



February 11, 2008

VIA ELECTRONIC MAIL FR0606@ustr.eop.gov

Ms. Jennifer Choe Groves
Director for Intellectual Property and Innovation
and Chair of the Special 301 Committee
Office of the United States Trade Representative
600 17th Street, NW
Washington, D.C. 20508

**Re: Special 301 Request for Public Comment--Identification of Countries
Under Section 182 of the Trade Act of 1974 (as amended)
73 Fed. Reg. 2958 (January 16, 2008)**

Dear Ms. Groves:

The International AntiCounterfeiting Coalition, Inc. ("IACC") is making this submission in response to the request by the United States Trade Representative ("USTR") for written submissions from the public concerning the acts, policies, and practices of foreign countries that are relevant to its determination under Section 182 of the Omnibus Trade and Competitiveness Act of 1988, 19 USC § 2242 ("Special 301") of countries that deny adequate and effective protection of intellectual property rights or deny fair and equitable market access to U.S. persons who rely on intellectual property protection. The USTR request was published in the Federal Register on January 16, 2008.

The IACC is the largest organization representing exclusively the interests of companies concerned with product counterfeiting and copyright piracy. Our members consist of approximately 200 corporations, trade associations, and professional firms and represent total annual revenues of over \$750 billion. Our brand and copyright owner members represent a broad cross-section of industries, and include many of the world's best known companies in the apparel, automotive, consumer goods, entertainment, pharmaceutical, personal care and other product sectors.

Ms. Jennifer Choe Groves

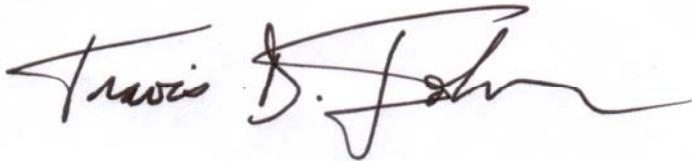
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The IACC is committed to working with government and industry partners in the United States and elsewhere to strengthen IP protection by encouraging improvements in the law, allocation of greater political priority and resources, and raising awareness regarding the enormous—and growing—harm caused by IP violations.

The IACC commends the USTR and the inter-agency team for their ongoing work to improve protection and enforcement of intellectual property rights by our trading partners. We look forward to working with the USTR in its efforts to promote IP protection globally and we are available at any time for clarification of any issues raised in the attached submission.

Respectfully submitted,

A handwritten signature in black ink, reading "Travis D. Johnson". The signature is written in a cursive style with a large, sweeping initial "T" and "J".

Travis D. Johnson
Associate Counsel

Enclosure (via e-mail): IACC 2008 Special 301 Submission



**Submission of the
International AntiCounterfeiting Coalition
to the
United States Trade Representative**

Special 301 Recommendations

February 11, 2008

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INTRODUCTION

The International AntiCounterfeiting Coalition, Inc. (“IACC”) is making this submission in response to the request by the United States Trade Representative (“USTR”) for written submissions from the public concerning the acts, policies, and practices of foreign countries that are relevant to its determination under Section 182 of the Omnibus Trade and Competitiveness Act of 1988, 19 USC § 2242 (“Special 301”) of countries that deny adequate and effective protection of intellectual property rights or deny fair and equitable market access to U.S. persons who rely on intellectual property protection. The USTR request was published in the Federal Register on January 16, 2008.

IACC Membership and Mission

The IACC, based in Washington, D.C., is the largest and oldest association representing exclusively the interests of trademark and copyright owners concerned with product counterfeiting and copyright piracy. Our members consist of approximately 200 corporations, trade associations, and professional firms and represent total annual revenues of over \$750 billion. Our brand and copyright owner members represent a broad cross-section of industries, and include many of the world’s best known companies in the apparel, automotive, consumer goods, entertainment, pharmaceutical, personal care and other product sectors.

The mission of the IACC is to combat trademark counterfeiting and copyright piracy by promoting laws, regulations, and directives designed to make intellectual property theft unprofitable. The IACC supports government action to create a strong deterrent to trademark counterfeiting and piracy through increased enforcement and prosecution. Critical to this mission is the belief that counterfeiting causes severe economic harm to trademark and copyright owners, and also creates hazards to public health and safety.

To advance this mission, the IACC engages in dialogue and advocacy on intellectual property protection and enforcement with the U.S. Government and foreign governments. IACC also conducts training in counterfeit identification for law enforcement and border control authorities in the U.S. and abroad, and conducts educational programs in product security and infringement prevention for rights holders.

The IACC is committed to working with government and industry partners in the United States and elsewhere to strengthen intellectual property protection and enforcement by encouraging improvements in the law, allocation of greater political priority and resources, and raising awareness regarding the enormous—and growing—harm caused by IP violations.

Nature and Scope of Counterfeiting

Trademark counterfeiting and piracy pose an ever-increasing threat to the sustainable development of the world economy. In addition to depriving legitimate businesses and their workers of income, intellectual property rights (IPR) infringement discourages innovation and creativity, threatens consumer health and safety, provides an easy source of revenue for criminals (including organized crime) and deprives governments of much needed tax revenue.

Despite the considerable resources applied by both the public and private sector to address the global problems of counterfeiting and piracy, there is substantial anecdotal and statistical evidence indicating that these problems continue to grow in size and scope. Information from industry and government sources, including Interpol, the World Customs Organization, and the World Intellectual Property Organization confirms that this growth is due in part to the increasing involvement of more sophisticated organized criminal networks operating across national boundaries.

This year, our members observed the following global trends in piracy and trademark counterfeiting:

- **China and Russia Are Priorities**

China and Russia have far and away the most unfavorable environments to protection and enforcement of intellectual property rights, according to our members, and substantiated by a survey of businesses by Business Action to Stop Counterfeiting and Piracy (“BASCAP”).¹ China alone is now the source of as much as 80 percent of all infringing goods seized by the U.S. Department of Homeland Security and the customs authorities of European Union member states, and IACC members report that Russia is rivaling China as one of the worst sources for counterfeit goods. The growing trade relationship between Russia and China is cementing partnerships between manufacturers and exporters of pirated and counterfeit products in both countries.

- **Trans-Shipping and Free Trade Zones**

Free trade zones in a growing number of countries are increasingly exploited by counterfeiters and copyright pirates to facilitate the global distribution of fakes. IACC members report rising concerns in countries such as the United Arab Emirates and Turkey, among other countries. IACC members also note that free trade zones are being exploited by pirates and counterfeiters shipping fake components and labels separately for assembly and distribution in other countries.

¹ Global Survey on Counterfeiting and Piracy, App. 1, Jan. 29, 2007, available at www.iccwbo.org/bascap. BASCAP is an initiative of the International Chamber of Commerce.

- Internet Piracy and Counterfeiting

IACC members are seriously concerned by the scale of copyright piracy and counterfeiting activity on the Internet. Internet traders operating behind shadow fronts that are impossible to cost-effectively investigate for IP owners, and they represent one of the main engines of burgeoning global trade in fakes of all kinds. In China, rights holders find the sheer number of offending sites dismaying. In Russia, online piracy remains one of the most significant obstacles to copyright owners in the Russian market.

While leaders and policy makers in our trading partners are more cognizant of the negative implications tied to the trade of illicit goods, the need for greater priority to be given to anti-counterfeiting efforts remains dire. Counterfeiting and piracy pose serious threats to public health and well being, cause substantial losses in tax revenues, hinder development of both domestic and international markets, and diminish incentives for global innovation.

Recent Developments

The IACC commends the USTR and the inter-agency team for their ongoing work to improve protection and enforcement of intellectual property rights by our trading partners. In particular, we wish to take note of the following:

- Anti-Counterfeiting Trade Agreement

IACC commends the USTR for its leadership in proposing a new Anti-Counterfeiting Trade Agreement (“ACTA”) to establish a common global enforcement standard to combat IPR infringements. The growing sophistication and global reach of trademark counterfeiters require heightened anti-counterfeiting efforts that do not stop at national borders. To succeed, IACC urges the USTR to call on participating countries to make anti-counterfeiting enforcement a high priority and to provide the necessary resources to fight and deter counterfeiting.

- Out-of- Cycle Reviews of Czech Republic, Brazil, and Russia

IACC commends the USTR for conducting out-of-cycle reviews during 2007 of three countries that figure in our submission – Brazil, the Czech Republic, and Russia – and for placing the Czech Republic on the Special 301 Watch List. Counterfeiting and piracy in these countries remain a significant concern, as explained in detail in our submission.

- Continued Engagement with China

IACC commends USTR, together with the U.S. Department of Commerce, the U.S. Patent and Trademark Office, the U.S. Copyright Office, the U.S. Department of State, the U.S. Department of Justice, and the U.S. Department of Homeland Security, for their ongoing efforts to engage constructively with the People’s of China in improving intellectual property protection and enforcement.

China has recently reduced its level of dialogue and cooperation on capacity building and other fronts due to the pending WTO dispute. But it is hoped that the new Chinese leadership will re-open lines of communication with USTR and take a more businesslike approach to the concerns of both foreign and domestic rights holders over the obvious weaknesses in both Chinese laws and enforcement policies.

- Implementation of Free Trade Agreements

The IACC applauds USTR's work in concluding Foreign Trade Agreements ("FTAs") and other international agreements that are having a positive impact in raising the standards of protection and introducing best practices. In 2007, the USTR concluded trade agreements with intellectual property obligations with several important trading partners. Our members have expressed particular interest in the U.S. - Korea Free Trade Agreement ("KORUS FTA"), which promises to deliver improvements in civil enforcement against piracy and trademark counterfeiting. Of particular importance for right holders are provisions requiring the availability of statutory or "pre-established" damages sufficient to deter further infringements in cases of piracy and counterfeiting, and requiring judicial authorities to issue ex parte search and seizure orders expeditiously in order to collect evidence of infringement before it can be concealed. IACC calls on the Korean Government to implement these obligations promptly and completely.

Common Concerns

Enclosed is a table summarizing IACC's Special 301 recommendations for 2008, followed by a detailed report on each country, which reflect the following common concerns:

- The need for substantially greater political will and resources to combat IP crime;
- The need to ensure greater use of criminal enforcement tools, which create substantially greater deterrence, rather than relying excessively on administrative measures, such as customs seizures, which yield economic sanctions that generate limited deterrence;
- The need for greater cooperation and coordination among different government enforcement bodies, including police, Customs, and other administrative enforcement bodies;
- The adoption of sentencing and other guidelines that will lead to stronger criminal and administrative sanctions;
- The need to eliminate numerical thresholds for criminalizing IP cases, and to encourage criminal investigations in any case where there is a basis for suspicion of a crime;
- The need for Customs and other enforcement authorities to provide IP owners with earlier access to information needed to pursue investigations and legal actions;

- The need for greater support from governments and the judiciary for “creative” enforcement tools, including third-party and landlord liability strategies; and
- The need for greater transparency regarding the results of government enforcement work.

Anti-counterfeiting is a moving target, and there is a constant need to review laws and the sufficiency of government resources allocated to criminal enforcement and training. New technologies, including the Internet, and the increasing sophistication of counterfeiters and pirates require that government and industry work ever more closely in assessing not only the adequacy of laws but also their effectiveness in practice.

Conclusion

The IACC intends and hopes that this submission will be helpful to the USTR in identifying countries that deny adequate and effective protection of intellectual property rights or deny fair and equitable market access to U.S. persons who rely on intellectual property protection.

The key to stemming the flow of counterfeit and piratical goods does not come in the form of a “magic bullet.” There is no single law or treaty that will provide the answers that government and industry are seeking, and no single trade organization that will solve this problem. The global counterfeiting problem can only be addressed successfully by fostering cooperation at all levels – within industries, between industry and government, and between governments – to ensure that law enforcement has the legislative tools and the financial and personnel resources necessary to meaningfully enforce the law.

IACC looks forward to working with the USTR in its efforts to promote IP protection globally. We are available at any time for clarification of any issues raised in the attached submission.

IACC SPECIAL 301 RECOMMENDATIONS, 2000 – 2008*

	00	01	02	03	04	05	06	07	08
Argentina	WL	WL	WL						
Australia									
Belize					WL	PWL	PWL	WL	
Bolivia				WL					
Brazil	WL	WL	WL		WL			PWL	WL
Bulgaria			WL		WL				
Canada	WL	OO	WL	WL		WL		PWL	WL
Chile	--	WL	WL	WL		WL			
China	306	306	306	306	306	PFC/306	PFC/306	PFC/306	PFC/306
Costa Rica							PWL	PWL	
Columbia			WL						
Czech Republic								PWL	WL
Greece									
Hong Kong		OO							
Hungary				WL					
India				WL	PWL	WL			
Indonesia		WL	PWL						
Italy	WL	WL	WL						
Japan		WL	WL		WL				
Jordan					WL				
Kazakhstan			WL						
Korea	WL								OO
Kuwait						WL			
Lebanon					PWL				
Libya					WL				
Malaysia	WL	PWL		PWL	PWL	PWL	PWL	WL	
Mauritius					WL				
Mexico	WL	OO	WL	WL	PWL	PWL	PWL	WL	WL
Pakistan					WL				
Panama				WL	WL	WL			
Paraguay		306	306	306	306			PWL/306	306
Peru								SM	
Philippines			PWL	PWL	PWL	PWL	PWL	WL	WL
Poland			PWL	PWL	PWL				
Romania					WL				
Russia	PWL	PWL	PWL	PWL	PWL	PWL	PWL	PWL	PWL
Saudi Arabia			WL	WL	WL	WL			
Singapore	PWL		WL	WL					
South Africa		WL	WL	WL					
Taiwan	WL	PWL	PWL	PWL	WL	WL			
Thailand	PWL		WL	WL	WL				
Turkey				WL	WL	WL			OO
Ukraine		WL	PFC		PFC				
UAE			WL	WL	WL	WL		SM	OO
Venezuela					WL				
Vietnam			WL	WL				PWL	WL

* Abbreviation PFC: Priority Foreign Country; 306: Section 306 Monitoring; PWL: Priority Watch List; WL: Watch List; OO: Other Observations; SM: Special Mention

CHINA

Recommendation: **Priority Foreign Country; Section 306 Monitoring**

Introduction

IACC member concerns over legislation and enforcement against counterfeits and copyright piracy in China remain largely the same as those expressed in the IACC's 2007 Special 301 report. Most of our members believe that over the last year, their problems both in the domestic market and with exports from China have either remained the same or worsened, due mainly to the lack of sufficient criminal enforcement and inadequate deterrence generated from administrative and civil enforcement.

Some IACC members have found it easier to pursue criminal action against trademark counterfeiters since the central government launched its "Mountain Eagle" enforcement campaign in 2004. Chinese police have also cooperated impressively in the handling of a few high-profile cross-border cases over the last year, including those involving Microsoft software and Pfizer drugs.¹ But criminal prosecution of IP crimes is only rarely normal procedure in China, given current legislation and other practical realities. Trademark owners must be prepared to devote significant time and resources to realize convictions in most of the cases that they pursue, and this has made it impossible for the vast majority of our members to pursue a meaningful number of criminal cases.

