead to the introduction of a similar arrangement in all other major Chinese cities, and with all brands being offered the opportunity to benefit.

The actions mentioned above provide merely a glimpse into the effects that China's counterfeiting machine has on industry, governments and consumers all over the world. The remainder of the IACC's comments will focus on two of the most pressing areas in terms of China's intellectual property enforcement mechanisms: (1) the need for continued attention to thresholds for criminal liability and prosecution of counterfeiting cases and greater resources being dedicated to criminal enforcement; and (2) the need for strengthening of Chinese Customs procedures and regulations in order to improve border enforcement.

I. Criminal Prosecution Thresholds for the Crime of Trademark Counterfeiting

There is relatively little criminal prosecution in China when compared to the staggering amount of intellectual property crime occurring in the country. Although arrest, prosecution, and conviction rates have increased gradually for IP crimes, the actual number of criminal cases pursued in China is still a drop in the bucket when compared to the need. Accordingly, there is a consensus that China's current system of IP protection relies too heavily on enforcement by administrative authorities -- generally accomplished by officials from the Administration for Industry and Commerce (AIC) and the Technical Supervision Bureau (TSB).¹⁵

Administrative officials lack the authority to arrest and their powers are generally limited to seizure of counterfeit products and the imposition of fines. The seizures conducted and fines imposed by administrative authorities are generally viewed by most counterfeiters as a mere cost of doing business. Although administrative enforcement can be efficient and useful in many ways, it has proven, on the whole, to have little or no deterrent impact against counterfeiters.

China's failure to make greater use of criminal prosecution for willful counterfeiting arguably violates China's obligations under Articles 41 and 61 of the TRIPS Agreement which requires access to criminal enforcement for counterfeiting and piracy conducted on a "commercial scale" and for overall "remedies which constitute a deterrent to further infringement." The Chinese government's use of administrative sanctions cannot replace the enforcement of criminal law, and the obvious strategy for making progress in the

¹⁴See Betsy Lowther, *Copycat Central: China's Silk Alley*, WWD, October 11, 2004, at 21 (noting that a 2004 industry investigation found that 90% of all products in Silk Alley were counterfeit).

¹⁵ Local AIC officials are authorized under the PRC Trademark Law. Local TSB officials are authorized under the PRC Product Quality Law.

future is to dramatically increase criminal prosecutions and at the same time strengthen administrative penalties.

Given the historical circumstances and the fact that a large number of administrative enforcement officials exist to deal with cases, the Chinese Government has consciously limited criminal enforcement to only those cases that are deemed “serious” under Articles 213 and 215 of the Criminal Code. As there is no definition of “serious” in the Code itself, the job of creating one had been left to judicial authorities.

Until recently, criteria for criminalization of IP crimes was governed by prosecution guidelines issued on April 18, 2001, jointly issued by the Supreme People's Procuratorate and the Ministry of Public Security. Unfortunately, the previous standards for determining whether cases fulfill the standards necessary for criminal investigation and prosecution were hopelessly ambiguous, illogical and provided little practical guidance. Moreover, the numerical thresholds set out therein were in any case too high to be practical and useful. This is evidenced in part by the fact that criminal transfers of counterfeiting cases from the AICs to the PSBs actually decreased from 2001 to 2004.

The original guidelines from 2001 were officially replaced in December 2004 with a new Judicial Interpretation issued jointly by the Supreme People's Procuratorate and the Supreme People's Court.¹⁶

Unfortunately, the new judicial interpretations do not appear to be much of an improvement on the prior guidelines. Indeed, in some areas they appear to be a step backward. The following comments detail those provisions we feel need some clarification in terms of what they mean and in terms of how they will be consistently applied by enforcement officials.

At the outset and before delving into comments relating to specific provisions of the new judicial interpretations, the IACC notes its objection, in principle, to the use of any thresholds for criminal liability, and, in particular, for any numerical standards. The IACC hopes that China will, consistent with international practice and the minimum requirements of Article 61 of the TRIPS Agreement, allow for criminal prosecution of all cases of willful counterfeiting, regardless of the scale of the operation.

China is virtually alone among nations in imposing such thresholds. The relevant United States federal criminal statute against trafficking in counterfeit goods (18 U.S.C. § 2320) does not have any threshold value that must be met. To the IACC's knowledge, Vietnam is the only other country to impose numerical requirements for pursuing prosecutions against counterfeiters. The IACC recognizes that government resources are always limited and that decisions to investigate and prosecute will always be subject to practical, financial and manpower limitations. Imposing numerical standards, however,

¹⁶ The Judicial Interpretations were released on December 22, 2004, with the title, “Interpretation of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues in the Concrete Application of the Law in Handling Criminal Cases of Intellectual Property Infringement.”

particularly for liability determinations, simply creates loopholes that provide safe harbors for counterfeiters.

Ultimately, the IACC supports having no numerical thresholds whatsoever. Each case of counterfeiting, regardless of size or scope, should be eligible to be prosecuted. The threshold concept/system, however, is based on the presumption that administrative penalties in China are appropriate and have the required deterrent impact. This has, in practice, proven to be an unreliable assumption. The ultimate result is that Chinese counterfeiters believe that trafficking in small amounts of counterfeit goods is acceptable or will generally be overlooked. The IACC naturally does not agree with this position.

As noted above, TRIPS rejects the use of numerical standards for allowing access to criminal enforcement. Article 61 of TRIPS requires that any counterfeiting or piracy on a commercial scale shall be eligible for criminal penalties. Under the new interpretations, counterfeiters must still be caught with approximately \$6,000 worth of counterfeit goods to be eligible for criminal penalties. This begs the question as to why \$5,999 worth of counterfeit goods does not qualify as "commercial scale" or "serious" infringement, but \$6,000 does qualify. As a practical matter, such numerical thresholds actually impede enforcement efforts. Chinese police are often unwilling to commence investigations until the brand owner and/or administrative authorities have provided convincing evidence that the necessary numerical thresholds have been met. Producing such evidence is often a difficult, tedious and costly task, mainly because most counterfeiters are sufficiently clever to avoid being caught with the requisite amount of fakes or related transactional documentation. Police should instead be encouraged to investigate based on mere suspicion of "serious" infringements and then investigate to gather the necessary evidence. If they are already allowed to do this, then this should ideally have been made clear in the guidelines or separate guidelines issued in parallel to the new Judicial Interpretation.

Relevant Criminal Code Provisions & Criminal Threshold Guidelines

Criminal Code Provisions

Articles 213, 214 and 215 of the PRC Criminal Code detail three separate types of criminal trademark violations. The text of each Article follows:

Article 213

Crime of Counterfeiting Registered Trademarks ("Passing Off")

Whoever, without permission from the owner of a registered trademark, uses a trademark which is identical with the registered trademark on the same kind of commodities shall, if the circumstances are serious, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined; if the circumstances are especially/extremely serious, he shall be sentenced to fixed-term

imprisonment of not less than three years but not more than seven years and shall also be fined.

Article 214

Crime of Selling Commodities Labeled With Counterfeit Trademarks

Whoever knowingly sells commodities bearing counterfeit registered trademarks shall, if the amount of sales is relatively large, be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined; if the amount of sales is huge, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined.

Article 215

Crime of Producing Trademarks Against the Law and Selling Trademarks Produced Against the Law

Whoever forges or without authorization of another makes representations of the person's registered trademarks or sells such representations shall, if the circumstances are serious, be sentenced to fixed-term imprisonment of not more than three years, criminal detention or public surveillance and shall also, or shall only, be fined; if the circumstances are especially/extremely serious, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined.

The Criminal Code Articles themselves fail to define the phrases “serious”, “especially/extremely serious”, “relatively large”, or “huge”. The new Judicial Interpretation attempts to clarify the definitions of these terms, although it remains very uncertain as of this writing whether the new definition will provide sufficient support for increased criminal enforcement. The text of relevant portions/articles of the new interpretations and the IACC’s comments concerning them follow.

Judicial Interpretations¹⁷

Article 1

Using an identical trademark on the same merchandise without permission of the registered owner in any of the following circumstances falls under the definition of "the circumstances are serious" stipulated in Article 213 of the Criminal Code and shall be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined for committing the crime of forging registered trademarks:

¹⁷ The analysis of the new judicial interpretations provided herein is based on an unofficial English translation provided by industry sources.

- (1) *the amount of illegal business amount being more than RMB50,000 or the illegal gains being more than RMB 30,000;*
- (2) *forging more than two registered trademarks, the amount of illegal business amount being more than RMB 30,000 or that of illegal gains being more than RMB 20,000;*

(3) *other circumstances of a serious nature.*

Whoever conducts any of the following acts that falls under the definition of "the circumstances are especially serious" stipulated in Article 213 of the Criminal Code shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined for committing the crime of forging registered trademarks:

- (1) *the illegal business amount being more than RMB250,000 or the illegal gains being more than RMB 150,000;*
- (2) *forging more than two registered trademarks, the illegal business amount being more than RMB 150,000 or the illegal gains being more than RMB 100,000;*
- (3) *other circumstances of an especially serious nature.*

Article 2

Whoever knowingly sells commodities bearing counterfeited registered trademarks, if the amount of sales is more than RMB 50,000, and thus falls under the definition of "the amount of sales is relatively large" stipulated in Article 214 of the Criminal Code, shall be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined for committing the crime of selling commodities bearing counterfeited registered trademarks.

Whoever sells such commodities valued over RMB 250,000 falls under the definition of "the amount of sales is huge" stipulated in Article 214 of the Criminal Code and shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined for the crime of selling commodities bearing counterfeited registered trademarks.