Given the lack of progress in bilateral discussions over these and related issues, on April 10, 2007, USTR commenced WTO proceedings against China, with several other countries later joining the action as "third parties".² USTR's case is outlined in detail in a submission to the WTO filed on January 30, 2008,³ which focuses on three areas of alleged non-compliance with the standards set out in the WTO TRIPS Agreement:

¹ In one case reported in July 2007, police in Guangdong Province reported seizing over one ton of fake Viagra. This case resulted in the arrest of 12 individuals. See http://www.iol.co.za/index.php?set_id=1&click_id=126&art_id=iol1185432867143V260. In a separate investigation, the Federal Bureau of Investigation cooperated with China's Public Security Bureau cooperated to bring down a software piracy ring that was responsible for trafficking approximately \$2 Billion. See, e.g., <http://www.itweek.co.uk/crn/news/2194836/microsoft-fbi-crack-2bn-piracy>

² The "third parties" that joined the WTO action include the EU, Japan, Canada, Australia, Mexico, South Korea, Argentina, India, Chinese Taipei (Taiwan), Brazil, and Turkey. See <http://docsonline.wto.org>.

³ See www.ustr.gov/assets/Trade_Agreements/Monitoring_Enforcement/Dispute_Settlement/WTO/Dispute_Settlement_Listings/asset_upload_file605_14436.pdf.

- (i) numerical thresholds for criminalization of counterfeiting and piracy cases fail to meet the “commercial scale” requirement of Art. 61 of TRIPS, thereby creating a “safe harbor” for infringers and denying effective and deterrent enforcement;
- (ii) the absence of laws and regulations that would require local customs to destroy counterfeit goods in priority to other disposal options; and
- (iii) the lack of legal protection for copyrighted works that have not yet been cleared by censors for distribution within China.

The European Commission is currently understood to be considering whether to file a separate WTO case that would focus on other areas in which China’s enforcement legislation and practices are alleged to fall short of WTO standards.

If the U.S. prevails in the pending WTO dispute, China would likely be required to amend its Criminal Code and other regulations in ways that should benefit IACC members significantly.

But beyond changes in the law, still further reforms in regulations and procedures -- as well as deeper political commitment from all levels of government in China – will be needed to ensure real progress in reducing counterfeiting and piracy in China and the export of pirated and counterfeit goods from China.

Recent Developments

Scale of Problems

Counterfeiting and piracy in China over the last year continued to cause severe harm to virtually all IACC member companies owning copyrights and trademarks.⁴

The range of products affected remains the same as in prior years and includes electronics, pharmaceuticals, household appliances, computer peripherals, auto parts, lighters, optical media and entertainment products, toys, apparel, footwear, luxury accessories (including handbags,

⁴ For a recent global overview of the harm inflicted on the US economy due to intellectual property violations in China and elsewhere, “CRS Report for Congress: Intellectual Property Rights and International Trade, Congressional Research Service Report RL34294, Dec. 20, 2007, by Shayerah Ilias and Ian Fergusson, available from the U.S. Dept. of State at <http://fpc.state.gov/documents/organization/99532.pdf> .

jewelry, watches and eyewear), personal care and household products, food, chemicals, beauty aids and cigarettes.⁵

The latest statistics made available from the U.S. Department of Homeland Security and the European Community Trade and Customs Union indicate that China is now the source of as much as 80 percent of all infringing goods they currently seize. In the fiscal year ending September 30, 2007, China was the origin of 80 percent of the counterfeit and pirated products seized by customs authorities of the U.S. Department of Homeland Security, and these seized products had a U.S. domestic value of over \$158 million.⁶ In 2006, 79 percent of counterfeit goods seized by the customs authorities of EU Member States originated in China.⁷ There meanwhile appears to be a trend towards greater diversification in the goods being counterfeited, with luxury and apparel no longer constituting the bulk of China-made fakes circulating in global markets.⁸

The experience of many of our members mirrors these statistics, with most companies reporting China as the ultimate source of the majority of fakes they identify in global markets. Disturbingly, IACC members also report a growing trend in which components and labels for fake products are shipped separately for assembly and distribution in another country. This activity seems to be most notable in Africa, the Middle East, Russia, Vietnam, Latin America and the United States. Free Trade Zones are also being more fully exploited by counterfeiters and copyright pirates to facilitate this global trade in fake labels and components.

⁵ For an overview of the widening range of industries affected by counterfeiting in the UK, see 2007 report of the IP Crime Group of the UK Intellectual Property Office at <http://cmp.hku.hk/2008/01/25/843/>.

⁶ *U.S. Customs and Border Protection and U.S. Immigration and Customs Enforcement FY 2007 Top Trading Partners for IPR Seizures*, available at http://www.cbp.gov/linkhandler/cgov/import/commercial_enforcement/ipr/seizure/trading/07_topirp_seizures.ctt/07_topirp_seizures.pdf

⁷ EC Taxation and Customs Union, *Summary of Community Customs Activities on Counterfeit and Piracy- Results at the Border 2006*, available at http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/counterfeit_piracy/statistics/counterf_comm_2006_en.pdf

⁸ See OECD report which notes the increasing diversification of products subject to counterfeiting in China. http://www.oecd.org/document/18/0,3343,en_2649_201185_38702947_1_1_1_1,00.html. In November 2007, the European Spirits Organization claimed that 25percent of all spirits claimed to be of European origin were counterfeit. See <http://www.foodqualitynews.com/news/ng.asp?n=81641-china-counterfeit-food-safety>

Companies also report an apparent increase in the circulation of counterfeit drugs and medical devices sourced from China.⁹ Pharmaceutical industry groups and the World Health Organization (WHO) believe these problems are likely to worsen significantly before they get better, as the sourcing and distribution channels become more organized, facilitated in part by the Internet.¹⁰

Inside China, member companies continue to report Guangdong Province as the virtual epicenter of production and wholesale trade for counterfeits of most types of products. Certain other regions meanwhile remain hot spots for counterfeiting of specialty items, e.g., Cixi City in Zhejiang Province for auto parts and Jinjiang County in Fujian Province for footwear¹¹. The city of Yiwu in Zhejiang Province meanwhile remains a continuing problem area for wholesaling and export trade for all types of products.

Counterfeiting of fashion, sport and luxury goods in retail and wholesale markets in major cities, including Beijing, Guangzhou, Shanghai and Shenzhen, continues at critical levels, notwithstanding government efforts to reign in the problem through new administrative measures (see below).

Meanwhile, IACC members remain dismayed by the continuing scale of counterfeiting activity in Chinese B2B and B2C websites, including Alibaba.com, Taobao.com and many others. Brand owners find cooperation from some of these website operators in taking down websites that offer infringing goods; but the sheer number of offending sites and the lack of controls to deter their migration remain critical problems. Internet traders based in China are normally operating behind shadow fronts that are impossible to cost-effectively investigate for IP owners, and they represent one of the main engines of burgeoning global trade in fakes of all kinds.

⁹ In a case reported in the Chinese press in August 2007, police in Heilongjiang Province were said to have arrested a gang of 17 individuals who had counterfeited 67 drugs produced by 53 companies. See http://www.chinadaily.com.cn/china/2007-08/03/content_5447768.htm.

¹⁰ For a global overview of pharmaceutical counterfeiting issues from the WHO, see <http://cmp.hku.hk/2008/01/25/843/>.

¹¹ Footwear companies report that an estimated 70 percent or so of fake athletic shoes sold in the local markets and for export have for at least ten years been made in Fujian Province, particularly the cities and counties of Jinjiang, Quanzhou and Putian. Although administrative raids can be procured during business hours without too much trouble, penalties are light, recidivism is extremely common, and criminal cases are difficult and time-consuming. Infringers remain smart, and keep quantities held in any one place below the relevant thresholds, work at night, etc. to reduce the risks of detection and criminal liability. Even when a case could be made that criminal liability is appropriate, there is uneven handling of pricing, with strong resistance in most cases to using legitimate product prices. Recently, the best quality fakes come from the Putian area, not far from Fuzhou, where a great deal of legitimate production takes place. Protectionism in Putian is said to be so extreme though that most brand owners are now unable to get any raids at all performed by any authorities. Some companies have written off enforcement in the zone entirely. The IACC has suggested the local government allocate greater police resources, with greater political commitment to resist the root cause of continuing problems: local protectionism.

Our copyright members report persistent problems throughout the country with the production and export of pirated optical disks and dramatic increases in Internet piracy inside China.

2007 Enforcement Statistics

IACC members have been pleased by the increasing levels of access and IP expertise of Chinese police (the Public Security Bureau or “PSB”) in many regions in China. IACC members report that police are on occasion willing to conduct deep investigations into criminal networks, sometimes involving overseas buyers. But IACC members believe there are still too few to create credible deterrence against both large and small-scale violations. More investigations are discouraged by a shortage of human and material resources needed by authorities to process cases under current law and a range of obstacles caused by local protectionism.¹²

As of this writing, the Chinese government had not yet published comprehensive statistics regarding the number of criminal, administrative and civil cases handled during the course of 2007. However, preliminary reports indicate that the level of criminal enforcement remains static or may even be decreasing, as compared to 2005,¹³ following decreases of about 35 percent in 2006.¹⁴

During 2007, the number of administrative enforcement cases handled by local Administrations for Industry and Commerce (“AICs”) appears to have increased by about 20 percent to —about 41,000¹⁵. This rise is of course laudable, in that it reflects a higher level of effort and resources being applied by AICs. But IACC members remain disappointed that increased enforcement is not accompanied in most cases by a corresponding reduction in the level of fakes in the market. This has in turn reinforced the long-standing perception of our

¹² Local protectionism is said to compromise all aspects of justice in China, due in part to the fact that local police, prosecutors and judges are paid by local governments, rather than the national government. See fascinating report from the Chinese Media Project on debate within the Guangdong Provincial People’s Congress this year regarding local control of judicial bodies and its impact on determinations. See <http://cmp.hku.hk/2008/01/25/843>.

¹³ The number of criminal IP cases pursued by Chinese police from January to October 2007 was reported to be 1904, supposedly representing a 31 percent increase compared to the same period in 2006. See <http://www.cass.net.cn/file/20080110111776.html> and <http://www.mps.gov.cn/cenweb/brj/cenweb/jsp/common/article.jsp?infoid=ABC0000000000041995> (in Chinese). However, the level of criminal IP cases declined in 2006 overall by 35 percent, to 2,277. See 2005-2006 enforcement issued by the State Office of Intellectual Property (SIPO) at http://www.sipo.gov.cn/sipo/zcl/zscqbps/200705/t20070529_173363.htm.

¹⁴ See comprehensive statistics for 2006 enforcement issued by the State Office of Intellectual Property (SIPO) at http://www.sipo.gov.cn/sipo/zcl/zscqbps/200705/t20070529_173363.htm.

¹⁵ Statistics available in Chinese at http://doc.ipr.gov.cn/ipr/doc/info/Article.jsp?a_no=160618&col_no=10&dir=200712.

members regarding the insufficient level of deterrence generated by administrative enforcement in China.

Of equal concern are signs that criminal transfers from administrative authorities to the police remain negligible. Over 99 percent of counterfeiting and piracy cases are initiated by administrative authorities, and their unwillingness or inability to transfer relevant cases to the police has traditionally created a major bottleneck in criminal enforcement. Preliminary statistics from the State Administration for Industry and Commerce (“SAIC”), which manages local enforcement by AICs, indicate that only 143 criminal transfers were made in 2007 out of over 41,000 AIC intellectual property cases overall. In 2006, there were 252 criminal transfers, thus indicating a 43 percent decline in criminal transfers in 2007. If the latest reported statistics are accurate, this would signal a significant deterioration of what is already a critical problem: the lack of effective cooperation between police and administrative enforcement authorities in building criminal cases. The IACC will naturally continue to closely monitor developments in this regard over the course of 2008.

Chinese Customs reported conducting 3,310 seizures of infringing goods in 2007, an increase of 31 percent over 2006. Although government statistics are not available to confirm, our members believe a handful of customs cases were successfully transferred to the PSB for criminal investigation. As explained below, local police appear resistant to accepting customs cases based on the expectation that investigations will require significantly greater time and resources, and based as well on the belief that the infringers prosecuted may not end up being residents in their home districts.¹⁶

The IACC remains concerned over the Chinese government’s reluctance to publish more complete enforcement statistics, including breakouts by region and the type of crime. The IACC strongly encourages China to increase its transparency in this regard.

Enforcement Legislation and Policy

The State Council’s National Leading Group on IPR Protection issued an Action Plan in April 2007 setting out an elaborate framework for strengthening of IPR enforcement, awareness-raising, legislative work and other initiatives.¹⁷ IACC members believe the action plan sets out a sensible basis for future government action on a range of fronts. But there are clearly gaps in the plan and problems with implementation that need to be addressed.

Set forth below are comments on the main policy and legislative problems of concern to IACC members, with particular focus on police resources, proposals for amendment of the PRC Trademark Law and Criminal Code, and continuing challenges in achieving more effective

¹⁶ There is no equivalent of a federal police force in China, and regional police naturally given higher priority to pursuing infringers based in their home regions.

¹⁷ See 2007 Action Plan in English at <http://zgb.mofcom.gov.cn/aarticle/az/k/200704/20070404541058.html>.

results in enforcement work in retail and wholesale markets, including the key need for actions that result in deterrence against further violations.

- Judicial Resources

IACC members still believe that significant increases in police and prosecutor resources are essential in order to begin turning the tide against IP theft globally, but particularly in China. The PRC government's 2007 Action Plan falls short by failing to address this urgent need for greater resources.

Laudably, the Ministry of Public Security ("MPS") established a division in early 2006 exclusively focused on IP crimes. However, there is clearly a need in the short term for local police to establish similar specialized teams in hotspot regions. We understand that the MPS is supportive of doing so in principle, but the IACC suggests accelerating efforts in this regard.

Further consideration should also be given to establishing specialized teams of prosecutors and allowing China's specialized IP tribunals—which today only handle civil cases—to also handle criminal cases.

- Criminal Code - April 2007 Judicial Interpretation

The IACC's 2006 and 2007 301 comments and USTR's January 30, 2008, submission in the pending WTO action against China contains exhaustive explanations as to how numerical threshold requirements impede criminal enforcement of IP rights.

Recognizing that thresholds were too high, the Supreme People's Court ("SPC") and Supreme People's Procuratorate ("SPP") issued a new judicial interpretation in April 2007,¹⁸ which reduced them in certain respects and introduced other measures designed to increase deterrence. To date, IACC members do not believe these changes are resulting in noticeable increases in the number of successful criminal cases involving their brands.

The main provisions of the new interpretation include the following:

- Elimination of the distinction between enterprise and individual offenders for all IP crimes. As a consequence, the basic threshold for all counterfeiting violations is RMB50,000 (US\$6,935), whereas previously it was three times higher for enterprise (corporate) infringers.
- Reduction of the base "per-unit" threshold for criminal liability involving optical discs – the threshold is now 500 units.

¹⁸ The April 2007 judicial interpretation was issued days before the US filed the WTO complaint. USTR determined however that the reductions were insufficient to justify delaying the filing of the complaint.

- Suspended sentences are no longer permitted for (1) repeat offenders (including cases where the prior penalty was imposed by an administrative enforcement authority); (2) the infringers who express no remorse or (3) infringers who refuse to disgorge illegal income.
- Criminal fines are generally to be imposed at the level of 100 percent to 500 percent of illegal profit or 50 percent to 100 percent of illegal revenue.

There are likely a number of explanations as to why the reductions in thresholds and other provisions in the April 2007 judicial interpretation are not resulting in an increase in criminal cases and greater deterrence. Among the factors at play is PSB insistence in most cases that cases initially be investigated by AICs, rather than directly investigated by the police. But the long-standing experience of IACC members indicates that AICs and other administrative authorities lack the training and police powers necessary to build solid criminal cases.

Administrative authorities routinely conduct successful raids, but all too often, counterfeiters and copyright pirates manage to limit the amount of product seized to levels that fall short of applicable thresholds. In many cases, IACC members find local authorities and infringers agreeing on unrealistically low valuations of fake products. The results of these deliberations are normally unpredictable due to the lack of clear and detailed rules for calculating product values, and these ambiguities create discretion which in turn leaves the window wide open for protectionism and corruption.

The IACC previously recommended that more detailed rules for valuation be introduced, but also that new guidelines be issued that would ensure that, when deciding whether to prosecute and the severity of criminal sentences, full consideration is given to other evidence which is gathered in the course of investigations, including the number of components and semi-finished products seized, the level of wear-and-tear of product molds and other production equipment, the number and testimony of workers, etc..

Deeper reforms are clearly preferable, however. The IACC therefore reiterates its previous recommendation that China take urgent steps to amend the PRC Criminal Code to eliminate or dramatically reduce numerical thresholds, and ensure that both liability and sentencing taken into consideration the full range of available proof, including circumstantial evidence. Consistent with international practice, to avoid clogging Chinese courts with IP cases, new guidelines would need to be introduced to ensure local police and prosecutors retain reasonable discretion in determining which cases to pursue, and which to address through administrative penalties. New guidelines will also be needed to eliminate the legal and practical bottlenecks in cooperation among Chinese police, AICs and other administrative enforcers.¹⁹

¹⁹ As explained in the IACC's February 12, 2007 301 report, the MPS issued joint notices with the State Administration for Industry and Commerce, the General Administration of Customs, the SPP and the National Copyright Administration to promote cooperation in the investigation and transfer of IP enforcement cases. The latest statistics and IACC member reports suggest these notices have not been effectively implemented.

Amending the Code would also provide an opportunity to eliminate various other loopholes and address problems presented by new technologies, including the Internet.

- Continuing Problems with Administrative Enforcement

IACC members continue to report that, while convenient and relatively cheap, administrative enforcement via the AICs and Technical Supervision Bureaux (“TSBs”) only rarely achieves a reasonable level of deterrence.²⁰ This is just as true for smaller rights holders as it is for our larger and better-resourced members.

As documented below with respect to developments in Chinese retail and wholesale markets, the AICs in some cities have recently begun experimenting with more innovative enforcement measures. Intensive enforcement campaigns were also conducted during the second half of 2007 targeting producers and vendors of fake food and medicine.²¹ However, most of the problems with administrative enforcement detailed in the IACC’s prior Special 301 submissions persist, including the following:

- Seized product is frequently returned to infringers under improper circumstances;
- Many AICs continue to demand “case handling fees” and compensation for the cost of destruction of fakes. Fakes are also occasionally auctioned by AICs, contrary to the requirements of the TRIPS Agreement and Chinese law itself;
- AICs in some regions continue to deny rights holders and their agents access to penalty decisions, underscoring the long-standing problem of lack of transparency;
- AICs in most parts of China continue to refuse to process cases based on notarized purchases, insisting instead that all penalties must be based on a physical raid by their staff - who must at the time of the raid be wearing their official uniforms;
- AICs in Beijing and other regions now require that agents acting on behalf of brand owners present original copies of a notarized and legalized power of

²⁰ See results of the 2006 survey of members of the Quality Brands Protection Committee at <http://www.qbpc.org.cn/en/about/references/QBPCrelated/survey/>, in which 70% of respondents characterized their counterfeiting problems in 2006 as the same or worse as compared to the prior year.

²¹ The Chinese government’s enforcement campaign in 2007 targeting fake food and drugs was the result of a series of publicized reports of harm caused both in China and internationally as a result of counterfeiting and the use of sub-standard ingredients. It is widely believed the campaign was designed to protect the reputation of the “Made in China” brand.

attorney as a condition to conducting raid actions. This requirement has resulted in delays in enforcement of weeks and even months - thereby giving infringers an opportunity to avoid enforcement entirely. These requirements do not apply to a local trademark holder, which presents questions of discrimination and national treatment under WTO rules.

- Trademark Law Revision

The PRC Trademark Office circulated a draft of a proposed amendment of the Trademark Law in mid-2007 and sought industry comment. Major changes proposed in the draft are summarized below with the IACC's views thereon.

While some of the proposed changes are laudable—including increases in maximum administrative fines and statutory damages, several other proposed changes—particularly those relating to OEM producers and vendors—seem dangerous on their face, as they could well create safe havens for counterfeiters where none existed previously.

It remains unclear at this time when the draft will be submitted to the National People's Congress for review and enactment, but the best estimate at this stage is early 2009.

- Administrative Fines - The maximum administrative fine would be increased from three times the “illegal business amount” to five times. In cases where infringer revenues are hard to determine, the maximum discretionary fine allowed would be RMB1 million (US\$130,000) or ten times the current level. Regrettably, these discretionary fines are rarely imposed under the current law due to the lack of sufficiently detailed implementing rules. It is therefore hoped that such rules will be introduced as soon as possible, and that the future law will provide for a significantly greater maximum discretionary fine.
- Case Values - For the purpose of calculating administrative fines, the “illegal business amount” would be calculated in the same way as that for criminal liability. While the IACC believes the current methods of calculating case values for criminal enforcement are far from ideal, the proposed revision in this regard should help to increase administrative fines in many cases.
- Statutory Damages – Under the draft revision, the maximum statutory damages that may be awarded by civil courts would be doubled from RMB500,000 (US\$65,000) to RMB1 million (US\$130,000). IACC members believe the maximum should be substantially increased in order to take into consideration the fact that the more clever infringers will go to great lengths to obscure the full extent of their illegal dealings. Furthermore, counterfeiting and piracy are increasingly “big business” and IP owners are forced to allocate enormous resources in many cases to investigate cases.
- AIC Investigative Powers - The draft revision does not propose any widening of the scope of investigative powers of the AICs. This is regrettable, since the vast

majority of cases handled by the AICs are in fact criminal cases, even under current thresholds. The IACC consequently recommends that the next draft of the Trademark Law or future implementing rules clearly delineate a range of new powers to assist AICs in obtaining relevant information—e.g., bank accounts, email correspondence and phone records—and in detaining suspected infringers and their accomplices - perhaps with the assistance of other authorities, including the courts, prosecutors or police.

- Limitation on Damages - Under the draft revision, compensation for damages would be limited to legal and investigation expenses where the trademark owner has used the mark for at least three years. The IACC strongly opposes this provision, which is unprecedented internationally, and ignores the realities of the market. Trademarks can become famous very quickly, and the damage caused through infringement of a “new” mark is just as problematic as that for older marks.
- Vendors and OEM Suppliers - The draft law would impose liability on vendors of infringing goods only where they have acted intentionally or with negligence. The draft would also explicitly permit OEM factories to avoid responsibility for payment of damages provided they have conducted an “audit of the (buyer’s) trademark rights”. The IACC opposes this provision in the draft. We believe the proposed language would end up helping infringers by clarifying the types of paperwork they need to maintain to avoid liability, and at the same time remove incentives for infringers to produce evidence that can help in building cases against other (sometimes more culpable) parties, including buyers and suppliers of packaging and labels, which is a serious problem. The IACC is unaware of any instances where Chinese trading companies or OEM suppliers have been the subject of unfair treatment by either administrative enforcers or IP owners that would warrant consideration of these proposed changes. If the new proposals are adopted into the future law, there is little doubt that vendors and OEM suppliers of fakes will expand their use of false license agreements and other doctored authorization documents in order to avoid liability. The current law, while broad, generates a more appropriate level of deterrence.
- Landlord Liability – The draft explicitly recognizes landlord liability as a type of contributory liability. See below regarding other developments in landlord liability in retail and wholesale markets.
- Elimination of Relative Examination – The draft law proposes the elimination of relative examination (i.e., examination of new trademark application against prior applications and registrations) based on the need to accelerate the registration process. The IACC appreciates the good intentions behind this proposal but our members are strongly against it, due to our belief it will lead to even higher levels of piracy on the trademark register, including by counterfeiters. Instead, the IACC believes the Trademark Office simply needs to increase the manpower allocated to trademark examination.

- Retail and Wholesale Markets

IACC member companies in the fashion and apparel industry have continued to intensify their efforts to clean up retail and wholesale markets in major cities in China by leveraging cooperation from landlords and pursuing more innovative enforcement strategies with local AICs. The progress has been gradual and uneven, with the level of counterfeiting in the biggest target—the notorious Silk Street Market in Beijing—remaining at critical levels, notwithstanding the enormous amount of attention it has been given by both industry and government authorities. The IACC consequently encourages the Chinese government to intensify its attention to counterfeiting in retail and wholesale markets, including through more innovative and effective enforcement initiatives, and greater exercise of political will.

The efforts of IACC member companies in Chinese markets have generated some useful “best practices” for local governments, some of which have actually reduced the visibility of counterfeiting in certain markets, based in part on the creation of new standards of care for landlords and vendors.

The legal foundation for civil and administrative action against landlords was solidified over the last year through intervention by Chinese courts in three cases, each of which involved the Silk Street Market.²²

The first was a December 2006 decision by the Higher People’s Court in Beijing upholding an administrative fine by the Chaoyang District AIC against the landlord of the Silk Street Market, Beijing Xiushui Clothing Market Co. Ltd. (“Xiushui”). The AIC’s decision was based on a series of notarized purchases by luxury brands Burberry, Chanel, Gucci, LV, and Prada, conducted both before and after a written warning had been provided to the landlord. The court ultimately held that the landlord should be held liable for contributory liability for failing to take “timely measures to stop the infringements”, and awarded each plaintiff compensation of about US\$2,500.

The second decision of note was the issuance by the SPC in April 2007 of a notice listing out the “Top 10” appeal court decisions of 2006, among which was the civil action originally filed by the same luxury brands against Xiushui in September 2005. In this case, the brand owners demanded that the landlord take responsibility for infringements that took place after the landlord had been provided notice of violations by particular vendors. The SPC’s recognition of this case has arguably eliminated any doubts as to whether landlords may be held contributorily liable nationwide for trademark infringement.²³

²² For a more detailed exploration of these decisions, see Dec/Jan 2008 edition of *Managing Intellectual Property*.

²³ See text of SPC announcement at <http://www.court.gov.cn/news/bulletin/release/200704260020.htm> (Chinese). As China is a Civil Law jurisdiction, very few court decisions are binding on future courts. Recognition of a particular lower court decision by the SPC in “Top Ten” lists does not guarantee a decision is binding, but its persuasive impact is extremely strong on courts throughout the country.

The third decision was issued by the Beijing No. 2 Intermediate People's Court, once again involving Xiushui as the defendant, with the plaintiff this time being The North Face. In this case, the court imposed liability on Xiushui based on the landlord's failure to provide evidence that it had complied with Beijing AIC guidelines issued in March 2006 that require landlords to prevent counterfeiting by requiring retailers to provide documentary evidence that they are authorized to sell particular brands. Unlike the prior cases filed by European luxury brands, the court focused more on the landlord's general behavior, rather than its failure to intervene against a particular outlet after receiving notice of its infringement. This decision is now on appeal with the Beijing Higher People's Court, and a decision may be issued imminently.

In addition to the above judicial actions, IACC members have over the last two years sent hundreds of notices to Xiushui and filed over many administrative complaints against vendors in the market. While Xiushui claimed to take a number of measures to deter counterfeiting, recent market surveys confirm that the measures it has taken have created little or no deterrence, and consequently counterfeiting of virtually every major luxury, clothing and sporting goods brands in the market remains rife.²⁴

The efforts by the Beijing AIC and other divisions of the Beijing municipal authorities to control the problem in the Silk Street Market as well as other markets in the capital are undermined by a range of factors. First among these factors is protectionism, which has manifested itself in a number of ways, including leaks of impending raid actions, the sudden imposition of notarization and legalization requirements for powers of attorney (within days of the filing of many administrative complaints by brand owners), threats against trademark lawyers acting for the brands, and a reluctance of administrative authorities to conduct even the most basic investigations of blatant violators.

The recent efforts undertaken by IACC members in Beijing markets has clearly illustrated the practical limits of administrative and civil remedies in stopping infringements, thereby underscoring the need for a reasonable allocation of criminal enforcement resources. Thus far, however, Beijing police appear unwilling to intervene, notwithstanding the blatant commercial-scale violations that are occurring daily in the full light of day.

IACC members hope that the very few positive developments, both in Beijing and other major cities, listed below may give room for optimism over the future use of civil and administrative enforcement strategies targeting landlords and will continue to monitor the situation.

- Administrative Fines against Landlords – AICs have since October 2005 imposed at least 11 administrative fines, ranging from RMB20,000 to as high as

²⁴ As noted in the IACC's last 301 report, a survey of the Silk Market conducted in January 2007 revealed 4,460 infringements of 136 different international brand names, with violations observed in 937 outlets, or 65percent of all outlets in the market. Among outlets selling watches, all were observed selling counterfeits. Among those selling footwear, leather goods, and eyewear, the ratios were 96percent, 93percent and 80percent, respectively. More recent surveys indicate the problem remains roughly the same.

RMB100,000 against landlords in major markets in Beijing. Similar decisions have reportedly also been imposed or are in the pipeline in Guangzhou, Shanghai and Shenzhen. These fines have not been sufficiently high to promote immediate changes in the practices of landlords, in part due to the lack of willingness of AICs to impose a greater number of fines and at higher levels.