Article 3

Whoever forges or makes representations of another person's registered trademarks without authorization or sells such representations in any of the following circumstances and thus falls under the definition of the circumstances are serious" stipulated in Article 215 of the Criminal Code shall be sentenced to fixed-term imprisonment of not more than three years, criminal detention or public surveillance and shall also, or shall only, be fined for committing the crime of illegally making registered trademarks and selling illegally-made registered trademarks:

- (1) the amount of the representations of other person's registered trademarks forged or made without authorization or that of the sold representations of other person's registered trademarks forged or made without authorization being more than 20,000 copies, or the amount of illegal business amount being more than RMB 50,000, or the amount of illegal gains being more than RMB 30,000;*
- (2) the amount of the representations of other person's registered trademarks forged or made without authorization or that of the sold representations of more than two of other person's registered trademarks forged or made without authorization being more than 10,000 copies, or the amount of illegal business amount being more than RMB 30,000, or the amount of illegal gains being more than RMB 20,000;*
- (3) other circumstances of a serious nature.*

Whoever conducts any of the following acts that falls under the definition of "circumstances of an especially serious nature" stipulated in Article 215 of the Criminal Code shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined for committing the crime of illegally making registered trademarks and selling illegally-made registered trademarks:

- (1) the amount of the representations of another person's registered trademarks forged or made without authorization or that of the sold representations of another person's registered trademarks forged or made without authorization being more than 100,000 copies, or the illegal business amount being more than RMB 250,000, or the amount of illegal gains being more than RMB 150,000;*
- (2) the amount of the representations of other person's registered trademarks forged or made without authorization or that of the sold representations of more than two of other person's registered trademarks forged or made without authorization being more than 50,000 copies, or the amount of illegal business amount being more than RMB 150,000, or the amount of illegal gains being more than RMB 100,000;*
- (3) other circumstances of an especially serious nature.*

IACC Comments Regarding Articles 1-3

Articles one through three of the new interpretations attempt to define and clarify what specific circumstances will qualify as “serious” under Articles 213 and 215 of the Criminal Code and what illegal sales amounts will qualify as a “relatively large” under Article 214 of the Criminal Code.

As detailed above, the IACC reiterates its objection to the criminal thresholds or numerical standards established in the Criminal Code and the new interpretations. The IACC supports having no thresholds whatsoever. Each case of counterfeiting should be eligible to be prosecuted. The threshold concept/system supports the notion that certain amounts of counterfeiting are acceptable or will generally be overlooked. That position is unacceptable and counterproductive.

With respect to the language in the interpretations, the IACC notes that the vague phrases “other circumstances of a serious nature” and “other circumstances of an especially

serious nature” used in Articles one and three are left wholly undefined. What types of counterfeiting activity are these phrases meant to include? Do the phrases include counterfeiting a famous or “well-known” mark? Do they include the counterfeiting of goods that present severe health/safety risks such as car parts or pharmaceuticals? The prior criminal prosecution guidelines from 2001 expressly contained such provisions, but they are absent in the new guidelines and no explanation for their removal has been given. (Article 61 of the previous guidelines referenced pharmaceutical products and Article 63 referenced well-known marks).

Articles one through three of the new interpretations take a significant step backwards with respect to violations committed by repeat offenders. Articles 61 and 63 of the 2001 guidelines, (implementing Articles 213 and 215 of the Criminal Code, respectively), provided that where an alleged infringer had received administrative punishment on two or more prior occasions, the accused was eligible for criminal investigation and penalties regardless of the value of the counterfeit products sold/manufactured/possessed. Although these older provisions left certain questions unanswered, they represented one of the stronger provisions of the guidelines.¹⁸ The repeat offender provisions were removed from the new interpretations in their entirety. In comments submitted to the United States and China months before the guidelines were issued, the IACC noted that it would be easier to build criminal cases based on the then existing repeat offender provisions if administrative enforcement actions were centrally recorded and the TSBs and AICs provided swift access to this enforcement information. The IACC was suggesting a solution to a problem. China chose to deal with this problem by eliminating the provisions entirely.

Article 9

The "amount of sales" as stipulated in Article 214 of the Criminal Code refers to all the illegal income gained or sought to be gained by selling commodities bearing counterfeited registered trademarks.

Any of the following circumstances shall be regarded as falling under the definition of "knowingly" stipulated in Article 214 of the Criminal Code:

- (1) Knowing that the registered trademarks on the commodities that he/she sells have been altered, replaced or covered;*
- (2) Selling the same goods for which one has already been given administrative penalty or has borne civil responsibility for selling goods bearing counterfeited registered trademarks;*
- (3) Counterfeiting or altering the authorization documents of the registrant or knowing such documents have been counterfeited or altered;*

¹⁸ For instance, they failed to clarify whether all three violations had to involve the same trademark or whether two or all three of the offenses could have involved different trademarks. The provisions also failed to explain what would happen when the required three administrative actions were brought by a combination of different administrative enforcement agencies (e.g., AICs and TSBs).

(4) *Other circumstances in which the fact that the registered trademarks on goods are counterfeited is known or ought to have been known.*

IACC Comments Regarding Article 9

The language defining “knowledge” for vendors of fakes under Article 214 of the Criminal Code appears to be too restrictive in that it only provides three narrow examples of conditions in which this standard will be deemed satisfied. The “should have known” portion of the above standard only appears in a catch-all phrase and it should have been amplified to explicitly cover a “willful blindness” standard. “Willful blindness” can be said to exist where a person has good cause to suspect “wrongdoing and deliberately fails to investigate.”¹⁹

Article 12

“Illegal business amount” as stipulated in the Interpretation refers to the value of the products produced, stored, transported and sold by the doer in the course of infringing intellectual property rights. The value of the products produced by infringing on intellectual property shall be computed according to the prices at which such products are actually sold. The value of the products produced by infringing on intellectual property produced, stored, transported, and those not sold shall be computed according to the indicated prices or the actual prices at which the goods are found to have been sold after investigation. The value of the products produced by infringing on intellectual property without indicated prices or whose actual prices are impossible to be ascertained shall be computed according the median market prices of the infringed products.

¹⁹ Secondary liability for trademark infringement exists in the United States under the “should have known” standard. At least two federal appellate courts have recognized the liability of real world swap meet owners for providing a forum for and profiting from the sale of counterfeit merchandise on their premises. *See Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259 (9th Cir. 1996); *Hard Rock Café Licensing Corp. v. Concession Services, Inc.*, 955 F.3d 1143 (7th Cir. 1992). Such liability is imposed based upon a “knowing or having reason to know” standard. Hence, willful blindness can be equated to actual knowledge. Willful blindness can be said to exist where a person suspects “wrongdoing and deliberately fails to investigate.” *See Hard Rock*, 955 F.2d at 1149. *See also Fonovisa*, 76 F.3d at 265 (“[A] swap meet can not disregard its vendors’ blatant trademark infringements with impunity.”). In the *Polo Ralph Lauren Corp. v. Chinatown Gift Shop*, 38 USPQ 1509 (S.D.N.Y. 1996), a landlord who leased space to a retail tenant was accused of contributory infringement based on the tenant’s sale of counterfeit goods. The court granted summary judgment of no contributory infringement because the landlord took the proper steps to avoid liability – i.e., upon notice from the trademark owner, the landlord first served notice to vacate and then refused to renew the lease.

Chinese law permits liability to attach to landlords (e.g., Article 50 of the Implementing Regulations of the PRC Trademark Law, Article 9 of the Judicial Interpretations Regarding the Manufacture and Sale of Counterfeit and Shoddy Goods). Such legal liability should be pursued aggressively by administrative and criminal authorities. The IACC urges China to aggressively pursue landlords who fail to take effective action to stop infringements and knowingly rent space to counterfeiters.

The illegal business amount, illegal gains and amount of sales shall be computed cumulatively in cases of repeat infringements of intellectual property where such acts have not yet been the subject of administrative penalties or have not previously been the subject of criminal procedures.

"Copies" as stipulated in Article 3 of the Interpretation refers to one piece of representation of the complete logo of the trademark.

IACC Comments Regarding Article 12

At first glance, Article 12 appears to do away with the earlier ambiguity as to whether it is necessary for the purpose of criminal prosecution to prove that an infringer actually sold product prior to the seizure of warehoused goods. The IACC welcomes this clarification. Article 12, however, is still somewhat confusing and ambiguous regarding exactly how the value of finished and unfinished products and sold and unsold products will be calculated. This confusion is likely to be shared by administrative authorities and the police, and, consequently, it is feared that delays in arrests and decisions to prosecute will ensue – thereby giving counterfeiters unnecessary opportunities to flee.

Article 12 appears to provide that, for purposes of valuing goods that were previously sold or seized incidental to legal action, product prices shall be calculated according to the actual sales price of the counterfeiter. This is not practical, much less fair, as the infringer's price is usually a mere fraction of the price of a genuine item. Problems also arise with respect to how the infringer's price will actually be determined – e.g., what types of evidence will be used or permitted to be used? Will mere declarations by the infringer be accepted? Will the infringer be required to corroborate sales prices set out in documents it produces? All of these questions are left unanswered.

Article 12 provides that the product values may otherwise be calculated according to the "indicated prices" of the goods. The term "indicated prices" is not defined in the interpretation, but it has been explained by Chinese authorities to refer to the price indicated on packaging or price tags displayed at retail outlets. The absence of written clarification in this regard is troublesome, but since fakes are not routinely sold with prices indicated on the packaging, the importance of this provision is perhaps not critical. Article 12 leaves some key questions unanswered: Does the term refer to the actual price appearing on the packaging or price tags attached to the goods? (Counterfeiters could obviously "indicate" an extremely low price on all the products they store in warehouses for future sales as a means to avoid criminal liability). What if the products contain no indicated price? Will they be valued at zero?

Article 12 goes on to state that if products have no "indicated price" or the actual sales price cannot be verified then the product value will be calculated according to the "median market prices of the infringed goods." Unfortunately, this term is also not defined. Does this term refer to the price of legitimate goods in the same market? Trademark owners have no idea how Article 12 will work in practice. If the answer is

based upon the price of the infringing goods then there is no deterrent value to the provision. Clarification and answers to the questions posed herein are necessary.

Article 15

Where a unit commits any of the crimes stipulated in the Articles 213 through 219 of the Criminal Code, it shall be convicted and sentenced according to the criteria that are three times as high as those for convicting and sentencing individuals committing same crimes according to this Interpretation.