- Standard Lease Provisions - The AICs and municipal governments in Shanghai, Guangzhou and Shenzhen have each issued recommended lease provisions to landlords that mandate “two-strike” rules for the ejection of infringing outlets. Beijing authorities are understood to be preparing a similar lease template. IACC will monitor these actions and report on their results.
- Luowu Action Plan - In the infamous Luowu Market in Shenzhen, local authorities have imposed a strict “one-strike” rule under which landlords are required by the AIC to suspend the operation of infringing outlets for three or six months, without the ability to re-rent them to other lessees during the suspension period.²⁵ Police in the Luowu District have also commenced criminal investigations against various vendors and encouraged brand owners to provide additional leads. Consequently, rents in the market are said to be falling, and most importantly, the visibility of counterfeits of IACC member brands is dramatically reduced in recent months.
- Fines Based on Notarized Purchases - In Beijing’s Chongwen District and Shanghai’s Zhabei District, the AICs have agreed to process administrative complaints from brand owners based solely on notarized purchases of infringing products from offending vendors. To date, AIC raids conducted against multiple outlets in Chinese markets have routinely been frustrated by leaks, and consequently most outlets are closed or have removed their infringing items by the time the authorities arrive on site to conduct inspections. If AICs can impose fines based mainly only on notarized purchases, it would relieve the authorities of the need to conduct physical raids, and thereby allow brand owners to cost-effectively ensure that all vendors in a given market will be penalized.
- Publication of Administrative Penalties Online – AICs in certain districts in Beijing and elsewhere have begun publishing some or all of the administrative penalties they impose online. With these databases, trademark owners can identify repeat offenders more easily and concentrate their resources on them. Assuming AICs are willing to impose substantially greater penalties on

²⁵ These administrative measures mirror the remedies available to IP owners that have pursued landlord liability strategies in recent years in New York City’s Canal Street.

recidivists, trademark owners should be able to generate substantially greater deterrence from their administrative enforcement actions.²⁶

- Cooperation with Landlords - With local government support, landlords in Beijing, Shanghai, Guangzhou and Shenzhen have begun dialogue and active cooperation in anti-counterfeiting work. In several markets, landlords have imposed contractual fines against infringing vendors, which have in turn led to substantial reductions in counterfeiting for the brands concerned. If the pending appeal in the above-mentioned North Face dispute is upheld, IACC members are hopeful that the level of compliance among outlets and cooperation from landlords will improve significantly.

In November 2007, the IACC recently proposed to the MOFCOM that a pilot program be considered in order to introduce the above innovations in a more systematic manner in selected Beijing markets. Thus far, Chinese authorities have not responded to the proposal.

The IACC hopes that a pilot program eventually can be created in the period leading up to the Beijing Olympics, thereby acting as a springboard to further cooperation between rights-holders and enforcement authorities. But any such program must at its core provide for strong and deterrent fines and other sanctions—failing which, landlords and vendors will no doubt continue to regard the penalties as just another cost of doing business.

- Copyright Enforcement

Despite some positive developments over the last year, our members in copyright industries, including film, music, software, and games, continue to report extreme levels of piracy in China, fueled in part by new technologies, but fundamentally spurred on by the lack of credible deterrence from enforcement. While there appears to be a small increase in the level of criminal enforcement, the number of cases prosecuted remains paltry, and without any impact on market behavior. Civil damages still remain too low to create deterrence or, in most cases, to compensate legal costs of bringing actions. Meanwhile, administrative enforcement remains in the words of USTR “toothless,”²⁷ notwithstanding the fact that the Chinese government allocates most of its copyright enforcement resources in this area.

On the legislative front, in June 2007, China finally acceded to the two main WIPO copyright treaties. In addition, as mentioned above, in April 2007, the SPC and SPP issued a new judicial interpretation on IP crimes that reduced the criminal thresholds for copyright infringements, particularly those involving optical disks (now only 500 units, half the prior level) and corporate

²⁶ IACC members hope that Chinese police and prosecutors will soon agree to criminalize all cases involving three-time offenders. A three-strike rule was previously set out in prosecution guidelines issued by the SPP in 2001, but these guidelines were not widely enforced.

²⁷ “USTR: IP Enforcement in China ‘Toothless’,” *Managing Intellectual Property*, Dec 18, 2006, available at <http://www.managingip.com/Article.aspx?ArticleID=1257467>

offenders (one third the prior levels). As noted above, the new interpretation does not yet appear to have resulted in significant increases in criminal enforcement against copyright pirates – notwithstanding an almost unlimited number of leads available in the marketplace as well as online.

Consistent with tradition, the Chinese government has focused its enforcement resources in pursuing limited campaigns,²⁸ and the latest available statistics concerning the results of enforcement actions in 2007 include the following:

- The opening of 1001 infringement case files, and closing of 832;
- The number of online copyright cases handled increased by 160 percent over the levels recorded in the prior two years, combined (although Chinese authorities have not yet disclosed the total number of online cases handled);
- Criminal transfers of 31 infringement cases initially handled by administrative authorities;
- Administrative fines imposed totaled only RMB870,750 (a mere US\$120,000);
- 123 servers and 51 computers were confiscated; and
- 339 illegal websites were shut down.

Despite these limited successes, IACC’s copyright members continue to report significant problems in the Chinese market domestically, and continued export of pirated goods. Of particular concern is the explosion of copyright violations on the Internet. There are now over 210 million Internet users in China, 70 percent of whom are under 30.²⁹ The growth of the Internet in China has led to a corresponding explosion in the level of online infringements, including via P2P, blogging, and caching.

Meanwhile, optical disk piracy remains problematic, particularly for software, films and music. The seriousness of the problems is illustrated by statistics from a report³⁰ recently issued by the Ministry of Culture (“MOC”) that recounts the details of a number of major cases dealt with by enforcement authorities last year. The top case involved the seizure of 610,000 pirated optical discs, and resulted in prison terms against the organizers ranging from six months to one year and three months. Yet, with optical disk piracy in the billions of disks made in China each year, this case shows the need for huge improvements.

²⁸ See http://www.china.com.cn/news/2008-01/17/content_9545829.htm.

²⁹ “The Internet in China – Alternative Reality,” *The Economist*, Jan 31, 2008, available at http://www.economist.com/business/displaystory.cfm?story_id=10608655.

³⁰ See http://www.china.com.cn/news/txt/2008-01/08/content_9501437.htm.

The courts are increasingly being utilized by Chinese and foreign rights holders to clarify the law in gray areas. Among these are cases involving online video sharing. In November 2007, Quacor.com sued two video sharing websites, Tudou.com and Xunlei.com for illegally offering downloads of the film “The Sun Also Rises”, a new blockbuster movie from the Chinese director Jiang Wen. Meanwhile, in January 2008, an exclusive film distributor brought suit against 56.com, one of the largest video sharing websites in China, for illegally sharing the Hong Kong TV series “Devil’s Disciples” and “A Change of Destiny.” IACC is closely monitoring the progress of these cases. Our members do report that historically the civil courts have been burdensome, slow and provide extremely low damages.

Customs

During 2007, Chinese Customs increased the number of seizures of counterfeit and other infringing goods by 31 percent to 3310.³¹ IACC members were also heartened by the strengthening of cooperation in information exchange and tactical cooperation between the General Administration of Customs (“GAC”) and both the EU and U.S. governments through the conclusion of cooperation accords. Meanwhile, the GAC and many local customs offices have impressed IACC members with their willingness to participate in training and dialogue over a range of issues of continuing concern to IP owners.

But IACC members remain concerned over a number of important issues, explained below.

- **Criminal Enforcement**

Despite often making seizure of fakes in quantities that meet relevant thresholds for criminal prosecution, very few cases are successfully transferred by customs to the PSB for criminal investigation. Information from the field suggests that Customs is normally supportive of such transfers and that the problem rests mainly with local police, who in turn cite two primary difficulties. The first is the lack of resources, including for travel. In most cases involving large-scale seizures, the goods are technically owned and exported by a middleman Chinese trading company, while the supplier of the goods is normally an unknown factory or yet another trading company located in one or more different cities. The second main obstacle in criminal enforcement arises from the legal requirement under the Criminal Code to demonstrate that the exporter had sufficient knowledge it was dealing in infringing goods. Like other countries, Chinese law does not specify in detail the types of evidence that are required to raise a legal presumption of knowledge in these circumstances.

The IACC encourages Customs, the SPP, SPC and MPS to work together to develop practical guidelines in this regard, thereby facilitating more cost-effective investigations of trading companies caught with substantial quantities of counterfeit and pirated goods.

³¹ See <http://www.customs.gov.cn/YWStaticPage/1/f868984a.htm>.

- Greater Cooperation in Profiling

Chinese Customs has done an impressive job of increasing its hit rate through more refined profiling and closer monitoring of export shipments. However, the IACC encourages Chinese Customs to more closely monitor companies and individuals that are known or simply rumored to be involved in counterfeiting, with particular emphasis on companies that have been the subject of prior seizures in either China or abroad.

- Destruction of Fakes

Presently, Chinese customs regulations mandate that if trademark markings can be deleted from seized goods, those goods may be auctioned off by customs, such that the goods may end up back in the hands of counterfeiters for recycling once again as counterfeits.³² By contrast, Article 46 of the TRIPS Agreement explicitly requires WTO member countries to provide for destruction of fakes as the main option for disposing of seized goods, with removal of trademarks being allowed only in “exceptional cases”. The IACC believes China is patently out of compliance with WTO standards in this regard.

Chinese regulations also permit the donation of seized goods to charity without the removal of infringing marks. Rules were introduced in 2007 that suggest this should only take place after customs proactively consults with the trademark owner. However, few IACC members report being approached for their views under these rules.

Both of these practices need to stop.

- Low Administrative Fines

Chinese regulations only authorize local customs to impose fines up to 30 percent of the value of goods - far too low to generate credible deterrence. The IACC encourages the GAC to amend its existing regulations to significantly increase the level of fines to at least those provided under the Implementing Regulations to the Trademark Law—currently 300 percent of the value of the goods.

- Access to Information and Documentation/Transparency

Chinese customs still do not routinely provide information on the intended buyer of infringing goods indicated in export documentation. In the absence of more effective and routine

See Art. 27 of the Customs Regulations of the PRC, which give main priority to the recycling of seized goods: “Where confiscated goods that infringe on intellectual property rights can be used for the public good, Customs shall forward such goods to relevant public welfare organizations for the use of the public good. If the holder of the intellectual property rights wishes to buy them, Customs can transfer them to the holder with compensation. If the confiscated goods infringing on intellectual property rights cannot be used for public welfare and the holder of the intellectual property rights has no wish to buy them, Customs can, after eradicating the marks of infringement, auction them off according to law. If the marks of infringement are impossible to eradicate, Customs shall destroy the goods.”

information exchange and cooperation among customs in China and other countries, the provision of such information to foreign IP owners is the only practical way to facilitate investigations that would help stop goods from entering markets and bring the buyers to justice—thus closing the loop of the manufacture and sale of these products. The IACC therefore recommends that the GAC and other appropriate bodies in China consider other solutions that would ensure that the identity of the foreign buyers of these products, orders of which are being sent to Chinese factories, be disclosed to the rights holders to facilitate action abroad, thereby helping to stop the foreign pirates from sourcing fakes from other suppliers, whether they be in China, or elsewhere.

- Slow Return of Bonds and Issuance of Penalties

Only a handful of companies (mainly in the footwear industry) have been able to exploit the general bond system adopted last year by Chinese Customs. Other companies that have recorded their rights with Customs are required to pay significant bonds in order to ensure the processing of cases following initial seizures. The financial burdens in this regard are exacerbated by long delays in the return of bonds and the issuance of penalty decisions. In the vast majority of cases reported, IACC members must wait at least one year and sometimes more than two for the relevant procedures to be concluded.³³ These onerous requirements need to be eased as soon as possible.

Conclusion

Counterfeiting and piracy in China remained the same or worsened in the last year, due mainly to the lack of sufficient criminal enforcement and inadequate deterrence generated from administrative and civil enforcement. The IACC consequently calls on China to pursue long needed legal and administrative reforms to make enforcement more effective, focusing particular attention on the following:

- Amend the Criminal Code to eliminate or dramatically reduce numerical thresholds and ensure that both liability and sentencing take into consideration the full range of available proof;
- Allocate substantially greater resources to criminal prosecutions of trademarks and copyrights;

³³ One IACC member reports that Customs in one Southern Chinese city has not returned substantial bonds paid as early as 2004. Naturally, the brand owner fears that pressing too hard for return of the funds might harm their working relations.

- Establish specialized IPR enforcement units within Chinese police and prosecutors especially in key hotspots, such as Guangzhou, Shenzhen, Dongguan, Beijing, Cixi, and Yiwu;
- Increase the deterrent impact of administrative enforcement through more innovative measures, including targeting of repeat offenders, facilitated by the online publication of all administrative decisions and the imposition of administrative penalties based mainly on evidence gathered through notarized purchases by IP owners;
- Build on the encouraging steps of municipal authorities to make landlords responsible for counterfeiting in retail and wholesale markets throughout China;
- Increase civil compensation payable by local IPR tribunals;
- Publish online more complete enforcement statistics, including break outs by region and type of violation;
- Address concerns about proposed amendments to the Trademark Law, including the proposed elimination of relative examination and requirement of intent or negligence to impose liability for trademark infringement on vendor and OEM suppliers; and
- Direct Customs to closely monitor known counterfeiters and prior offenders, to discontinue auctioning or charitable contribution of seized goods, increase administrative fines, provide right holders with information about the intended buyer of infringing goods, and speed the return of security bonds and imposition of penalties.

RUSSIA

Recommendation: Priority Watch List

Introduction

Russia remains a major concern to U.S. trademark and copyright owners, second only to China. Trademark counterfeiting and copyright piracy remained at unacceptably high levels throughout the past year in spite of some reports of increased enforcement. IACC members from an array of industry sectors report continuing problems with corruption, as well as a lack of transparency both during investigations and in ensuring the proper disposition of seized (counterfeit and piratical) goods, which hinder effective enforcement. Russian trade in counterfeit and pirated goods continues – both within the domestic market and manifested in exports of Russian-made illegal goods; in addition to the transit of counterfeit product through Russia to other end-markets. Each of these issues underscores the need for improved border enforcement. The influence and involvement of organized syndicates, and the unwillingness or inability of the Russian government to address those organizations’ role in the trade of illicit goods, continues to be a significant problem for rights-holders.

Russia made specific commitments to address these and other concerns about copyright piracy and trademark counterfeiting in the 2006 U.S.-Russia Market Access Agreement on Intellectual Property Rights.¹ But in the last year, there has been little improvement that would change the observation of the USTR that “[p]oor enforcement is a pervasive problem [, and] prosecution and adjudication of IP cases remains sporadic and inadequate in Russia.”² There was also little to allay the great concern expressed by rights holders with regard to the apparent worsening of intellectual property rights resulting from the recent adoption of the new Part IV of the Civil Code.

Scope and Nature of Piracy and Counterfeiting in Russia

Trademark counterfeiting has remained a problem during the past year for IACC members from nearly every product sector – most notably in the automotive, apparel, tobacco, pharmaceutical, chemical, information technology, entertainment products, consumer goods and personal care

¹ The text of this Side Letter Intellectual is available at http://www.ustr.gov/Trade_Sectors/Intellectual_Property/Russia/Section_Index.html.

² U.S. Trade Representative, 2007 Special 301 Report, April 30, 2007, available at http://www.ustr.gov/assets/Document_Library/Reports_Publications/2007/2007_Special_301_Review/asset_upload_file884_11123.pdf

product sectors. IACC members have identified serious problems with regard to import/export, online markets, street markets, and manufacture for both domestic consumption and export. Some IACC members in these sectors report that Russia is rivaling China as one of the worst sources for counterfeit goods. Many counterfeit products, including food and health/beauty aids, come into Russia in component form, are assembled and then exported out to other markets. Rights holders contend that there has been little, if any progress in stemming the flow of counterfeit goods from Russia through Kazakhstan - a favorite transshipment point – and onward to Eastern Europe and European Union member-states.

Further, the growing trade relationship between Russia and China is cementing partnerships between these manufacturers and exporters in counterfeit products. For example, brand owners continue to report cases of counterfeit goods being shipped from China, both for consumption within Russia, as well as for subsequent distribution to end markets in Europe and the former Soviet republics. Members report problems with the opening of the newest Chinese-Russian rail lines, including new free trade zones between the countries that are becoming centers for counterfeiting activity and trade.

Retail sales and distribution remain a key concern for IACC members in a variety of industries, though perhaps most notably in the automotive, chemical, wine and spirits, tobacco, food, and consumer goods / personal care product sectors. Perhaps most troubling about the reports received from IACC members are the product sectors involved – all of which fall clearly within the classes of goods which may have direct and significant adverse health effects on consumers.

Such effects have been seen widely during recent years in the rising numbers of poisoning deaths and illnesses related to the consumption of counterfeit vodka. Rashid Nurgaliyev, Russia's Minister of the Interior, has referred to it as a “national tragedy”, while Vladimir Putin himself has cited it as a “huge problem”, noting the harm caused in both terms of individuals’ health and in terms of the impact on the Russian economy.³

While counterfeiting in any product sector is cause for concern to brand owners, the thriving market in the above-noted sectors should provide additional incentive to the Russian to take the steps necessary to crack down on counterfeiters, and to provide the necessary resources to law enforcement and prosecutors to keep substandard and unsafe products off the streets and out of the marketplace.

Copyright piracy also continues to be a major concern for IACC members from the recording and motion picture industries, as well as producers of both entertainment and business software. The specific problems cited in the IACC’s most recent reports to USTR remained largely unchanged throughout 2007, most notably the need for greater action to be taken against optical disc plants for increased enforcement against online piracy.

³ “Russia: Alcohol Blamed For Outbreak Of Poisonings.” Claire Bigg. Radio Free Europe Radio Liberty. Available at: <http://www.rferl.org/featuresarticle/2006/10/67164cf3-a58d-4a76-aae0-e4f64e992f9b.html> .

The number of illegal optical disc manufacturing plants currently operating in the country have an annual capacity that far outstrips the legitimate market for domestic consumption. Russia remains a source of exports of pirate products to Europe, despite repeated assurances that the Russian government has placed a greater priority on regulating and policing the operations of optical disc manufacturers.

Legislation

In the 2006 IPR Side Letter, the Russian Federation made a commitment to:

[E]nsure that ... any changes that may result from consideration of a possible new Part IV of Russia's Civil Code [] do not result in a lesser degree of consistency than exists on this date with the provisions of the TRIPS Agreement and other IPR-related international agreements to which the Russian Federation and the United States are parties.

American brand-owners and copyright holders had raised concerns about a number of the new provisions prior to the adoption of the new Part IV of the Civil Code, particularly with regard to the compliance of those provisions with international norms. Unfortunately, these concerns were largely ignored and dismissed by the Russian government during the drafting of Part IV, and the private sector, both in the United States and in Russia, was largely excluded from that process.

Brand owners were encouraged by the establishment of an Industrial Property Subgroup of the IP Experts Council, in mid-2007, and with the IP Subgroup's proposed amendments to the language of Part IV. Regrettably, the proposed amendments were not acted on prior to the end of 2007, nor has any action been taken on them thus far in 2008. While IP rights holders are hopeful that the State Duma will enact these amendments in 2008, there has been little or no indication that doing so will be a priority. This has given some rights holders the impression that the proposal is yet another instance in which the Russian government's positive rhetoric is not accompanied by concrete action.

Enforcement

The Russian government made a number of commitments intended to quell the concerns of both the US government and the private sector and to take "meaningful enforcement" on a "priority" basis. Among the commitments were:

- Taking steps to combat optical disc piracy;
- Deterring counterfeiting and piracy with appropriate criminal penalties; and
- Improving enforcement within Russia's borders.

While improvements to raids and enforcement have been made this year, Russia needs to do much more to satisfy these commitments in the IPR Side Letter and to have any tangible impact on the growing problems of copyright piracy and trademark counterfeiting.

Several members have decried the “lack of useful laws” in Russia, citing difficulties in having cases pursued by prosecutors, an unwillingness by authorities to initiate or aggressively pursue investigations, and the failure by the government to seize instrumentalities of IP crimes, such as machinery used to manufacture counterfeit goods. Such seizure authority is viewed as an essential tool for disrupting operations and discouraging subsequent resumption of operations following an enforcement action. When actions are taken, there are rarely any deterrent penalties imposed, either in criminal cases or administrative cases. No liability for owners/legal entities behind many of these enterprises exists at this time.

While Russian authorities have touted increases in the number of copyright enforcement actions taken and the number of cases initiated against copyright pirates, those actions have been focused on retail-level vendors and distributors rather than seeking out the larger OD manufacturing plants. Enforcement against those latter operations would be far more likely to result in a significant impact on the levels of pirated content available in the Russian market. Similarly, while the Russian government has taken some action against online pirates, including the notorious AllofMP3.com, online piracy remains one of the most significant obstacles to copyright owners in the Russian market. While AllofMP3.com was shut down, the owners of the website, MediaServices, Inc., simply continued their operations under a different name at MP3Sparks.com, and through the invitation-only MemphisMembers.

A number of IP rights-holders expressed concerns that the entry into force of the new Part IV provisions in January 2008 would further exacerbate prosecutorial and adjudicative inadequacies, while also drawing much needed attention away from the issues related to enforcement. While it would be inappropriate to draw any conclusions as to the actual effect of the enactment at this early stage, the IACC will continue monitoring the situation to determine if those apprehensions are borne out.

Members made reference to both a lack of resources and the non-receptiveness of law enforcement personnel. The former is viewed by some as having a causal relationship to the latter – i.e., law enforcement is seen as “under-staffed” and “stretched too thin”, and places a higher priority on other offenses, leading to lax enforcement of intellectual property crimes. Providing funding to hire additional law enforcement personnel, as well as further training focused on increasing officers’ understanding of the impact of IP crimes may be helpful in raising the priority of those offenses and in turn improving the responsiveness of law enforcement.

Others discussed the lack of responsiveness by law enforcement in terms of transparency, noting that they are often excluded from the process and receive little or no information regarding the status of investigations or cases. Further, many brand owners have experienced difficulties while seeking to obtain information about or verification of the final disposition of counterfeit product seized by the authorities.

This unresponsiveness and lack of transparency can be particularly frustrating to brand owners with a long-standing presence in Russia, who are in many cases well-equipped to provide information and assistance based on their past experiences in seeking to enforce their rights. IACC strongly recommends increased cooperation and coordination between rights holders, police, and prosecutors as a cornerstone of Russia's plans to move forward in their commitment to "meaningful enforcement".

Customs

Customs enforcement at Russia's borders remains a major concern for IACC members, as most members indicate that many counterfeit goods present in the Russian market are not manufactured domestically. In addition, members report that a substantial portion of those goods that are manufactured domestically (along with components that are assembled or finished domestically), are produced for export to other markets, thus creating both an import and export trade in counterfeit and pirated goods. By and large, the goods or the components to make the goods appear to originate from China, and are transported to Russia for retail-level distribution or assembly and re-export into Eastern European states and beyond.

In the IPR Side Letter, the Russian Federation made specific commitments to strengthen its border enforcement regime. As noted in previous years, there remains a need to enact amendments to the Customs Code providing *ex officio* authority to Russian Customs. The enactment of such legislation by June 1, 2007 was one of the commitments made by the Russian government as part of the Bilateral Market Access Agreement. Regrettably, Customs authorities still lack express authority to take such action, which is seen as a vital tool in combating the flow of counterfeit and pirated goods flowing into and out of the country.

The FCS also lacks the authority to destroy counterfeit goods that have been seized, which raises concerns about such goods returning to the stream of commerce – concerns that are exacerbated by reports of official corruption.

Although Russian officials at the Federal Customs Service have claimed significant increases in seizures of infringing goods and concomitant administrative actions, IACC members still report significant problems with the current border control regime. Brand owners noted many of the same problems with the Federal Customs Service that were referenced in regard to law enforcement generally, i.e., insufficient resources, a lack of responsiveness, and a lack of transparency. The second and third factors have contributed to a perception of corruption by several rights-holders.

Russia needs to ensure all legal foundations are in place (such as the ability of Customs to take *ex officio* action) to ensure a solid Customs enforcement regime. Further, it must increase

inspections and seizures of both imports and exports of counterfeit and pirated goods. Finally, attention to the trade in counterfeit products in the new FTZ areas should be addressed.

In addition, members have cited an overly formalistic approach by Customs personnel that has resulted in authorized shipments of legitimate goods being held by FCS personnel for extended periods, preventing those goods from getting to the market. As discussed in last year's IACC submission, the companies who have seen the most progress in reducing the scope of their individual brand protection problems in Russia are those who have been best able to maintain a steady supply of legitimate goods. When legitimate goods are unnecessarily held up from reaching retail distribution, counterfeit goods are more likely to fill that demand.

Conclusion

There is still much for Russia to do before in protecting and enforcing intellectual property rights. While many see the Russian government as "saying the right things" with regard to needed action on IPR issues, the Russian government must, at a minimum, do the following:

- Fully satisfy the commitments made in the 2006 IPR Side Letter;
- Enact the amendments to Part IV of the Civil Code proposed by the Industrial Property Subgroup of the IP Experts Council;
- Take appropriate *and sustained* action in compliance with enforcement and border control obligations of the 2006 IPR Side Letter;
- Increase enforcement, and significantly increase the cooperation and communication between rights-holders, police, and prosecutors to ensure cases are consistently pursued;
- Ensure deterrent penalties are imposed on violators; and
- Address the growing threat of imports/manufacture-assembly/re-export of counterfeit and pirated goods to other markets.

PARAGUAY

Recommendation: Section 306 Monitoring

Introduction

Paraguay has made efforts to improve the protection of IP, particularly by increasing the number of raids and seizures of pirated and counterfeit goods. Measures adopted by the government in the fight against counterfeiting and piracy focus mainly on improving the work of the specialized law enforcement agencies, such as the Specialized Technical Team (Unidad Tecnica Especializada, or “UTE”) and border control authorities, such as the Customs Special Enforcement Technical Team (Unidad Tecnica Aduanera de Vigilancia Especial, or “UTAVE”). In addition, legislation is also under consideration by the government which would amend its IP laws.

In spite of these efforts, Paraguay continues to have serious problems providing effective IPR protection due to porous borders, ineffective prosecutions for IPR infringements, and the lack of consistent deterrent sentences, including imprisonment, in court cases. Paraguay and the United States concluded a new Memorandum of Understanding and Action Plan on protection and enforcement of intellectual property rights in Paraguay at the Joint Commission on Trade and Investment meeting in December 2007.

The IACC recommends continued monitoring by the US Government under Section 306, to ensure Paraguay's continued commitment to improving its IPR regime.

Nature and Scope of Counterfeiting in Paraguay

Many imported products – both genuine and counterfeit - initially enter Paraguay through free trade zones located at ports of entry in Brazil, but which are legally Paraguayan territory. From these Paraguayan free trade zones, products are transshipped to their ultimate destinations in Brazil and other countries.

In general, Paraguay is not an end-market for counterfeit products. Paraguayan imports widely exceed local demand, and most imported merchandise – principally from Asia - is not destined to satisfy the internal market's needs, but is destined to other countries in the Tri-Border region, where Paraguay shares a frontier with Brazil and Argentina. Consequently, Paraguay is a way station for counterfeit products from Asia on their way to larger and more affluent markets in Brazil and other neighboring countries.¹

¹ Please see our report on Brazil for more information on the presence of imported counterfeit products in Brazil.

But Paraguay is also a producer and exporter of some tobacco products. For example, counterfeit tobacco products made in Paraguay generally are not intended for local consumption, but for export to neighboring countries as well as countries in the Middle East and Asia.

This dual role as both a way station and production center for counterfeit products remains cause for concern. Paraguay may have the dubious accomplishment of creating a self-reinforcing two-way trade in counterfeit products, exporting locally made counterfeit products, such as cigarettes to Asia and importing Asian-made counterfeit electronics and other products to neighbors in South America. If so, the interests of local producers and distributors of counterfeit products could be well-entrenched against anti-counterfeiting efforts. Despite these considerable challenges, the Paraguayan government has failed to provide border enforcement and law enforcement agencies with the political and financial support required to control product counterfeiting. Moreover, Paraguay's large, pervasive, and largely unregulated economy is conducive to corruption among public officials and even their involvement with organized crime.

Border Control

Counterfeit exporters in Paraguay are reported to use sophisticated methods to produce accurate forgeries of labels and packaging that are difficult for both consumers and law enforcement to distinguish from genuine products. Counterfeit exporters also elude border control measures by shipping dismantled goods across national frontiers, and then reassembling the component pieces in clandestine facilities.

Recent action by the General Customs Administration offers the prospect of an important new tool for trademark owners. In late 2007, the Customs General Administration issued an internal communication advising that trademark owners may now record trademark registrations for the purpose of detaining suspected counterfeits before allowing importation. It is hoped that this action will improve effective border control of trademark counterfeits in Paraguay, and trademark owners will monitor its effectiveness in practice.

But it is evident that the improvements provided by the General Customs Administration are not enough to provide adequate and effective protection for U.S. trademark owners in Paraguay. Transshipping through Paraguay and its free trade zones provides product counterfeiters with many opportunities to escape detection of border control measures. As the U.S. Trade Representative observed in its 2006 Special 301 Report:

Transshipped and in transit goods pose a high risk for counterfeiting and piracy because customs procedures may be used to disguise the true country of origin of the goods or to enter goods into customs territories where border enforcement for transshipped or in transit goods is known to be weak.