IACC Comments Regarding Article 15

Article 15 provides higher monetary criminal thresholds for enterprise operations, as opposed to individual natural persons. To qualify for criminal penalties, an enterprise operation must engage in counterfeit operations at least three times greater than the value/threshold required for individual persons. The IACC has long held that this distinction is arbitrary, makes little sense and hinders effective enforcement. The damage done to IP owners is the same regardless of who commits the crime. Enterprise standards should be lowered to meet the lower monetary thresholds used for individuals or eliminated entirely. The new interpretations in this regard stand in contrast to the judicial interpretations issued jointly by the Supreme People's Procuratorate and the Supreme People's Court on April 10, 2001, to clarify the scope of Articles 140-149 of the Criminal Code (provisions relating to product quality violations) which do not contain separate criminal liability standards for enterprise and individual violators.

Article 16

Whoever knowingly provides loans, funds, bank accounts, invoices, certificates, licenses, production and operation places, as well as facilities and assistance in producing, storing and import-export agency services shall be deemed an accomplice in the crime of infringing on intellectual property.

IACC Comments Regarding Article 16

The new interpretations do not state whether "accomplices" will be punished in the same manner as the main defendant. They also fail to state whether the operation the accomplices assist in must meet the threshold levels spelled out in Article 1, 2 or 3 of the new interpretations. Furthermore, the interpretation fails to clarify whether the knowledge requirement for accomplice liability may be satisfied in accordance with the knowledge provisions relating to direct vendors of counterfeits as contained in Article 9.

Article 16 refers to criminalization for import-export agencies as accessories. Brand owners were hopeful that the interpretation would go further by making clear that "export" is a type of "sale" under the Criminal Code (Art. 214). Chinese customs has been seeking clarification on this issue for many years and it is not clear why the Supreme People's Court and prosecutors did not deal with the issue in the interpretation

Although not directly related to Article 16 alone, the IACC also notes that the new interpretation does not confirm whether it may be used to deal with crimes which took place before its effective date (December 22, 2004). IACC members report that this issue is likely to be resolved favorably through the handling of a number of pending test cases, but it remains to be seen exactly what will happen.

The Role of the New Judicial Interpretations

When making the determination whether a particular counterfeiter or counterfeiting operation should be subject to criminal penalties, due attention should also be given to the value of any equipment/machines used to produce the goods, the number of workers in the factory, the infringer's bad faith, oral admissions by the infringer, evidence of prior violations not subject to enforcement, warning letters received from the rightholder, the infringer's willingness to cooperate with law enforcement and produce documentation,²⁰ whether the infringer operates an "underground" or unlicensed facility, and possession of semi-finished products or component parts. The new interpretations do not seem to direct enforcement officials to take these telling factors into consideration when deciding whether to pursue criminal sanctions.

Another significant gap in the interpretations is the absence of language addressing the problems caused by counterfeiters who operate underground factories/facilities without the necessary business/commercial licenses from the government. There should be no minimum monetary standard required for criminally pursuing counterfeiters who operate these types of underground facilities. Article 225 of the Criminal Code provides up to five years imprisonment for engaging in "illegal operations." It is the IACC's understanding, however, that Article 225 only applies to parties that deal in products specially regulated by the government (such as cigarettes, telecommunications and publishing).

The text of the new interpretations, while important, should not be the sole focus of our efforts. Whatever steps the Chinese take – new regulations/interpretations, increased training, more funding, IP units in the Public Security Bureau, etc. -- such steps must result in more criminal prosecutions, heavier fines, more jail sentences and a reduction in the overall counterfeiting levels. The natural solution is for Chinese police to take a leading role in the investigation of counterfeiting cases. Additionally, the AICs, Customs, TSBs and other administrative enforcement bodies need to cooperate more closely with Chinese police and Public Security Bureaus (PSBs) and promptly transfer those cases that meet the standards for criminal investigation and prosecution. There is an urgent need for more money, manpower, training and action plans in specific priority regions where counterfeiting levels are particularly high such as: Shenzhen, Guangzhou, Zhongshan, Chaoyang, Chaozhou, Jieyang (all in Guangdong), Yiwu and Linyi (in Zhejiang), Beijing, and Shanghai.

²⁰ It is important to note that Article 55 of China's Trademark Law provides that the suspected parties must render assistance and cooperate with administrative enforcement officials.

Ultimately, two key questions must be addressed with respect to the new interpretations: (1) has the political will in China changed; and (2) how will the new interpretations be applied in practice? Ideally, we would like to receive data from the Chinese government regarding the number of criminal prosecutions for trademark crimes (if any) since December 22, 2004, when the new guidelines took effect. To the IACC, nothing in the new interpretations indicates the Chinese intend to be serious when it comes to criminally pursuing counterfeiters. Questions from brand downers regarding the ambiguities in the new judicial interpretations produced largely inadequate responses from Chinese government officials at the recent U.S. Ambassador's Roundtable on IP in China. The failure to clarify these ambiguities has only fueled industry concerns that China is not serious about complying with its obligations under TRIPS and fulfilling the promises it made at the April 2004 JCCT.

"Fixing" the criminal threshold regulations was a necessary step. Upon analyzing the regulations, however, they appear to be insufficient. The real measure of the new regulations' adequacy or inadequacy will be whether there will be a suitably large increase in the number of criminal trademark related prosecutions that result in criminal fines paid and time served. China promised significant decreases in counterfeiting levels at the April 2004 JCCT and this simply has not come to pass.

Based on the reasoning and analysis detailed above, the IACC urges the Chinese government to:

- (a) provide clarifications to the question presented herein regarding ambiguities in the new judicial interpretations;
- (b) eliminate or significantly reduce all numerical based thresholds;
- (c) allow PSB's to conduct investigations themselves based on proper suspicion (as opposed to the current system where brand owners are often required to gather the evidence necessary to prove counterfeiting levels worthy of criminal enforcement),
- (d) apply the retail value of the legitimate item as the basis for valuation of the counterfeit goods;
- (e) provide for the automatic transfer of cases for counterfeiters who operate underground factories/facilities without the necessary commercial licenses;
- (f) lower the thresholds for enterprises to meet the lower monetary thresholds used for individual persons (or eliminate them entirely);
- (g) record all administrative actions and make such data quickly and easily accessible to brand owners;
- (h) provide that repeat offenders will always be eligible for criminal prosecution regardless of the value of counterfeit goods they possessed;
- (i) increase the transparency of both the administrative and criminal enforcement processes;
- (j) impose more severe penalties; and

- (k) provide explanations, upon appropriate requests, and in writing, to brand owners regarding the reasons why a particular case was not transferred to criminal enforcement authorities.

II. Customs Enforcement

China's new Customs regulations entered into effect on March 1, 2004, ("Regulations of the People's Republic of China on Custom's Protection of Intellectual Property Rights"), and replace earlier regulations from 1995 on the protection of IP rights by local customs offices. Additionally, China's General Administration of Customs (GAC) recently issued new implementing rules/measures on the protection of IP rights by Customs. The new implementing rules took effect July 1, 2004. It is too early to fully and fairly evaluate how the new rules will be implemented in practice. While we commend the effort to issue new regulations and note some positive developments, several issues remain problematic and need further clarification.

Bond Requirements

The new implementing rules give customs the flexibility to fix bond amounts at somewhere between nothing and 100 percent of the value of the counterfeits (Article 22). The new rules regarding bonds are certainly an improvement over prior practices, but the IACC believes the situation could be improved further. Based on an English translation of the new rules acquired by the IACC, it appears this sliding scale for the bond amount applies only when the IP owner has filed the necessary paperwork for a seizure pursuant to Article 21 of the new rules. Article 21 deals with those situations where Customs has discovered counterfeit goods as a result of an *ex officio* investigation/inspection (i.e., without a specific request from the IP owner). Article 22 provides the following provision with respect to posting of bonds:

- if the goods seized are valued at less than RMB20,000 (about \$2300), the bond should be equivalent to the value of the seized goods
- if the goods seized are valued between RMB20,000 to RMB200,000 (\$2300 to \$23,000), the bond will be equivalent to 50% of the value of the goods, but in no case less than RMB20,000 (US\$2300)
- if the value of the seized goods is over RMB200,000 (US\$23,000) the bond should be RMB100,000 (\$12,000)

Article 22 also states that "subject to the consent of Customs, the IP holder may post a general bond with Customs." The amount of a general bond, (in other words a bank guarantee or surety), must not be less RMB200,000 (\$23,000). The GAC has apparently not yet determined how it will formally implement a policy of allowing for general guarantees. The IACC supports a policy whereby GAC would follow internationally

established norms and liberally allow for the posting general bonds in lieu of posting a separate bond for each seizure/case.²¹

For seizures made pursuant to Chapter Three of the new implementing rules (i.e., pursuant to a specific request/application from the IP owner), Article 15 states that the IP holder shall post “a bond equivalent to the value of the goods.” Chapter Three of the new rules covers those situations where the right holder files an application for seizure on its own accord (and not in response to notice provided by Chinese Customs as a result of counterfeit goods discovered during an ex officio inspection as is the case with Articles 21 and 22 described above). The IACC would prefer that the bonding provisions provided for in Article 22 be made available across the board for all seizures and not just those based on ex officio discoveries of IP violations. Based on the current language in the rules, it is not clear if this is already the case.

The new regulations (issued March 1, 2004) also limit the scope of “counter-bond” payments to patent cases. Under the old system, suspected infringers were able to obtain the release of seized goods by simply paying a “counter-bond” equal to the value of the goods. The IACC was pleased to see this practice eliminated for trademark infringement.

Storage Costs/Disposition of Counterfeit Goods

Unfortunately, the new rules continue to require the right holder to cover the costs of storage and disposal of infringing goods (Articles 30-33). When Customs assists in the enforcement of an injunction or a property preservation ruling, the IP holder must cover the expenses related to warehousing, custody, disposal, etc., of the goods during the time period the goods are detained by Customs (Article 31). Right holders will also be required to cover the same costs when the goods are confiscated by Customs for a period of up to three months (measured from the date on which the decision to confiscate the infringing goods was served on the consignor or consignee). IACC members would like to see storage costs covered by the infringers.

One glaring deficiency is that the new rules continue to permit Customs to donate infringing goods to public welfare organizations. If the goods are not of the type that cannot be donated to a public welfare organization, the new rules permit the infringing goods to be auctioned after removal of the infringing features. Only when the goods cannot be disposed of by either charitable donation or public auction will the goods be destroyed.