Paraguay has been unable to control abuses of transshipment or to stem the cross-border movement of counterfeit products. In particular, Paraguay still lacks an efficient surveillance and control system that would enable improvement in the fight against counterfeiting and piracy. The General Customs Administration lacks adequate technology and resources needed for the fight

against copyright piracy and trademark counterfeiting. In many cases, technology and resources are obtained through technical assistance by foreign governments and trademark owners.

Because counterfeit exports from, and transshipping via, Paraguay introduce counterfeit products into Brazil and other countries, Paraguay continues to conduct initiatives to cooperate with customs authorities in neighboring Brazil and Argentina. The Paraguayan Government, through the General Customs Administration, the Police, and other Special Units, works closely with Brazilian authorities, in particular Receita Federal and Policia Federal, in joint anti-piracy and anti-counterfeiting actions at the Amistad International Bridge and other important border crossings. The Paraguayan Government also met with representatives of both Brazil and Argentina in 2007 for the 3+1 Mechanism on Triple Border Security in Asunción.

But Paraguay can make other reforms on its own initiative. Paraguay should provide greater authority and more resources to its understaffed and under-financed border enforcement agencies. Because transshipping via Paraguay is a significant avenue for product counterfeiting in the Tri-Border region, Paraguay should address transshipping of counterfeit products through Paraguay and its free trade zones. These should include controls on counterfeit exports, stricter regulation of import licenses, and requiring customs declarations to identify trademarks on shipped products.

Criminal Enforcement

Paraguay also needs to make significant improvements in criminal law enforcement against product counterfeiting. Despite some favorable results and the key role of the public prosecutor in Paraguay – in particular special trademark prosecutors – much more needs to be done.

Now pending in the Paraguayan Congress is legislation originally intended to address weaknesses in the Penal Code with respect to trademark counterfeiting and other intellectual property violations. Unfortunately, this legislation leaves the penalties for criminal infringement unchanged. Moreover, the legislation as approved by the Paraguayan Senate would actually impair the fight against trademark counterfeiting. According to local sources, the Senate-approved legislation deleted “fraudulent imitation” as a criminal violation in the apparent belief that “fraudulent imitation” and “forgery” were the same offense. It is hoped that fraudulent imitation will be restored to the legislation before it is enacted, and that the legislation will greatly increase the penalties for criminal infringement.

Paraguay should also require the National Police and the Prosecutor's Office to conduct more thorough and serious investigations.

Education

The Paraguayan government currently conducts public education campaigns to prevent counterfeiting, along with money laundering and related crimes. These campaigns should be maintained on a continuing basis. There remains an ongoing need for technical assistance to train police, prosecutors, and judges, as well as customs officials.

Conclusion

The Paraguayan government has taken important steps to fight product counterfeiting, but much more remains to be done to address the export and transshipment of counterfeits. In particular, Paraguay should take the following steps:

- Restore the language pertaining to “fraudulent imitation” in the pending legislation to amend the Penal Code;
- Make general reforms of its border control measures, including stricter regulation of import licenses, and requiring customs declarations to identify trademarks on shipped products;
- Continue and increase cooperation with customs and law enforcement authorities in neighboring countries of the Tri-Border region, in particular Brazil and Argentina;
- Provide more resources to border control and law enforcement authorities;
- Take steps to address transshipping of counterfeit products through Paraguay and its free trade zones, including controls on suspected counterfeit exports; and
- Require the National Police and the Prosecutor Office to conduct more thorough and serious investigations of trademark counterfeiting.

BRAZIL

Recommendation: Watch List

Introduction

Following the 2004 report by the Brazilian Chamber of Deputies Commission of Inquiry into Piracy, the Brazilian government has made visible efforts to fight counterfeiting. In recent years, Brazil has taken important steps to improve the protection and enforcement of trademarks and copyrights against counterfeiting and piracy, including the formation of the National Council to Combat Piracy (“CNCP”). Brazil has adopted some modern legislation, provided better, and necessary, legal rights and remedies to right holders, and given greater authority to customs agencies. Civil legal actions in Brazilian courts can now sometimes produce prompt, effective remedies. Courts in Brazil now regularly order provisional measures in civil and criminal infringement matters within 48 hours, and in some cases have awarded significant damages to prevailing right holders.

Unfortunately, the important steps taken by Brazil’s government have not been enough to deter the widespread importation, production, and retail sale of counterfeit and pirated products in Brazil, particularly in the infamous “Tri-Border” area encompassing the borders with Paraguay and Argentina.¹ This is partly because the scope of the problem in Brazil far exceeds the public resources now devoted to customs authorities and law enforcement. There are also practices, notably the absence of central customs recordal and inconsistent criminal prosecution, that contribute to the problem. If these shortcomings are corrected, there are opportunities for improving the results of anti-counterfeiting efforts in Brazil.

Nature and Scope of Counterfeiting and Piracy in Brazil

Brazil is an end-market for counterfeit and pirated products, in part, because it is the largest consumer market in South America. Because its long, largely unpatrolled frontier with Paraguay and other South American countries makes smuggling comparatively easy, the majority of counterfeit products available in Brazil are thought to have been produced elsewhere. Although Brazilian Customs has made improvements to the traditional crossings between Brazil and Paraguay, our members report the counterfeiters are now using new locations to enter Brazil via ports in the Northern Cone, finding their way for country-wide distribution from locations such as Manaus. Much of this product originates in China and flows to Brazil, via sea and these locations, or through Free Trade Zones in other locations in Latin America, such as Colon, Panama. Other product is assembled in locations in Paraguay from Chinese-made components and then smuggled into Brazil via traditional routes or through these new routes designed to

¹ An excellent article describing the problem in the tri-border area is Sverdlick, Ana R, “TERRORISTS AND ORGANIZED CRIME ENTREPRENEURS IN THE "TRIPLE FRONTIER" AMONG ARGENTINA, BRAZIL, AND PARAGUAY” 9 *Trends in Organized Crime* 84 (2005).

avoid increased efforts by Brazilian Customs near the border with Paraguay.

Coupled with the huge number of Chinese made imports is a significant amount of locally produced counterfeits, particularly toys and clothing. The result is that counterfeit products are widely available in large volumes in Brazil, and purchases of counterfeit products amount to billions of dollars annually.

IACC members report that counterfeit and pirated products available in Brazil include perfumes, clothing, handbags, luggage, toys, automobile products, personal care and health/beauty products, transfer stickers, music CDs, DVDs, entertainment software and licensed character merchandise. Counterfeit products most frequently appear in small retail stores and semi-formal open air markets, called *feiras*, in São Paulo, Rio de Janeiro, Recife, Belo Horizonte and other cities throughout Brazil.

According to a study conducted by IBOPE, a Brazilian consultancy, for the National Association to Protect Intellectual Property (ANGARDI) and the U.S. Chamber of Commerce, the estimated loss attributed to counterfeit products in 2007 for just three industrial sectors – toys, clothing, and footwear – was over 40 billion Brazilian reais, or over US \$26 billion at current exchange rates.² What is more, many Brazilian consumers are now in the habit of buying counterfeits. According to the IBOPE survey, 73 percent of survey respondents in four major cities - São Paulo, Rio de Janeiro, Recife, and Belo Horizonte – have purchased pirated products, and many of these say they buy counterfeits frequently.³ These findings are virtually unchanged from earlier IBOPE surveys.

Legislation

IACC is concerned by reports that the Brazilian Congress is giving expedited consideration to Bill No 1893/2007, which is intended to authorize the Brazilian government to restrict intellectual property rights of U.S. nationals in Brazil in apparent retaliation to alleged non-compliance by the United States with decisions by the WTO Dispute Settlement Body regarding agricultural trade. This would be unfortunate in light of the positive steps that have been seen in some areas.

The reluctance by state public prosecutors – especially outside the states of São Paulo and Rio de Janeiro – to prosecute counterfeiting offenses continues to be one of the most serious obstacles to deterring IPR crimes. This is attributable, in part, to the current legal regime in Brazil, which many brand owners view as minimizing the seriousness of the harm suffered as a result of the counterfeit trade in Brazil. Under current law, prison sentences for product counterfeiting range from a minimum of one month to a maximum of 12 months. Another law, Law 9,099/95 provides that first-time offenders who can satisfy other requirements will not face prosecution for crimes with a minimum imprisonment of two years or less. Consequently, in practice, few

² “Pais perde ‘uma CPMF’ por ano com pirataria, mostra pesquisa,” G1 Globo, available at <http://g1.globo.com/Noticias/0,,PIO235581-0356,00.html>.

³ Id.

alleged criminal counterfeiters are prosecuted. Without sustained and consistent prosecutions and deterrent sentences no amount of resources directed toward seizures and raids will have much overall and long-term impact on ridding the Brazilian market of counterfeit and pirated goods.

This problem would be resolved if the Brazilian Congress would enact long-pending legislation Bill No 333/1999, which would increase prison terms for counterfeiting to a minimum of two years to a maximum of four years. Brand owners also encourage the government to enact legislation providing the authority for public prosecution of trademark counterfeiting which, unlike copyright piracy, remains a private criminal offense prosecuted solely by the right holder.

Finally, a number of brand owners noted the significant delays experienced in Brazilian courts, and would welcome the introduction of legislation to create specialized IP courts.

Border Control

Brazil continues to lack both a centralized intellectual property database and formal procedure for nationwide recordal of intellectual property rights with customs authorities. This is a serious shortcoming in a country that is nearly the size of the continental United States, with a dozen major seaports and several thousand miles of frontier with 10 neighboring countries. A proposal to create a central customs center for intellectual property together with a formal, centralized recordal system with nationwide effect is being prepared by the National Association for the Protection of Intellectual Property Rights (“ANGARDI”), a private sector group, for presentation to the National Council to Combat Piracy and other Intellectual Property (“CNCP”).

The Brazilian Customs Administration (“COANA”) has authority to conduct *ex officio* detentions of suspected counterfeit products. COANA was responsible for 1,025 enforcement actions in 2006 -- over 50 percent more than in 2005 -- and seized nearly 2,500 vehicles used in counterfeiting. However, the value of those products seized (approximately US \$287 million) was about the same as the value of 2005 seizures. The IACC has not yet received updated statistics for 2007 actions. COANA has continued to focus efforts in the city of Foz do Iguaçu, State of Paraná, which is on the frontier with Ciudad Del Este in Paraguay. Since 2006, this increase in border enforcement has contributed to a decrease in the counterfeit products available in the most notorious markets, such as Rua 25 de Março and its environs. However, counterfeits and pirated goods are still widely available in other retail locations.

According to our members, increased border enforcement on the frontier between the Brazilian state of Paraná and Paraguay has redirected counterfeit imports to other frontiers. Based on an increase in counterfeit products seen elsewhere, counterfeit products are now entering the center west region of Brazil through the Brazilian states of Mato Grosso, Mato Grosso do Sul and Minas Gerais. Other routes may also be used, as counterfeit products are available in distant states such as Pernambuco and Ceará on Brazil’s northeast Atlantic coast, where the largest raids in 2007 were conducted. Counterfeits may also enter Brazil in the far southern state of Rio Grande do Sul, which has a major seaport in the city of Porto Alegre. Counterfeit imports reportedly involve both consumer goods and medicines.

This situation illustrates the continuing and severe lack of resources that threatens to undermine COANA's anti-counterfeiting plan. Large swaths of the Brazilian frontier are uncontrolled, i.e. without regulated border crossings, and customs facilities outside major ports often lack sufficient personnel and equipment. Despite the investment by the federal government in recent years, COANA continues to need more personnel and equipment to impose effective border controls on the Brazilian frontier. COANA also needs the means for individual port authorities to communicate with one another quickly and efficiently about intellectual property recordal and suspected counterfeit imports.

Criminal Enforcement

Brazil has taken important steps to coordinate the enforcement activities of the Customs Administration and the Federal Police, such as training in anti-counterfeiting for both customs agents and police agents. IACC commends Brazil for continuing support for intensified anti-counterfeiting operations. In 2007, the Brazilian Federal Police launched 8,698 new police inquiries into suspected piracy and counterfeiting, about 25 percent more than in 2006. These operations build on the success of specialized anti-counterfeiting enforcement teams and facilities in the Brazilian states of Sao Paulo, Rio de Janeiro, Pernambuco, and Parana.

The Brazilian federal and state governments should also establish and fund more specialized anti-counterfeiting police units. State police, together with the Federal Police, constitute a major part of Brazilian law enforcement, but the majority of them lack specialized anti-counterfeiting training. The absence of specialized personnel continues to delay and impedes police inquiries, resulting in poorly conducted investigations and little prospect for identifying the distributor, importer, or manufacturer profiting from counterfeiting. This lack of training is compounded by a chronic lack of resources for state police.

Public Education

The importance of public anti-counterfeiting education is illustrated by the results of the IBOPE surveys, which showed that three-quarters of survey respondents in major Brazilian cities have purchased pirated products, and many are likely to be frequent purchasers of counterfeits.

In response, the Brazilian National Council to Combat Piracy created a public campaign called: "Pirates, get away! Only use genuine!" In addition, there are other ongoing educational programs, such as "prize for creativity on fighting piracy", "game of citizenship" and "click to denounce". Fortunately, the Brazilian media has taken interest in the counterfeiting problem, probably because of its association with both corruption and risk to public safety. Consequently, the media frequently publishes or broadcasts articles on product counterfeiting that have prodded authorities to take action.

Raising public awareness of, and understanding of, the harms caused by counterfeiting and piracy are viewed as essential to the continued improvement of IPR protection and enforcement

in Brazil, in part due to the size of the consumer market. It is vital that the consumer demand for counterfeit goods be decreased, concurrent with legislative and enforcement initiatives intended to decrease the supply of illicit products.

Conclusion

IACC commends the Brazilian government's efforts in responding to international concerns over the high levels of counterfeiting and piracy. However, it is clear that the challenges in Brazil remain deep and complex. Accordingly, the measures taken by the Brazilian government have only had a limited impact on the rampant counterfeiting in the country.

The IACC recommends that the Brazilian Government take the following steps:

- Approve and establish a central customs center for intellectual property together with a formal, centralized recordal system with nationwide effect
- Devote significantly greater resources to customs authorities and law enforcement and increase specialized IP enforcement units throughout the country
- Increase the number and consistency of prosecutions of IP crimes and ensuring deterrent penalties are imposed
- Enact Bill 333/1999 to increase imprisonment and other penalties for criminal trademark counterfeiting
- Continue publicity and public education regarding intellectual property rights

CANADA

Recommendation: Watch List

Introduction

Canada continues to have a reactive approach to trademark counterfeiting, inadequate coordination among enforcement bodies, poor cooperation among authorities and industry, and gaps in relevant legislation - all posing serious obstacles to effective and deterrent enforcement.