The IACC believes these provisions are arguably inconsistent with TRIPS. The IACC further notes that counterfeit goods should always be destroyed and that donations to

²¹ The new European Council Regulation 1383/2003, July 2003, took effect on July 1, 2004, and states that rather than a bond, IP owners are to submit a declaration accepting liability (Article 6). The World Customs Organization’s new Model Legislation concerning Border Measures (February 2003) has in the notes accompanying Article 10 suggestions and recommendations that Customs authorities permit a continuous bond so that IP owners are not under constant obligations to post new bonds for each shipment that is stopped. The notes also adopt the new European Council approach of a declaration rather than a bond.

charity or public auctions should only happen with the prior consent of the right holder. We have three reasons for this position. First, nobody can or will vouch for the safety of a seized product. The dangers posed by counterfeit products like medicines, beauty care products, batteries or car parts are obviously significant. To avoid the problem of sending out dangerous products altogether, they should all be destroyed. Second, allowing counterfeit goods to reenter the marketplace through charitable donations or auctions also hurts the right holder. Counterfeit goods are generally of lower quality than the legitimate product and allowing inferior products to reenter the marketplace will only further injure the right holder's brand equity and valuable reputation among consumers. It is not uncommon for counterfeit goods donated to charity or sold at auction to reenter the stream of commerce as they can easily be repurchased by the infringers and leave brand owners right back where they started. Finally, destroying the goods sends a message to counterfeiters and pirates that their illegal activities are never acceptable.

The new regulations do provide the right holder with the opportunity to purchase the infringing goods, but the rules fail to detail the price that would need to be paid to purchase the counterfeit goods. This seems to be the only way a right holder can guarantee that the fake goods will be destroyed and, logically, the practice seems inherently wrong. Having expended resources to get enforcement at all, the IP owner is practically forced to buy back counterfeits to ensure that they do not enter the stream of commerce.

Procedures in line with TRIPS Article 59 should provide for the government to order destruction of counterfeits rather than place the burden on IP owners. Moreover, given the potential high cost of storage, procedures should be adopted that are clear as to administrative handling of cases within a specific, but reasonable, time frame with the possibility that destruction could occur except for samples as evidence once a definitive decision on the goods has been made.²²

Criminal Transfer

Article 26 of the new regulations (issued March 1, 2004) specify that if Customs identifies a case suspected of constituting a criminal violation, Customs is required to transfer the case to the criminal authorities for prosecution. Absent the possibility of transferring customs cases for possible criminal investigation and prosecution, there is no deterrence. The new implementing rules do not contain a section dealing with criminal transfers.

IACC members are reporting that such transfers are still not taking place. Indeed, the IACC is not aware of any case transferred from Customs to the PSBs. Practical measures must be introduced to ensure that such transfers actually take place. Absent the possibility of transferring customs cases for possible criminal investigation and prosecution, there is no deterrence.

²² A legal determination as to whether the goods are counterfeit or not should be separate from a decision regarding the sanctions to be imposed upon the persons involved.

In late January 2005, it was reported that representatives from Chinese Customs and the police had scheduled to meet to discuss how they can better cooperate to ensure that more counterfeiters and pirates face the prospect of criminal investigations/remedies and how to speed up the criminal transfer process. Li Qunying, a director in the Intellectual Property Division of the Customs Service, emphasized the importance of information exchange in this regard and noted that, currently, Chinese Customs simply does not know when or if an infringer has been prosecuted in another part of the country.²³ The IACC urges the Chinese government to take the steps necessary to facilitate information referrals from Customs to the PSBs to investigate counterfeit and pirate manufacturing facilities uncovered during Customs investigations and seizures.

Chinese customs claims they have recently had some successful cases where the PSB intervened in parallel to customs, (but not through a formal transfer where customs processed the export-trading company), while the PSB investigated the factory which supplied the goods. This is somewhat encouraging news, as it responds to requests from industry for stop-gap action. But without the threat of criminal enforcement, import/export companies in China will no doubt continue to be unwilling to cooperate fully in revealing the source of fakes; they will likewise not take seriously their obligations to check the legitimacy of the intellectual property content of the goods they handle.

Information Disclosure

Access to information should be guaranteed to IP owners. The new rules contain provisions detailing information that will be provided to IP owners after seizure of the goods (Article 28). Chinese officials should be encouraged to provide for the disclosure of information regarding persons/companies involved in the export of counterfeit and pirated goods (e.g., identity of Chinese companies that are supplying infringing goods to the consignors). IP owners would benefit significantly for having access to information such as the identity of overseas purchasers or Chinese factories/trading companies involved in the counterfeit production chain. In China, it is generally left to the brand owner to pursue counterfeit manufacturers as Chinese Customs has limited its scope of enforcement to the parties that actually declare the goods to Customs (generally the trading companies). Given the information disclosure possibilities under the European Council Regulations and U.S. regulations, this would simply make China consistent with many other countries.

Fines

The new regulations and the new implementing rules do not mention whether customs will continue to have the power to impose administrative fines against violators and there is no indication that rules permitting such fines will be issued anytime soon. Under

²³ See Emma Barraclough, *Chinese Customs to Cooperate in Criminal Cases*, Managing Intellectual Property, January 30, 2005, available at <http://www.legalmediagroup.com/news/print.asp?SID=15043&CH=> .

China's earlier regulations, customs was empowered to impose fines up to 100 percent of the value of the goods concerned. IACC members encourage Chinese customs to follow international practice and continue to empower local customs to impose fines in amounts consistent with the PRC Trademark Law and Copyright Law.

Based on the foregoing, the IACC urges the Chinese government to:

- (a) clarify inconsistencies within the new implementing rules regarding the bond requirements and permit the new "sliding scale" procedure to apply to all seizures;
- (b) permit donations to public welfare organizations and public auctions of infringing goods only with the consent of the right holder and/or only after the right holder has been given the option of destroying the goods themselves;
- (c) require the infringers to pay the costs of storage and disposal;
- (d) transfer customs cases routinely for possible criminal investigation and prosecution;
- (e) provide the identity Chinese companies that are supplying infringing goods to the consignors and/or the Customs declarant; and
- (f) restore the power of Customs to impose administrative fines against violators.

BELIZE

Recommendation: Priority Watch List

Product Counterfeiting

Belize's ports and free trade zones (FTZ) have been targeted by counterfeiters in an attempt to introduce their products into Mexico through the Corozal Free Trade Zone. Once into Mexico, counterfeit goods are shipped to the United States and other countries in the Americas.

In October 2004, three containers of counterfeit products were seized as a result of cooperation between Belize customs and representatives of the right holder. However, stronger controls should be imposed on shipments entering Belize and destined for the Corozal Free Trade Zone. Furthermore, clarification is needed as to which authority has jurisdiction to enforce trademark rights inside the FTZ.

Case examples illustrate the counterfeiting problems in Belize.

Case 1

Belize Free Zone Authorities were provided specific information regarding the presence of counterfeit products in a warehouse in the Corozal Free Zone. The reporting company took the head of security and pointed out the warehouses, requesting that FTZ security conduct a thorough inspection. Prior to the meeting with FTZ management, the company received specific information from an informant concerning the presence of counterfeit goods. FTZ management assured the right holder that they would inspect the warehouses immediately. Unfortunately, the company was subsequently advised that the warehouse was not inspected until four days later, when the counterfeit products were no longer present.

Case 2

The right holder informed Belize customs of investigative intelligence suggesting the arrival of ten containers of counterfeit products. The information was general to the extent that the right holder could say only that the goods would arrive over a period of months. Although specific information was not available, the right holder advised Belize customs that the principal shipping route for the product was from Asia through Jamaica (Kingston) to Belize, with a weekly vessel arriving from Jamaica directly to Belize.

Unfortunately, Jamaican authorities will not seize goods in-transit, thus leaving the responsibility on the Belize authorities. Not surprisingly, no containers were seized, but local market information suggested a steady flow of counterfeit products bearing the marks of the right holder who had provided the intelligence. Belize customs admitted that inspecting for counterfeit goods was not a priority for them. There has been no positive change in the enforcement efforts of Belize authorities since last year when similar problems were identified.

Conclusion

The IACC, therefore, recommends that Belize be placed on the Priority Watch List and requests that USTR encourage the Government of Belize to:

- Devote more resources and efforts to border enforcement, mainly in the FTZ, and work to reduce corruption;
- Revoke business licenses from those involved in counterfeit and pirate trade;
- Ensure destruction of seized products that are determined to be counterfeit;
- Take steps to implement enforcement actions in free zones against goods in-transit and transshipments; and
- Make a concerted effort to work in closer cooperation with brand owners and respond more appropriately to industry requests for assistance.

MALAYSIA

Recommendation: Priority Watch List

Background

In 2004, USTR placed Malaysia on the Watch List. USTR noted progress in curtailing retail level piracy and increased enforcement against pirate optical disc manufacturing facilities. However, USTR also noted that Malaysia remains the world's leading exporter of pirated entertainment software. In addition, USTR cited trademark infringement affecting a wide range of products as a serious problem and noted the slow progress of cases through the judicial system.

Copyright Piracy

Despite enforcement efforts taken by the Malaysian government in 2004, IACC members continue to report that Malaysia is a major source of pirated goods. Malaysia's optical disc law went into effect in September 2000. One of the primary objectives of the law is to control optical media replication in the country. The law includes provisions for significant fines and prison terms. Many of the pirates in Malaysia, however, have learned ways to circumvent the optical disc regulations. The Malaysian government needs to be encouraged to close these loopholes.

In addition, the process for prosecuting defendants is slow and ineffective and provides little deterrent effect. The criminal enforcement system is wholly ineffective in dealing with piracy and criminal prosecutions are rare. For example, it was reported in September 2004 that the Malaysian government has over 600 pending copyright cases and has yet to record even one conviction against a software pirate.²⁴ Numerous raids, while sometimes successful in seizing large numbers of optical discs, have not resulted in the arrest or prosecution of any of the leaders of the organized criminal groups behind the pirate production and distribution operations. Instead, arrests of "fall guys" or low-level store clerks take place which allows the operation kingpins to escape prosecution and continue their illegal production and export activities. Malaysia must arrest and prosecute the kingpins behind these nefarious activities. Members also report that more stringent criminal penalties need to be applied across the board.

Pirate optical disc production remains a significant problem. In 2004, Malaysia remained the most damaging source country for certain types of entertainment software. Confirmed exports of millions upon millions of pirated entertainment software products sourced from Malaysia occurred in at least Australia, Europe, Kuwait, Malta, Mexico, Singapore, Sweden, Thailand, United Kingdom, South Africa, Turkey, Saudi Arabia and the United States. One member provided reports of a sophisticated operation that routinely exports optical discs from Malaysia, transships them through the United

²⁴ See Steven Patrick, *Need for a Dedicated Intellectual Property Court*, TheStar Online, September 16, 2004.

Kingdom to Malta where organized syndicates further distribute them around the surrounding Mediterranean countries.

Malaysia has over 40 optical disc production plants and over 250 production lines which can produce over 900 million pirate discs per year – a number far larger than the domestic Malaysian market for legitimate optical discs. As a result, much of the production is pirate and is exported around the world. In one illustrative case, an individual flew from Malaysia to Argentina and traveled with ten bags. The individual's bags were detained by Customs officials and the individual eventually left the airport with another individual who was later identified as an airport security guard. A search warrant was issued for the bags whereupon it was discovered that they contained 16,000 DVDs of pirated movies and entertainment software. All factory source identification codes on the discs were obliterated.

The pirates continue to employ sophisticated means to evade detection, including the use of numerous express mail couriers, government postal services, air cargo forwarders and other third parties to export product out of Malaysia. Documents that accompany the export shipments are often fraudulent and contain false contact information, thus making it nearly impossible to trace the true identity of the original exporter.

IACC members have also expressed disappointment with Malaysia's mandatory hologram sticker program which requires distributors of optical discs containing copyrighted material to purchase and apply hologram stickers to their respective merchandise. The security holograms were intended to allow enforcement officials to distinguish between pirate and legitimate merchandise. Unfortunately, the holograms have been purchased and used by pirates. Other parties have used false license information to obtain the holograms. Requiring the use of holograms may also be inconsistent with the terms of the Berne Convention and the TRIPS Agreement which require that enforcement of copyright protection shall not be subject to mandating compliance with "formalities." The IACC urges the Malaysian government to seriously examine the legality and overall effectiveness of its current hologram policy and the burdens it places on legitimate right holders.

Hopes for improved domestic enforcement were given a boost under a new government proposal that could potentially target not only individuals producing and selling pirate video merchandise, but also the owners of the buildings or property where such illegal activity is taking place. The present law does not provide for such action. The new proposal was discussed at the first high-level committee meeting of relevant government agencies convened to study the issue of more stringent enforcement against video piracy. The committee is reviewing the Copyright Law to determine if any changes are necessary and has two months to submit a report on the matter. The Malaysian press recently reported that Domestic Trade and Consumer Affairs Minister Datuk Shafie stated that producers and peddlers of pirate video merchandise would face a mandatory jail sentence under changes being considered during the current legal review.²⁵ The IACC applauds

²⁵ See *Building Owners to Answer for VCD Piracy*, TheStar Online, January 29, 2005.

such efforts and hopes that the stricter enforcement being considered will be applied to all forms of pirate merchandise and not just video piracy.

Trademark Counterfeiting

Trademark counterfeiting continues to be a major problem in Malaysia and impacts a broad range of industries, including:

- Optical media;
- Apparel and luxury goods;
- Tobacco;
- Batteries;
- Health products; and
- Household and consumer goods

The Ministry of Domestic Trade and Consumer Affairs (MDTCA) is charged with conducting trademark enforcement in Malaysia. Multiple IACC members report that the MDTCA is severely understaffed and that there are huge numbers of counterfeit goods in the Malaysian market. Raids usually result in the imposition of small fines that fail to deter violators and simply embolden repeat offenders. Other members have reported that the enforcement division of the MDTCA is generally responsive when it comes to conducting raids, but is slow when it comes to follow up investigations and prosecutions after the raids have been conducted. For example, members report that the investigating officers rarely question the targets of the raid concerning their supply sources and rarely follow up on leads to identify such supply sources.

Other complaints relating to trademark enforcement from IACC members include:

- Violators are rarely charged;
- No criminal convictions against counterfeiters;
- Records and information regarding the outcome and status of investigations and cases is not readily available to brand owners despite repeated requests;
- Difficulties in obtaining cooperation from Malaysian authorities when attempting to locate the true identities of the operators of hundreds of websites originating from Malaysia that offer counterfeit apparel items;
- Delays in securing trademark registrations (can take anywhere from two to five years to obtain a trademark registration). Trademark opposition proceedings also suffer from delays. One IACC member initiated a trademark opposition proceeding nearly ten years ago and is still awaiting a final resolution;
- Lack of intellectual property specialization within the Malaysian judiciary that leads to inconsistent decisions;
- Merely serving offenders with legal notice through the judicial process is a cumbersome and timely process. Offenders will avoid service and delay proceedings through deception and frequent change of addresses. One IACC member complained of one particular case where they have been unable to simply serve the defendant for over two years;

- The current penalties under the Sale of Drugs Act of 1952 and the Poisons Act of 1952 are inadequate and do not reflect the gravity of the offense committed with respect to the numerous health and safety issues presented by the counterfeiting of healthcare products. The penalties for the importation/sale of such counterfeit products should be at least equal to the penalties imposed under other laws relating to consumer safety. The current penalties under the Sale of Drugs of 1952 and the Poisons Act of 1952 are five times lower than the penalties provided for violations of the Trade Description Act of 1972 and the Consumer Protection Act of 1999. The IACC would like to see mandatory prison terms for violations of the Sale of Drugs Act of 1952 and the Poisons Act of 1952;
- Malaysia's Trademark Act was amended in 2001 to provide for the protection of well-known marks. The amendments, however, provide that any bona fide use of a trademark begun before the commencement date of the 2001 well-known mark amendments shall not be affected even if a trademark is proven to be a well-known mark. This loophole effectively provides a certain level of immunity to trademark pirates who attempted to register already internationally famous marks prior to 2001 (with the ultimate goal of one day extorting money from the legitimate trademark owner);
- Trademark owners have a difficult time receiving updates on whether seized items are actually destroyed. When brand owners seek to initiate a destruction event, they often encounter numerous postponements of previously agreed upon dates.

Border Enforcement

Western Malaysia has five major ports and eastern Malaysia has another five. Heavy container traffic at these ports makes it difficult for customs to carry out random checks of the incoming containers and those being transshipped through the Malaysian ports. Instead customs has chosen to call for specific and reliable information/intelligence from brand owners before inspecting a shipment. Unless a brand owner's request is substantiated with specific evidence, customs will not stop/check any incoming container. Accordingly, many brand owners are essentially precluded from using customs as an enforcement tool.

The current border measures used to facilitate the seizures of infringing copyright and trademark materials are under-utilized, if utilized at all. The compulsory payment of a bond, requirements to initiate civil proceedings for trademark infringement matters and detailed shipping information of the counterfeit products, limit effective use of the law. The current border measures should be amended to provide a simpler and faster process for customs officials to seize counterfeit products including suspected counterfeit products.

Additionally, there is currently no express provision in the Malaysian Customs Act of 1967 to empower and enable Customs Officers in seizing illicit goods and prosecuting counterfeiters for importing counterfeit products into Malaysia. The Customs officers have been unable to take any *ex officio* action under the provisions of the Customs Act

1967 (as opposed to the Trade Marks Act 1976 or Copyright Act 1987). If the Customs authorities do provide assistance, it is done on a “goodwill” basis rather than any legal obligations and/or duties under the law. As regards border enforcement measures, it is essential and critical for the Customs authorities to be actively involved in the enforcement of intellectual property rights to stop infringing products from being imported into Malaysia. Such actions by the Customs authorities will complement the efforts undertaken by the MDTCA enforcement officers who are not stationed at various ports and exit points within the country.

IACC members also complained of counterfeit goods being transshipped through Malaysian ports and the abuse of free trade zones. Members report that there is confusion among law enforcement and the judiciary regarding the scope of the enforcement powers available to combat counterfeiting in the free trade zones. This is a matter that needs to be urgently clarified so that law enforcement officials are empowered to act in the free trade zones and feel fully confident in the legal justification for doing so. Members report that similar confusion exists over whether Customs has the authority to inspect and seize counterfeit goods in transit.

Conclusion

We request that USTR encourage the Malaysian government to:

- Target enforcement actions against the owners of both licensed and unlicensed optical disc factories, (e.g., frequent surprise inspections and raids), and aggressively prosecute violators;
- Develop a system of export monitoring in an effort to significantly reduce the export of pirated product, including developing methods to prevent the use of false shipping and identification information on export shipping documentation;
- Aggressively investigate the connections between piracy and counterfeiting operations and organized criminal elements operating within Malaysia;
- Create a unit of legally qualified and highly trained prosecutors in the enforcement division of the MDTCA;
- Revise the existing provisions of the Customs Act 1967 to enable customs authorities to target, intercept, detain, seize and forfeit counterfeit products and to act against any person who blatantly transports such counterfeit products across the border to the detriment of the nation and legitimate businesses;
- Provide records of outcomes of cases and other enforcement data to right holders;
- Establish a specialized intellectual property court to deal with counterfeiting and piracy cases;
- Instruct Customs authorities to work in cooperation with right holders to monitor and seize infringing exports; and
- Increase the number of criminal prosecutions and apply deterrent level sentences.

MEXICO

Recommendation: Priority Watch List

Mexico's ineffective enforcement system has been the focus of IACC members for many years. Generally, the system remains ineffective with no real progress being reported. Some trademark owners characterize Mexico's enforcement environment as worse than China. The only positive seems to be in the administrative handling of trademark issues by the industrial property office.

Prosecution/Judiciary

IACC members report that the combined effect of Mexico's prosecutors and judges leaves them with no effective criminal enforcement system. Members complain of prosecutors who are ineffective, lacking sufficient knowledge and awareness of laws to prosecute counterfeiting cases. Generally, members find that prosecutors, including those who are supposed to be part of the specialized IP group, are hostile to trademark owners who bring cases.

Members also believe that no progress is being made with regard to the courts in handling counterfeiting cases. Judges appear to be either uninterested in or unaware of the dangers that counterfeit goods may pose to consumers given the broad range of counterfeit products in the Mexican market, including counterfeit auto parts and electrical products. As a result, counterfeiters receive non-deterrent penalties even when found guilty.