Canada's customs enforcement regime remains out of step with practice in the European Union, the United States and other countries -- including many developing countries, as Canadian legislation and practices continue to fail to recognize the critical importance of border enforcement.

Canada has also thus far failed to make enforcement against trademark counterfeiting and other intellectual property violations a priority, and has not devoted adequate resources to Customs, police and prosecutors, particularly at key points of entry such as Vancouver, Toronto, Montreal and Halifax.

In 2007, the Canadian Federal Government took encouraging and promising first steps toward legislative reform. These nascent steps, while welcome, do not of themselves overcome the serious obstacles to effective enforcement against copyright piracy and trademark counterfeiting in Canada. Thus far, legislation to address these obstacles vis-à-vis trademark counterfeiting has not yet been introduced in the Canadian Parliament, much less enacted into law.

Nature and Scope of Piracy and Counterfeiting in Canada

Canada is an end market for imported counterfeit and pirated products and a trans-shipment route for such products to enter the United States. IACC members report that counterfeit and pirated products in Canada include aftermarket automobile parts, chemicals, fast moving consumer goods, apparel, leather goods, and jewelry, as well as software and entertainment products. IACC members believe that counterfeit products in Canada originate primarily from China. Pirated products are both imported (primarily from Asia) and made in Canada. Further, there is a huge problem with Internet piracy of copyrighted products in Canada.

Legislative Gaps

With respect to copyright piracy, in June 2007 the Canadian Parliament enacted amendments to the *Criminal Code* to address the unauthorized recording of a movie in a theatre (“Anti-Camcording Amendments”). By virtue of the amendments, persons convicted are liable to imprisonment. The first charges under Anti-Camcording Amendments were laid in November 2007, and it remains to be seen how both Crown Prosecutors and the Courts treat these cases.

Other gaps in Canada's legislation identified in previous IACC reports remain unfilled. The IACC has for several years observed that Canada's *Trade-marks Act* is in urgent need of amendment in at least three key areas:

- (1) Importation of merchandise bearing a protected trademark that is not manufactured by or on behalf of the trademark holder ("Counterfeit Merchandise") should be included as an infringement/offense under the *Trade-marks Act*;
- (2) An express foundation for *ex officio* enforcement work by Customs should be added by the establishment of an IP recordal system; and
- (3) Express criminal prohibitions respecting trademark infringement and passing off and related sanctions as in the *Copyright Act* should be added.

The Canadian Federal Government took its first steps toward legislation to amend the *Trade-Marks Act* and other intellectual property laws on October 16, 2007 in its Throne Speech, which pledged "our government will improve the protection of cultural and intellectual property rights in Canada, including Copyright Reform." This, likely the first express reference to intellectual property rights in a Throne Speech, followed earlier statements in which the Federal Government recognized the seriousness of the problems presented by counterfeiting and piracy, and stated that:

"The Government is fully supportive of initiatives to ensure that the appropriate mechanisms and legislation is in place to protect Canadians from the harm associated with the marketing and use of these [counterfeit] products. More broadly, this government is committed to the importance of providing a robust framework for intellectual property rights not only to address the risks posed by counterfeit goods to consumer health and safety but to foster an environment conducive to innovation..."

The Government also tasked the Minister of Public Safety to work with other Ministers "to develop options to strengthen and modernize Canada's enforcement regime."

The position of the Federal Government resulted, in part, from hearings and reports on trademark counterfeiting by two committees of the Canadian House of Commons that recognized many of the legislative gaps identified by the IACC, the Canadian Anticounterfeiting Network, and other industry representatives.

Following the "all party" Industry Committee's February 6, 2007 report to Parliament calling for government action on copyright reform, counterfeiting and piracy, the Standing Committee on Public Safety and National Security held information sessions on counterfeit goods in Canada, with an emphasis on the health and safety risks presented by counterfeit products. On June 4, 2007, the Standing Committee tabled in the House of Commons its report entitled "Counterfeit

Goods in Canada – A Threat to Public Safety,”¹ which presented fourteen specific recommendations for reform, and concluded in part that:

“[I]t seems undeniable that the counterfeiting of goods is a growing phenomenon in Canada, and one that increasingly involves goods that present health and safety hazards for consumers. The representatives of industry and of law enforcement who testified to the Committee painted a rather alarming portrait of the situation in Canada. It is not only a disturbing phenomenon, but one that calls for solutions with some urgency”

The Standing Committee on Industry Science and Technology also decided to undertake “a study of the counterfeiting and piracy of intellectual property” and to consider, among other issues, the effects of counterfeiting and piracy on the Canadian economy. On June 20, 2007, this Standing Committee tabled in the House of Commons its report entitled “Counterfeiting and Piracy are Theft,”² which concluded, in part, that:

“The Committee views trade-marks counterfeiting and copyright piracy as a drain on the Canadian economy, and in the case of some counterfeit goods as a threat to public health and safety. The Committee is of the opinion that a stronger legislative framework and adequate financial and human resources are important for the fight against counterfeiting and piracy in Canada.”

The Standing Committee on Industry Science and Technology presented a number of specific recommendations, including the following:

- New criminal provisions, including legislation making it an offence to manufacture, reproduce, import, distribute and sell counterfeit goods;
- Stronger civil remedies for counterfeiting and piracy infringements;
- Administrative monetary penalties for importing and exporting counterfeit and pirated goods;
- Legislation imposing liability on individuals who distribute pirated digital works and who manufacture and/or distribute circumvention devices for commercial gain;
- Legal authority for Canada Border Services Agency and law enforcement to target, detain, seize, and destroy counterfeit and pirated goods on their own initiative;

¹ The full report can be found at:
<http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?COM=10804&Lang=1&SourceId=209854> .

² The full report can be found at:
<http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?COM=10476&Lang=1&SourceId=213200>

- The provision of adequate resources to the RCMP and Department of Justice to effectively address counterfeiting and piracy; and
- The establishment of an Intellectual Property Crime Task Force composed of police officers, customs officers and federal prosecutors to work with intellectual property business leaders.

IACC awaits the introduction of specific legislative amendments, proposals and initiatives.

Customs and Border Control

Both as a matter of law and policy, Canada continues to embrace a reactive approach to the involvement of Canadian Border Services Agencies (“CBSA” or “Customs”) in the monitoring and seizure of counterfeit goods at the border. Under existing Canadian law, Customs is only explicitly authorized to take action after the rights holder obtains a Court order and provides detailed information regarding an anticipated shipment of counterfeit goods. This system is clearly onerous and burdensome to IPR holders, and the lack of clear legislation permitting Customs to engage in *ex officio* monitoring and enforcement is a critical obstacle to effective enforcement in the country. As well, Customs officers are expressly precluded from "targeting" shipments.

Border enforcement issues remain, and lack of resources has now joined the “reactive approach” and legislative inadequacies identified in previous submissions as key obstacles to improvements in Canada’s border enforcement regime. There is a clear lack of adequate resources and training dedicated not only by Customs but within the federal RCMP (the “Royal Canadian Mounted Police”) and provincial police units responsible for IP enforcement. Police resources in and near key points of entry to Canada remained particularly understaffed.

RCMP officers in most centers are suffering from an increasing lack of resources. The lack of resources is hampering even limited initiatives to stem the flow of counterfeit products into Canada. Specifically, IACC members advise, that in circumstances where Customs officers identify counterfeit goods being imported into Canada and they contact the RCMP under existing protocols, the goods are often being released into the marketplace because the RCMP lacks resources to follow up and Customs has no authority to detain the goods simply because they are counterfeit.

As well, intellectual property owners are not being made aware of these situations to enable them to attempt to address the situation civilly contemporaneous with the release. They have learned of instances of identification and release later, through marketplace investigation and through other sources.

Criminal Enforcement

Given the RCMP's shortage of resources, rights owners continue to try to enlist the assistance of municipal police services in certain centers. Involvement by municipal police services has on occasion, resulted in jurisdictional "spats."

For example, in fall 2007, the RCMP declined to take action against a business involved in the importation and sale (from approximately six (6) different locations) of significant quantities of counterfeit products. Previous civil enforcement efforts failed to deter this counterfeit. The brand owner then approached the local police service and secured their assistance to take action. By coincidence, a representative of the RCMP detachment that declined to take action attended at the local police services division on an unrelated matter, and while there learned of the proposed action by the municipal police. The RCMP officer advised the local police that it would not be appropriate for them to take action against this business, as it would "taint" any future enforcement. The local police service then declined to proceed.

Lack of support and involvement by Crown Prosecutors further dissuade law enforcement involvement. Absent specific criminal provisions in the *Trade-Marks Act*, prosecution of trademark counterfeiting can only be pursued under the *Criminal Code*. Proceeding under the *Criminal Code* has two significant drawbacks: proof of knowledge and intent is difficult to establish, because the unique nature of product counterfeiting does not easily fit into general case law respecting proof of *actus reus* and *mens rea*; and prosecution of *Criminal Code* offenses are the responsibility of the provinces and therefore provincial Crown attorneys.

For example, in a major metropolitan area in Canada, the Crown Prosecutor's office has advised the RCMP that their office will not undertake any prosecutions involving trademark rights, because they believe that there is no reasonable prospect of conviction. In turn, the RCMP has indicated to some brand owners that in light of comments such as these, they see little point in pursuing criminal charges where counterfeit trademarked merchandise is at issue. As well, there have been situations in which the RCMP has started an investigation and executed a search warrant and seized goods on the basis of copyright infringement, but later determined that the counterfeit merchandise involves trademarks rather than copyrights. Rather than laying charges applicable to trademark violations, the goods have been returned to the counterfeiter without charges being laid.

A lack of awareness of the nature and extent of the counterfeiting problem, coupled with a lack of training in the area at the Crown Prosecutor level, contributes to the problem. For example, at training conferences sponsored by the RCMP (June 2007) and conducted by recognized anti-counterfeiting counsel (December 2007), few Provincial Crown Prosecutors attended. This lack of awareness and training may also contribute to requests for assistance and cooperation from brand owners that are viewed as unrealistic and burdensome. For example, in one recent RCMP action that involved the seizure of thousands of counterfeit products, the Crown indicated to the police and brand owners that they required that every item seized be analyzed to confirm that it was counterfeit, even in circumstances where multiple units of identical items were seized. Proposals for statistically supportable representative sampling methodologies were rejected out of hand.

The Judiciary's treatment of "counterfeiting" cases also reinforces this prosecutorial reluctance to take on counterfeiting cases. While in civil proceedings Courts have awarded significant damages, criminal proceedings consistently result in nominal fines, which in turn lead to Court-approved pleas for similarly nominal fines. Accordingly, it appears that the existing environment is one in which the risk of criminal prosecution is low, and even when charges are laid, the possible fines and penalties are nothing more than the cost of doing business.

Conclusion

The situation in Canada, while apparently on the cusp of change, remains as it has been for the last several years. The Canadian government should take the following actions to address the continuing problems of counterfeiting and piracy:

- Provide much-needed resources to Customs, Police, and Prosecutors, particularly at key points of entry, including Vancouver, Toronto, Montreal, and Halifax;
- Enact legislation to implement swiftly, and fully, the recommendations of the Standing Committee on Industry, Science & Technology, noted above;
- Provide additional training to Customs, Police, Prosecutors, and the Judiciary, regarding counterfeiting and piracy; and
- Establish an IP recordal system as a means of creating an express foundation for ex officio enforcement work by Customs.

CZECH REPUBLIC

Recommendation: Watch List

Introduction

IACC continues to be seriously concerned by the widespread sale of pirated and counterfeit goods in extensive open-air markets along the Czech Republic's western and southern borders. Despite high-profile raids conducted in late 2006¹ and the issuance of an inter-ministerial action plan in October 2007, there has been little sign of improvement. At the heart of this are a continuing lack of consistent and effective enforcement and the failure to strengthen existing rules by the Czech government and authorities, as well as a consistent reluctance of prosecutors to engage the criminal activity at these markets with all means at their disposal.

Nature and Scope of Piracy and Counterfeiting

IACC members report that there are over 50 open air markets along the border between the Czech Republic and neighboring Germany and Austria, ranging in size from several dozen to several hundred vendor stalls, some of which have become permanent brick and mortar stores. These markets are directed principally to large numbers of German and Austrian nationals buying inexpensive goods, including pirated and counterfeit merchandise.

The border markets sell great quantities of counterfeit trademarked goods, ranging from spirits and tobacco to apparel, footwear, and accessories, as well as large quantities of pirated sound recordings, DVDs, software and other copyrighted works. According to industry representatives who have conducted test purchases, most of the counterfeit goods seem to have originated in China. Others report counterfeit or pirated products having come through locales such as Vietnam, although they may originate in China. Further, some report that pirated goods in these markets likely originate in the factories in Russia. Through inaction or ineffectual action, these markets are being condoned by local Czech authorities and the central government in Prague has not yet been willing to effectively confront the problem.

Enforcement

Customs authorities have carried out occasional raids against sellers of pirated and counterfeit goods at the border markets. Unfortunately, the raids have not reduced the availability of pirate and counterfeit goods because few arrests are made and market stalls remain open or reopen immediately thereafter. Consequently, these stalls are often re-manned and re-stocked

¹ IFPI, "Music industry welcomes raids on biggest piracy black spot in Europe," Dec. 6, 2006, available at http://www.ifpi.org/content/section_news/20061206a.html; "CIB commends Czech and Germany authorities on "Class" operation," Jan. 3, 2007, available at <http://www.icc-ccs.co.uk/bascap/article.php?articleid=629>.

immediately after a raid.

The Czech government has been unwilling to take enforcement actions under existing laws or to enact stronger measures to confront the widespread sale of pirated and counterfeit merchandise at the border markets. The Ministry of Trade and Industry issued a general public statement condemning piracy and counterfeiting along with an action plan in October 2007, but did not instruct local authorities to take ongoing consistent enforcement action against piracy and counterfeiting at the border markets.

IACC members report that the Czech Ministry of Trade and Industry has refused to consider strengthening market licensing requirements, and that Czech authorities are even failing to enforce existing market licensing rules. Existing rules require the managers of the markets to know the identity of the individual in control of each and every stall in the market. Consistent enforcement of such rules, which would enable the authorities to identify vendors and require work permits and financial bonds, could make it easier to monitor vendors and hold them accountable.

The Ministry of Trade and Industry is also reported to have refused to consider measures to impose vicarious liability on persons that profit from the trade in pirated and counterfeit goods, such as landlords. Under present law, these persons have no incentive to monitor the activity of their tenants because they face no legal liability for, and indeed even profit from, the illegal conduct occurring on their property. In other countries, vicarious landlord liability has proven to be a very effective tool for fighting piracy and counterfeiting in retail markets.