Customs

One of the major gaps in Mexican enforcement continues to be border enforcement. Mexican customs has no authority to take action over counterfeit goods. As a result, goods are released into the channels of commerce and require right holders to seek action in the domestic market.

Customs officials informed the IACC in December 2004 that it allows industry association observers to be present with customs officers to inspect goods. While the "observer" system may be useful for copyright-based industries, it is much more difficult for the trademark-based industries due to the fact that practically everything moving in trade bears trademarks and no single association or group of associations would have the proper level of expertise for all the goods bearing trademarks. Therefore, trademark owners are disadvantaged to the extent that customs requires associations to represent right holders in this "observer" system.

Although Customs explained its ability to hold suspect goods for limited periods, there is a problem with Customs information disclosure with other government agencies. The

issue of corruption in enforcement agencies tends to weaken efforts toward any interagency cooperation against imported counterfeit goods.

Conclusion

Mexico continues to be plagued by fundamental problems regarding its enforcement system. In view of the many years of industry frustration, the IACC requests that USTR encourage the Government of Mexico to:

- Expand the use of observers working with Customs for the trademark industry and eliminate the requirement that only associations may serve in this capacity;
- Increase inspections of goods imported into Mexico and provide authorities with greater enforcement powers;
- Increase efforts to combat corruption/information leaks with the imposition of severe penalties against officials;
- Target organized crime groups involved in piracy/counterfeiting;
- Initiate enforcement efforts targeting known locations such as Tepito on a daily basis, using police and its organized crime units;
- Improve IP education for prosecutors and the number of prosecutions;
- Increase the imposition of strong criminal penalties and destroy seized products; and
- Increase the speed and efficiency of administrative and judicial actions.

THE PHILIPPINES

Recommendation: Priority Watch List

Introduction

IACC members continue to experience significant counterfeiting problems in the Philippines with some members reporting an increase in counterfeiting. Although there have been published reports of prosecutions and enforcement, our members continue to find the overall enforcement system inadequate and ineffective. The enforcement system is hampered by corruption and local protectionism. The IACC has recommended Priority Watch List in three previous submissions.

Judicial Deficiencies -- Criminal

Members report that the current judicial process contributes to the high rates of counterfeiting and piracy because of major procedural and structural deficiencies. The Philippine judicial system is slow and procedural rules allow defendants to employ delaying tactics that slow down the judicial machinery.

In addition, there are significant problems related to the application for search warrants. Current procedures (following the 2001 amendments) tend to require, with few exceptions, that applications for search warrants be submitted to the Regional Trial Court in the location where the alleged criminal activities are taking place. Members believe that the system could be more effective if there was greater flexibility and allowed either (or both) Executive Judges or specially appointed IP Judges to have the jurisdiction to grant search warrants anywhere within the Philippines. This would allow trademark owners and the law enforcement officials greater protection against either the leak of information on targets or the possibility of an unfavorable "home town" decision. This should also apply for the subsequent hearing of the criminal case should the search result in evidence of infringing activity.

Criminal cases take an inordinately long time to be completed. One of the major reasons for this is that trials are not completed in one sitting, but rather hearings are spread out over many months. For example, a witness can give evidence in chief on one day, be cross examined by the defense several months later, and be re-examined several months later. The trial, therefore, becomes a disjointed affair conducted with multiple hearings over many months or years. As with other common law based legal systems, a trial date should be fixed and where possible, completed in one continuous sitting.

As noted in past submissions, the lengthy criminal investigatory process includes the need for trademark owners to file complaints before a preliminary investigation is conducted by the authorities, which provides sufficient time for possible defendants to evade authorities. Because the preliminary investigation is a procedural step in

determining probable cause for the filing of criminal charges, significant time is available to possible defendants to allow them to gain notice of possible charges and find ways to stay beyond the reach of the authorities by the time charges are filed. Members believe that the criminal procedure rules must be amended to provide for the possibility of arrest warrants during the preliminary investigation phase, permitting individuals to be placed in custody. Absent these procedural changes, the criminal prosecution option against counterfeiters is meaningless. The time that elapses, years in some cases, denies justice to trademark owners

To the extent that criminal cases are finally decided, the penalties for counterfeiting and piracy are generally far too low to have any deterrent effect.

Border Enforcement and Follow-up

Trademark owners report that imports and exports are problems in the Philippines. In addition, the Philippines also poses an in-transit problem. The free trade zones are also contributing to the trade in counterfeit goods from the Philippines. The Philippines is not engaged in any effective enforcement at the border. Members believe that the cross border trade in counterfeit goods is taking place with full knowledge of some customs officials given the fact that documents, in some cases, do not attempt to conceal the cargo and destinations.

The IACC recently learned from a member that the Philippine Customs Office that an IP unit was created to address IP infringement. Hopefully, this will make a difference.

Conclusion

Based on the foregoing, the IACC recommends that the Philippine government:

- Implement an effective border enforcement system that requires enforcement against imports, exports, goods in-transit and the activities in free trade zones;
- Vigorously prosecute and seek prison sentences for counterfeiters and pirates;
- Streamline criminal procedures to require speedier resolution of criminal cases; and
- Implement procedures to reduce corruption and protectionism.

RUSSIA

Recommendation: Priority Watch List

Introduction

Trademark and copyright owners continue to find Russia a difficult market in which to combat counterfeiting and piracy. Despite trademark owners finding some positive actions by the Economic Crime Police and reliance on counterfeiting provisions of the criminal code, Russia continues to have rampant counterfeiting.

Trademark Counterfeiting

In addition to the usual luxury goods counterfeiting, product counterfeiting in Russia affects a wide range of product sectors, including petroleum and tobacco products. Counterfeit lubricants and petroleum products in the auto industry, for example, brake fluids and fuel additives are present in the market at significant levels. Counterfeits of the petroleum products tend to be a domestic issue.

Despite some noteworthy enforcement actions, Russia is becoming a growing source for exports of counterfeit tobacco. Exports of large quantities are finding their way to markets in Western Europe. The Government is not exercising sufficient control over the import and export of the products to thwart this growing problem. In addition, the absence of provisions in law, including the trademark law, to seize the materials and equipment and to destroy the materials compounds the problem by allowing both to remain available to counterfeiters.

Copyright

Software piracy rates for some product sectors are as high as 80-85%. The software piracy problem in Russia also implicates problems with protection at the border as pirated products are entering from China and Ukraine. In addition to the imported products, there is a massive domestic enforcement problem as domestic production of pirated product is high and there are roughly 7,500 Internet cafes, 90% unlicensed and having pirated and unlicensed products on their systems.

In addition to the software piracy problem, members report that Russian syndicates are also blatantly trying to register trademarks owned by the legitimate software producers so that the pirates can appear to gain legitimacy for their illegal optical disc production facilities.

Another addition to the burden of software owners is the ever-growing number of flea markets in Russia that sell pirated products. Estimates now number as high as 50,000 flea markets in Russia with many selling pirated products. Members report that they are in a race with Russian syndicates that are developing their own brands and logos to cover

the pirated software so that by obtaining trademark registrations, they have some legitimate cover for the piracy operations.

Russia needs to develop an enforcement plan to curb the syndicates, including specialized police units, crack down on pirate optical disc reproduction in the country, and ensure that pirates cannot hijack trademarks of famous brand owners for their own use.

Border measures

Russia's border enforcement system remains very weak. The information exchange between customs authorities and right holders is inadequate for effective enforcement. Right holders do not receive any information from customs on seizures of suspected products and samples of seized products. Moreover, the new Customs Code still lacks a provision on ex-officio measures.

Conclusion

In view of the magnitude of piracy and counterfeiting in Russia, the IACC requests that USTR encourage the Russian Government to undertake significant steps to:

- Provide for legislation on seizure and destruction of materials and equipment used for manufacturing counterfeit products;
- Proceed with corresponding legislative changes in criminal law and criminal procedural codes in line with new Trademark law;
- Provide and prompt the use of ex officio powers by customs officers;
- Provide right holders with information on seizures of suspected products at the border and with sample of seized products;
- Combat organized crime involvement in all stages of IP counterfeiting and piracy, which deters IP owners from aggressively protecting their rights;
- Close known open markets that are centers for the sale of pirate and counterfeit goods;
- Implement a plan to combat syndicates involved in piracy, including the creation of specialized police units to raid and close optical disc production facilities; and
- Adopt procedures to prevent trademark piracy by illegal producers.

CHILE

Recommendation: Watch List

Chile's legal regime for the protection of trademarks is ineffective in deterring product counterfeiting.

At present, Chile's criminal provisions for trademark counterfeiting will lead to a felony only if goods have been sold or offered for sale.²⁶ Because a counterfeiter is not subject to criminal felonies by purchasing, storing and/or importing counterfeit goods, the penal provisions have no deterrent effect.

The IACC believes that the limited actions that subject counterfeiters to criminal liability under Chilean law constitute major deficiencies. These deficiencies rise to the same level as those previously identified with regard to China's law concerning acts that could subject counterfeiters to criminal penalties. These deficiencies should be corrected by the Government of Chile now that it is considering legal improvements to its laws.

The availability and movement of counterfeit goods in Chile is facilitated by its free trade zones (FTZ). The FTZ in Iquique ('ZOFRI') is the primary center for the distribution of counterfeit products entering the domestic market. In addition, it is the transshipment hub for counterfeit products arriving from the Far East, transiting through Panama, and destined for other Latin American countries.

In 2004, Chilean customs issued regulation 2000, which imposed special controls on liquor and tobacco entering or exiting the ZOFRI and required a guarantee to be posted with customs for transshipments. The guarantee would be retrieved once the shipment had reached its final destination.

Despite this new regulation, companies operating in the ZOFRI have found a loophole. For example, products leave the ZOFRI with documentation indicating Peru's Dock 7 as the final destination. Dock 7 is located within Chilean territory, but due to international treaties it operates as a Peruvian port. Therefore, Chilean Customs has no jurisdiction in the port area. Transshipment of the goods is finished once the goods are unloaded in Dock 7 and, thus, the guarantee can be retrieved. However, the destination of the cargo is usually changed and the merchandise continues its route through Chilean territory in an "in-transit" status.

Practices such as those that occur in the Dock 7 area are not subjected to any scrutiny by the authorities. As a result, no enforcement efforts are taken in the area despite the illegal activity. Thus, the hands off policy facilitates the trade in counterfeit goods through the FTZ.

Because of the deficiencies identified above, the IACC requests that USTR identify these deficiencies so that the Government of Chile takes corrective action as soon as possible.

²⁶ See Chile's Penal Code, Article 190.

In addition, we request that these provisions be addressed as Chile amends its laws to meet its obligations under the U.S.-Chile Free Trade Agreement.

The Government of Chile should be encouraged to:

- Provide for criminal penalties for those who manufacture, store, distribute, and traffic in counterfeit goods;
- Implement effective border enforcement powers that permit enforcement authorities to:
 - Exercise ex officio enforcement action; and
 - Subject exports, goods in-transit and FTZs to enforcement actions for the violation of intellectual property.

INDIA

Recommendation: Watch List

The Indian market is rife with pirate and counterfeit products. Copyright and trademark owners report significant infringement of intellectual property rights in India.

Trademark Counterfeiting

IACC members report that counterfeiting in some product sectors appears to be on the rise. The auto industry has been persistent in reporting high levels of counterfeit auto parts in the Indian market.

IACC auto industry members report that counterfeit auto parts occupy nearly 25% of the market. The percentage of the auto parts market that is made up of counterfeits may be as high as 30% as estimated by some Indian industry representatives.²⁷ In other product sectors both Indian domestic manufacture of product and related packaging bearing counterfeit marks is increasing. IACC members report that the share of the market taken by counterfeiters is due to practically no enforcement by Indian authorities, including the lack of enforcement at the border to stop imports. More problematic is that members are reporting that India is a source for the export of counterfeits, including auto parts.

Trademark owners view the enforcement problem as a combination of a lack of resources and motivation as well as corruption. All the elements contributing to poor enforcement is viewed, in part, due to the Government's overall lack of will to address the issue as a priority.

Finally, while not an enforcement issue, trademark owners report that another element of India's trademark system that contributes to problems is the extremely long delays in processing trademark applications. The application process can take as long as six years before a mark is registered. This delay deprives potential trademark owners of their ability to fully engage in commercial activities due to uncertainties as to whether the mark will be registered and subject to the protections afforded to owners of registered marks.

Copyright

IACC members report high percentages of pirate product in the Indian market. The entertainment software industry reports piracy rates of 90%. The saturation of the market by such a high level of pirate product is clear evidence of a non-existent enforcement system. Pirate product can be found in retail locations and flea markets. While some pirate optical disc products are being imported into the Indian market, the entertainment software industry faces the problem of an increasing domestic production problem. In

²⁷ "Fake Auto Spares Market Near \$1 Billion", Business Line (August 25, 2004).

addition, Internet downloads of legitimate “demos” has resulted in the production of illegal compilations of discs containing the game “demos”. The downloading of the legal demos to create illegal compilations of games from different publishers has resulted in consumer confusion.

The existence of the demo compilations in the Indian market for extremely low prices has made it difficult for the copyright owner to enter the market and have any success in competing against illegal products. Indian consumers are unaware of the fact that the demos are not the complete game. Nevertheless, the pirates have been able to illegal make the compilations and operate in the market place with little or no enforcement action taken against the pirates and the illegal product.

Conclusion

The IACC recommends that USTR place India on the Watch List and encourage the Indian Government to:

- Provide training and education for police, prosecutors and judges regarding the investigation, prosecution and hearing of IP crimes;
- Provide enforcement authorities with ex officio authority against counterfeiters and pirates;
- Implement an effective border enforcement system that includes authority to stop goods intended for exports;
- Establish an IP enforcement system that requires interaction among enforcement agencies having responsibilities in IP enforcement; and
- Reduce delays of the trademark office procedures that result in issuing registrations.

KUWAIT

Recommendation: Watch List

Background

In 2004, USTR elevated Kuwait to the Priority Watch List. USTR noted Kuwait's failure to amend its copyright laws, address rampant copyright infringement and implement a 2002 work plan that outlined steps it would take to increase intellectual property enforcement.

Trademark Counterfeiting

The auto industry continues to suffer from high levels of parts counterfeiting in Kuwait. IACC members in the auto industry estimate that twenty percent (20%) of the after market parts bearing their marks are counterfeit.

Industry representatives believe that a severe lack of border enforcement is the primary obstacle to combating the counterfeiting problem in Kuwait. IACC members report that Customs officials are slow to react after complaints are filed. Members also report that the inspection of containers at ports is virtually non-existent and that enforcement officials lack basic knowledge regarding application of the relevant laws. Many shipments also lack the paperwork necessary to compile evidence regarding the origin of the products contained in a particular shipment.

Copyright Piracy

Piracy of entertainment software continues to be a problem in Kuwait. Pirated optical discs of entertainment software products are available and sold openly in retail markets (souqs). Potential consumers are sometimes even approached on the street. Pirated entertainment software in all forms continues to flow into Kuwait from Asia. Pirates even use entertainment software publisher trademarks in their advertising materials. Internet piracy, especially in Internet cafes, is also increasing in Kuwait. Numerous café owners install unlicensed software onto their computers. Industry representatives estimate that there are now approximately 300 Internet cafes in the country.

Government censorship of movies has also led to decreases in attendance at movie theaters. Sometimes the government will censor/remove portions of a movie that are critical to the storyline. Accordingly, many Kuwaiti consumers prefer unedited pirate versions of the movies to the legitimate and government censored versions.²⁸

²⁸ See Lena Liew, *Kuwait's Closure of Cinema's in Ramadan, Boon to Pirated DVD*, The Malaysian National News Agency, November 7, 2004.

Conclusion

The IACC requests that USTR encourage Kuwait to:

- Implement more effective customs enforcement measures;
- Conduct repeated and sustained raids in the retail market by law enforcement;
- Refer cases for criminal prosecution; and
- Provide training and education to relevant enforcement officials.

PANAMA

Recommendation: Watch List

Background

Significant quantities of counterfeit and pirate products continue to pass through the Colon Free Zone, a key transshipment point for counterfeit and pirate products to points throughout the world.

While both Customs and the Colon Free Zone authorities support brand owners' efforts against IP theft, the lack of personnel, coordination and resources prevent them from being more effective.

Counterfeit Cigarettes and the Colon Free Zone

IACC members were pleased to report that the new Panamanian administration conducted a much needed clean sweep of the Customs organization. In Colon, a very capable and committed regional Director of Customs has expressed his desire to combat the illicit counterfeit trade. Unfortunately, several sources have reported that IP issues are not a top-level priority for the new Customs Director General. In other positive news, members report that the Panamanian Judicial Police (PTJ) has revamped its IP investigative unit with qualified and experienced personnel. The PTJ has requested and will receive training from private industry, but it still has budgetary limitations that could potentially limit its effectiveness.

The Colon Free Zone continues to be an area of concern for many trademark owners. The lack of transparency in its operation has resulted in illicit product disappearing and escaping enforcement actions by local authorities.

In one particular case, a trademark owner and IACC member located a container of counterfeit cigarettes in May 2004 in a warehouse in the Colon Free Zone's France Field. The local IP office was advised of the presence of the counterfeit products and with the support of the head of Free Zone Security the products were seized. Later that day, the trademark owner confirmed to the IP office that the products were, indeed, counterfeit, and made arrangements for the secure storage of the product over the weekend. On Monday morning, while driving to the Free Zone to coordinate the movement of the products to a secure warehouse, IP officials from the Free Zone notified the trademark owner that the Free Zone administrator had ordered him to return the counterfeit product to the defendant. This official did not want to carry out this order, but stated that he was under pressure to do so.

With the assistance and intervention of the United States Embassy, the Free Zone administrator was finally convinced otherwise, and the products were formally seized.

This IACC member reports that incidents like this one are illustrative of a common problem -- where free zone companies will pressure the Free Zone management to make

unwise decisions regarding IP enforcement. It is unfortunate to see that in some instances these recommendations are followed and counterfeit product that would otherwise have been seized is permitted to escape.

Destruction of Counterfeit Seizures

In the same case described above, the trademark owner and the defendant agreed to the immediate destruction of the counterfeit products. A special IP prosecutor filed the necessary court orders to move ahead with the destruction, but the judge denied the petition, holding that the evidence was necessary for the trial. Other judges in Colon have allowed a representative sample to be taken for evidentiary purposes and judicial proceedings. In this instance, however, and in others, court officials have required the entire shipment to be retained and available throughout the entire judicial process (which, as detailed further below, tend to be slow in Panama). In the meantime, the trademark owner is forced to pay for the secure storage of the containers, because the authorities have no secure storage facilities and lack the necessary budget allocation. The inconsistency in decisions by judicial authorities leaves the trademark owner with uncertainty as to how the case will progress.

Slow Judicial Process

IACC members also report that the judicial system tends to be slow and inefficient, particularly the criminal courts in Colon. Penalties for counterfeiting, when applied, fail to have a deterrent effect. One representative case from 1999 reported by an IACC member where two containers of counterfeit cigarettes were seized illustrates the problem. The case took almost three years to reach trial. When it finally did reach trial in 2002, the lower court declared the defendant not guilty even after acknowledging that the products seized were counterfeit. In 2004, the decision was overturned on appeal and the defendant was convicted. Unfortunately, the defendant was fined only \$2000 and received no jail time. In another case, involving the same IACC member, seven containers containing counterfeit products were seized in 2001. As of this writing, the case has not even moved to the preliminary hearing stage.

These examples show that trademark owners spend time and significant monetary resources on a system that fails to acknowledge the basic principles contained in TRIPS and the importance of trademark rights, not only for brand owners but for Panama's economy.

Conclusion

The IACC requests that USTR encourage the Government of Panama to:

- Devote more resources and efforts to border enforcement, mainly in the Colon Free Zone, and work to reduce corruption;
- Establish sentencing guidelines that will require courts to impose deterrent penalties on producers, distributors and importers/exporters of counterfeit and pirate products;

- Instruct prosecutors to seek more severe penalties against defendants engaging in the production, distribution and cross border trade of counterfeit and pirate products;
- Revoke business licenses from those involved in counterfeit and pirate trade;
- Ensure destruction of seized products that are determined to be counterfeit or pirate product (while maintaining only samples for judicial proceedings and evidentiary purposes);
- Increase the overall efficiency of the judicial process; and
- Conduct training programs to improve the ability of enforcement and judicial officials to identify counterfeit products and enhance legal proceedings.

SAUDI ARABIA

Recommendation: Watch List

Background

In 2004, USTR placed Saudi Arabia on the Watch List. USTR noted that enforcement of trademark laws had improved through spot checks and confiscation of counterfeit goods. USTR also expressed concerns about Saudi Arabia's failure to take action at the borders to seize infringing goods and general lack of transparency in the overall enforcement system.

Trademark Counterfeiting

Despite a strong stable government and healthy financial resources, IACC members continue to report that counterfeiting levels remain unacceptably high in Saudi Arabia and the lack of transparency remains a problem.

Auto industry representatives continue to report significant losses. One member estimates that up to 50% of its after market consists of infringing product. Industry representatives believe that a severe lack of border enforcement is the primary obstacle to combating the counterfeiting problem in Saudi Arabia. IACC members report that Customs officials are slow to react after complaints are filed. Members also report that the inspection of containers at ports is virtually non-existent and that enforcement officials lack basic knowledge regarding application of the relevant laws.

Significant Lack of Transparency Regarding Enforcement

As in prior years, IACC members continue to complain of mere cosmetic enforcement intended only to create the perception that the problem is being addressed. Lack of transparency in the overall enforcement process, however, remains the most cited criticism with regard to Saudi efforts. Members complain that right holders are still not permitted to accompany authorities on actual raids, thereby hindering the enforcement process and the abilities of brand owners to accurately verify and quantify the scale of the problem in Saudi Arabia. Additionally, destruction of counterfeit/pirate product cannot be witnessed by brand owners and, similarly, cannot be validated. Despite repeated requests, evidence of product seized by the government is never provided to support claims of successful enforcement actions. Right holders are similarly denied access to information relating to judicial procedures and the sentences ultimately imposed against infringers.

As the evidence of enforcement is not forthcoming, any enforcement information given by Saudi authorities is impossible to validate, thus, raising serious questions as to whether any meaningful enforcement has occurred. IACC members have expressed a strong desire to assist in government enforcement efforts, but are frustrated in their

attempts to provide such assistance because the system is simply not open. Right holders are excluded entirely from the enforcement process. Saudi Arabia must create a more transparent system.

Copyright Enforcement Issues

Copyright owners experience the same level and type of frustration as trademark owners with regard to the lack of transparency in the system. Pirated optical discs, including entertainment software products, are imported from locations such as Malaysia and often transshipped through Dubai in addition to being imported from Russia, Syria, Pakistan, Taiwan and China. Thus, sales of pirate copyrighted optical discs are rampant at the retail and street levels. IACC members have also reported some exports of pirated entertainment software from Saudi Arabia. The lack of transparency frustrates enforcement efforts. Like the trademark owners, copyright members complain that right holders are still not permitted to accompany authorities on actual raids, thereby hindering the enforcement process and the abilities of such owners to accurately verify and quantify the scale of the problem in Saudi Arabia. Additionally, destruction of counterfeit/pirate product cannot be witnessed by these IP owners and, thus, cannot be validated. Finally, lack of transparency continues through the prosecution and punishment stages, so that IP owners question whether any deterrent penalties are imposed.

Conclusion

Saudi Arabia has the resources to effectively combat the problem of intellectual property theft. Saudi Arabia should be encouraged to:

- Immediately increase the transparency of its IP enforcement system;
- Implement a notification system to inform IP owners of seizures of counterfeits involving their respective intellectual property;
- Provide IP owners with greater access to information regarding the status of prosecutions and investigations;
- Impose more severe criminal sanctions, including heavy fines and prison terms;
- Implement a more effective border enforcement system; and
- Improve its border enforcement regime to stop imports of infringing goods into Saudi Arabia.

TAIWAN

Recommendation: Watch List

Members report continuing legal barriers to more effective enforcement of intellectual property in Taiwan.

The auto industry continues to identify Taiwan as a major source of counterfeit parts. Although the Taiwan market is not itself large, exports to third markets around the world presents enforcement challenges. The industry reports that Taiwan made goods are exported without any scrutiny by Taiwan Customs.

The industry continues to be burdened in its enforcement efforts by an onerous power of attorney issue that still hinders court actions. Courts continue to impose burdensome procedures regarding judicial actions.

The power of attorney issue continues to plague right holders years after it should have been resolved.

Custom Act Provision

The current Customs Act contains provisions that subjects customs officers to administrative disciplinary procedures if they disclose confidential information. The Act provides, however, that customs officers can provide information to certain individuals or representatives if the Ministry of Finance indicates that a particular group is entitled to receive information.

Because of the current Customs Act provision and implementing regulations, intellectual property owners or persons representing the owners are not within the group identified by the Ministry as entitled to information regarding shipments that involve infringing goods. As a result, copyright and trademark owners are unable to obtain information about importers, exporters, or any other information related to infringing goods.

Compounding the problem of failure to disclose information to the right holders is the ambiguity that may prevent Customs from providing information to police and prosecutors for possible investigation and prosecution of those engaged in counterfeiting and piracy. The Ministry of Finance and Customs should be required to eliminate any ambiguity and ensure that Customs provides information for possible criminal investigation and prosecution. In addition, intellectual property owners and their legal representatives should be included within the identified group to receive information from Customs regarding those engaged in importing or exporting infringing goods and to obtain information that permits right holders to take further action based on information regarding destination, consignees, consignors, etc.

Conclusion

We request that USTR obtain a commitment from Taiwan to:

- Eliminate burdensome power of attorney commitments;
- Increase border inspections to stop exports of counterfeit and pirate products;
- Provide for the disclosure of information related to shipments containing pirated and counterfeit products; and
- Instruct Customs to refer cases to the police and prosecutors for criminal investigation and prosecution.

TURKEY

Recommendation: Watch List

Various trademark owners have, in the past, emphasized the growing problem of product counterfeiting in Turkey.

This year, we note the concerns from the auto industry and its raids that have resulted in the seizure of thousands of products bearing counterfeit marks. While some of the counterfeits seized may not have direct bearing on auto safety, a number of counterfeit auto parts seized do have a direct impact on the safety of vehicle operation.

The industry notes that the receptivity of enforcement officials differs significantly depending upon the agency approached. While industry has had good experiences with police, Turkish Customs has been uncooperative in efforts to stop the trade in counterfeit auto parts.

Based upon the input of our auto industry representatives, Customs has taken no action to seize counterfeit goods. Moreover, Turkish Customs has created a barrier to any meaningful and useful cooperation between industry and Customs regarding even the possibility of any effective action. Industry has been discouraged from providing training to Turkish Customs based on a required payment of roughly \$20,000 simply to provide training to assist Customs in identifying counterfeit goods. This type of required payment appears to rise to the level of extortion to get any enforcement assistance.

Although nothing in TRIPS may specifically address the issue of industry fees to government officials/agencies in order for industry to provide training programs, any monetary requirement that is above a nominal amount to cover expenses that may be directly related to travel or other logistical requirements seems to be an egregious practice to discourage industry from requesting enforcement assistance. The IACC believes that fees in the amount of tens of thousands of dollars for industry to have the ability to help enforcement agencies violates the general provisions of TRIPS Article 41(2), which states that procedures concerning enforcement shall be fair and equitable and that procedures should not be unnecessarily costly.

Moreover, if TRIPS Article 53 instructs that bond requirements should not be so high as to deter right holders from resorting to border measures, we believe that, taken together, Articles 41 and 53 can be read to mean that right holders who are willing to provide their specialists for training sessions should not be subject to a monetary requirement that is so high that the payment amount discourages and deters companies from providing free training.

Conclusion

We request that the U.S. Government engage the Government of Turkey and emphasize the immediate need to instruct its Customs authorities to eliminate the onerous payment required for companies to provide training that will assist Turkish Customs in conducting more effective enforcement. The IACC recommends that USTR encourage the Government of Turkey to:

- implement an effective border enforcement system;
- eliminate the overly costly payment requirements imposed on industry before industry can provide training to Customs; and
- investigate corrupt practices within Customs that may be the basis for the high payments required of industry to conduct enforcement training.

UNITED ARAB EMIRATES (UAE)

Recommendation: Watch List

The auto industry continues to suffer from high levels of parts counterfeiting in the UAE. While there is an industry estimate that a third of the after market parts dealers in the region are selling counterfeit parts,²⁹ an IACC member in the auto industry estimates that 15% of the after market parts bearing its marks are counterfeit.

Industry representatives are frustrated by UAE authorities who are reluctant to acknowledge that there is a counterfeiting problem in the UAE. Industry has attempted to publicize raids in an effort to raise awareness of the issue and the possible penalties or negative effects when caught, only to be refused by UAE authorities. Industry also complains that UAE authorities lack sufficient knowledge of laws and the appropriate application of laws to thwart IP infringement.

Industry believes that the primary obstacles to combating counterfeiting are with the customs authorities. The customs authorities do not react promptly to industry complaints and requests for enforcement actions. Moreover, industry believes that Customs does not have the willingness to stop shipments and conduct inspections for possible counterfeit goods.

To the limited extent that customs does take any action, industry complains of a complete lack of any information to the right holder that prevents effective follow-up to pursue those involved in the distribution and sale of counterfeit products. Industry believes that if it could have information regarding shipments found to contain infringing goods, it could use such evidence to determine the origin of the goods, pursue possible infringers in the country of origin and initiate legal action within the UAE.

The IACC requests that the USTR encourage UAE officials to:

- Publicize the results of enforcement actions and the imposition of penalties;
- Respond to complaints in a timely manner and take enforcement action;
- Implement more effective customs enforcement measures including increasing inspections; and
- Provide IP owners with information that will permit IP owners to pursue the producers/manufacturers in source countries and to initiate enforcement actions in the UAE.

²⁹ Johanna Iivonen, “Automakers’ Anti-Counterfeit Coalition Intensifies Efforts in Middle East”, World Markets Analysis (October 13, 2004).