Law enforcement agencies are consistently hampered by the difficulty in obtaining search warrants that would allow them to inspect all premises suspected of being used in the course of the infringing activity. Prosecutors in the areas where these open-air markets are located have been unwilling to provide broad search warrants to allow law enforcement to raid warehouses and underground manufacturing and storage, which are not necessarily adjacent to the border markets.

With very few exceptions, criminal prosecution against violators has not been pursued. Indeed, there is still no sign of prosecution against those apprehended in a series of major raids against pirates and counterfeiters in late 2006. IACC members report that courts and judges hearing these cases do not appear to appreciate the seriousness of piracy and counterfeiting.

Conclusion

The Czech Republic should take the following actions against piracy and counterfeiting at border markets:

- Consistently enforce and strengthen market licensing rules, including requirements to refrain from sale of infringing goods and revoking licenses, forfeiting security bonds, and closing premises for violations.

- Instruct local law enforcement to patrol the border markets on a continuous basis to ensure licensing rules are respected and closed kiosks are not reopened without authorization.
- Close any and all outlets where pirated and counterfeit goods have been sold repeatedly.
- Introduce vicarious liability for landowners and organizers of markets where pirated and counterfeit goods are sold.
- Instruct magistrates to grant search warrants upon probable cause broad enough to encompass premises related to suspected piracy and counterfeiting, including storage and production facilities for pirate and counterfeit goods.
- Substantially improve the speed and efficiency of criminal enforcement (at the police investigation, prosecutorial and judicial levels) for sale and distribution of counterfeit and pirated goods.

MEXICO

Recommendation: Watch List

Introduction

In 2007, counterfeiting and piracy in Mexico remained a significant concern to IACC members. IPR owners in a variety of industries identified problems related to domestic manufacturing and finishing of counterfeit goods, as an end market for foreign-sourced illicit products, and as a conduit for shipping to third countries, including into the United States.

Although the Mexican government has put some effort into fighting counterfeiting and piracy, there is much more to be done. This includes increased enforcement, particularly at the notorious street markets throughout the country, increased resources for administrative and law enforcement authorities, deterrent sentencing, and improved legislation to reduce formalities.

Nature and Scope of Counterfeiting in Mexico

In the apparel, footwear, and fashion accessories industries, for example, geographical regions such as Guanajuato are well known for manufacturing counterfeit leather goods such as purses, wallets, footwear, jackets, belts and key rings. Components for other products, such as entertainment software, are imported for final assembly, and subsequent local consumption or re-exportation. There has also been a noted increase in the use of the internet to facilitate the trade of counterfeit goods, as well as that of pirated copyright product, both digital and hard goods.

Customs

It is clear that Mexican counterfeiters have strong connections with factories located all around the world, and in particular in Asia. There is an ever-increasing need for work by Mexican Customs to improve seizures at the border before such products enter the stream of commerce within the domestic market.

Although Mexican Customs conducted numerous seizures and blocked significant quantities of a variety of counterfeit products from entering Mexico in 2007, the prevalence of counterfeit goods in the marketplace is a clear indicator of the volume of product that goes undetected.

Mexican Customs has not established efficient methods to curb the smuggling of counterfeit products into the country. Customs authorities must aggressively screen, target and inspect consignments in an attempt to limit the high volume of counterfeit goods entering Mexico. Specific and consistent screening protocols are necessary to target all suspect consignments that fall within the scope of products known to have high piracy rates in Mexico.

Currently, customs officers do not have broad authority to detain shipments for industrial property violations. Mexican Law only allows Customs officials to screen operations related to possible tax irregularities. This results in a very short time for the authorities to contact the IP rights-holder and insufficient time for the trademark owners to act. Mexican Laws must be modified not only to provide Customs officials with the capacity to detain and seize every suspicious shipment but to consider timeframes that make it possible for the IP right holders to take action as well.

Further, many brand owners have cited enforcement problems tied to the falsification of import documentation. There is a common pattern where companies are simply invented and false information is provided in order to import counterfeit goods. Counterfeiters have become adept at exploiting the loopholes in Customs processes to avoid detection and enforcement. Officials should institute means of improving the reliability and accuracy of import documentation.

At present, customs brokers have no responsibility for the role they serve as “middle men” for counterfeit transactions and thus avoid being directly linked to infringers. Customs brokers must be held accountable for ultimately concealing criminal identities and for managing counterfeit shipments that cross Mexican borders. At a minimum, administrative sanctions should be available to be imposed on the brokers that are involved in counterfeiting activities.

Trademark owners have been pushing for an official recordation system to be established for many years, yet, to date, this much-needed improvement has not been implemented. Such a system would greatly improve the ability of Customs officials to deal efficiently with suspected infringing shipments, and enabling brand owners to provide useful information and assistance to Customs. IACC hopes that this will be the year that serious deficiency is finally corrected.

Enforcement

The Mexican Government has made some efforts in dealing with obstacles to effective enforcement of IP rights in Mexico, but these obstacles remain largely uncorrected, including the following:

Administrative Enforcement

Mexican Industrial Property Institute (IMPI). Though administrative enforcement through IMPI can produce results, there are major challenges in the system. Any sanctions that are imposed for the violation of an administrative regulation result mainly with the imposition of a fine, closing the establishment, or the administrative arrest of the infringer for no more than 36 hours. In practice, IMPI merely fines the counterfeiters - often at a very nominal rate - and orders them to immediately cease and desist on the violation of IP rights. What is needed is the ability for more deterrent sentencing to be imposed.

Mexican IP Law considers inspections conducted by IMPI officials to be a manner of proving the violation. Also, Mexican legislation establishes the possibility of requesting precautionary measures be applied against the defendant, including seizure of suspected infringements pending

a ruling by IMPI. Applying for a seizure requires the applicant to post a bond sufficient to guarantee the possible damages to the defendant if no infringement is found. This requirement may hamper the prosecution of counterfeit goods, mainly through Customs, because the time needed to obtain the bond sometimes exceeds the time available to Customs to detain suspected infringements. As a result, rights holders are often unable to arrange Customs' seizure of large shipments. Obtaining bonds should be expedited, and the amount of security should approximate the value of the products to be seized.

IMPI inspections conducted at informal markets are extremely risky due to the potential for violence (made more likely by the fact that IMPI usually performs these inspections with no assistance from any police unit). The support of police officers can be requested, however, it is not a policy of IMPI to do so. Lack of police results in fewer inspections and greater risk to both IMPI and to rights-holders and their representatives. Police should be routinely included to ensure smooth seizures as well as lower risk.

Moreover, defendants can refuse such inspections, and IMPI cannot compel the infringer to cooperate. As a result, IMPI usually does not follow up on the matter. Accordingly, IMPI's results are viewed by many as insignificant. More resources are needed by IMPI to ensure these administrative actions have actual teeth and result in seizures and deterrent fines.

Mexican Laws allow IMPI to take long periods of time to issue official actions, such as the one in which an inspection is ordered to take place. Specific times for official action should be clearly established to accelerate IMPI activity.

Long delays can also be expected for the final adjudication of a case. Some cases take years before a final decision is issued. Meanwhile, infringers continue their illegal distribution at alternate locations. IMPI's actions have had little impact on the market and certainly do not serve as deterrence against piracy – especially that related to large infringers, such as organized crime syndicates.

Decisions involving the disposition of seized goods often take considerable time to be issued. Depending on the quantity, significant resources can be spent to have the goods stored for years. Then, even when the authority orders that the items be destroyed, IMPI asks for the right-holder's support. The procedure established by IMPI results in large expenses in each stage for the right-holder. Instead, the authority should force the infringer to pay for the expenses that resulted directly from the violation.

In addition, injunctive relief issued against infringers is rarely enforced by IMPI and the orders are consistently challenged before Federal Courts. There are constant disputes about IMPI's procedures on the applicability of the Federal Law on Administrative Procedures between the Judicial Federal Courts and the Fiscal and Administrative Tribunal.

A new in-house "intelligence agency" has recently been created, but thus far, there has been insufficient transparency or communication with rights-holders and their representatives. It would be of great assistance if this communication and cooperation was improved.

Criminal Enforcement

Attorney General's Office (AGO)). Though the Mexican government has created a specialized unit of prosecutors in the Attorney General's Office ("AGO"), this has not translated into tangible results. Prosecutors in general have little knowledge of intellectual property laws, and even prosecutors assigned to this Specialized Unit need additional training in copyright and trademark law and enforcement remedies. "Consequently, it can often take more time to do a raid with this Specialized Unit than via regional AGO authorities.

The procedural requirements one must follow when filing a criminal complaint with the Attorney General's Office are formal and burdensome. Currently, the IP owner provides the prosecutor with the evidence necessary to persuade the Penal Judge to grant a warrant. Unfortunately, the prosecutor can hold the evidence for long periods of time delaying the issuance of the search warrants. Because there is no priority placed on pursuing IP crimes, it currently takes approximately one to two months to obtain a search warrant and sometimes as much as four months pass before the search warrant is granted. This practice should be corrected to give greater priority to antipiracy and anti-counterfeiting actions. Once evidence is received, the prosecutors should be required to promptly request the Penal Judge to issue the search warrants.

There are other issues, as well. The Specialized Unit has told rights-holders it does not have enough resources to seize products outside Mexico City. In practice, therefore, trademark representatives provide significant support to Mexican authorities, such as hiring trucks and movers for seizure actions. Under the zero tolerance policy taken by this Unit, rights holders are asked to provide such support no matter how small the amount of infringing product may be involved. This can be burdensome to rights-holders, making them spend resources and time on insignificant infringements at the expense of action against commercially-significant infringers. Again, increased resources are needed, if these enforcement agencies are to make an adequate impact.

The Attorney General's Office should also develop an intelligence network focused on tracing the heads of these organizations and sources of counterfeit products.

The number of seized products keeps increasing year by year, but there have been few, if any, criminal convictions related to IP violations. The AGO has focused on seizures, which is helpful, but many cases are dropped without indictment after a raid and seizure. Actions will only truly be deemed successful when our members see decreasing amounts of pirated and counterfeit goods in the market.

Federal Preventive Police (FPP). The FPP are hampered in taking action against piracy and counterfeiting by burdensome requirements to coordinate with other authorities. In particular, all actions taken by the FPP must first involve IMPI, the Attorney General's Office or any other authority such as the Department of Treasury. This requirement impedes swift effective action

and discourages FPP from taking on piracy and counterfeiting cases. To address this problem, FPP should have the authority to investigate IP violations on its own initiative and provide information from enforcement actions to the right holder.

Judicial Authorities

There are significant problems found within the Mexican Court systems that impair effective enforcement of intellectual property rights in administrative, civil, and criminal proceedings.

Courts give a low priority to IP cases, so final resolutions are very slow in being reached. The Federal Tribunal of Fiscal and Administrative Justice gives less priority to IP, in comparison to other matters under its jurisdiction, and often takes 12 months or more to decide cases. During the long pendency of these cases, alleged counterfeiting goes unaddressed and defendants continue to sell infringing goods. In addition, the Administrative, Penal and Civil Courts are all generally unfamiliar with intellectual property laws, resulting in poor and inconsistent decisions related to IP matters. Moreover, the Mexican Supreme Court of Justice has ruled that damages cannot be recovered until administrative procedures are concluded, a lengthy process. These circumstances – slow case processing, poor training, and long waits to recover damages – discourage intellectual property owners from using the courts to enforce their rights in Mexico.

Conclusion

The Mexican government has made important efforts in fighting counterfeiting and piracy in Mexico, particularly through raids and seizures. To deter further piracy and counterfeiting, however, there is much more to be done, including the following:

- Significantly greater resources should be provided to Customs to improve its effectiveness, and a centralized intellectual property recordation system should be established and implemented, together with improved inspection and verification of import documentation;
- Significantly more resources should be provided to IMPI and other intellectual property agencies to ensure they have the capability to take effective action against piracy and counterfeiting;
- IMPI should accelerate issuance of penalty decisions, increase penalties to deterrent levels and provide for the appropriate disposition of infringing articles in a prompt fashion;
- Criminal cases should be brought and deterrent penalties imposed for counterfeiting and piracy matters in Mexico, and clear authority for destroying seized infringements must be

established;

- Procedures involving filing of criminal complaints and the issuance of search warrants should be made more efficient;
- Procedural hurdles for actions taken by the Federal Protective Police should be removed;
- Additional training should be provided at all levels, to include law enforcement, Customs, prosecutors and the judiciary, to ensure the proper understanding of laws related to intellectual property and its enforcement; and
- The government should launch a public educational campaign to demonstrate the serious harm that piracy and counterfeiting inflicts on the Mexican economy and encourage buying legitimate products from legitimate, tax-paying merchants.

PHILIPPINES

Recommendation: Watch List

Introduction

In 2007, the USTR urged the Philippines to continue strengthening its legal and enforcement regime against copyright piracy and trademark counterfeiting. Among other action, the USTR called on the Philippines to impose deterrent sentences (i.e. significant fines or prison sentences actually served) against criminal infringers, destroy pirated and counterfeit goods and the equipment used to make them, and further improve customs enforcement.

However, enforcement in fighting trademark counterfeiting continues to be mixed. IACC members report few improvements in the key issues of concern expressed in prior years, most notably a continuing lack of government enforcement resources, too few criminal prosecutions, unacceptable delays and a lack of transparency in the judicial system. IACC members also report continuing imports into the Philippines of pirated product originating in China and the ongoing use of the free trade zones for trans-shipping counterfeit merchandise.

Nature and Scope of Counterfeiting in the Philippines

Counterfeiting of a wide range of consumer and industrial products remains serious in the Philippines. IACC members report trademark counterfeiting for goods ranging from pharmaceuticals, food, sports merchandise including licensed fashion, footwear, apparel, alcoholic beverages, personal care products, health and beauty aids, computer equipment, auto parts and cigarettes. Copyright piracy in the Philippines also remains severe.

IACC members in all sectors also report continued problems with imported counterfeit and pirated products from China and other locations, as well as universal problems with sales and distribution of pirated and counterfeit products in the notorious malls in the Philippines. According to IP Philippines, the lead coordinating agency for the National Committee on Intellectual Property Rights, the most notorious markets for pirated and counterfeit goods are Binondo, Greenhills, Makati Cinema Square, Quiapo and Metrowalk, as they have been for the last several years.¹

Further, some of our members now report manufacturing of counterfeit products such as licensed apparel taking place domestically in the Philippines. Members note widespread advertising offering to fill bulk orders of counterfeit products, further reinforcing the likelihood that production is taking place within the country as well as connected to source materials and source goods in China.

¹ “IP Philippines reports five most raided areas; rise in enforcement ops in 2007,” Jan. 14, 2008, available at www.ipophil.gov.ph.

Moreover, IACC members report continuing problems in the use of free trade zones for the transshipment of counterfeit and smuggled products to other markets, particularly in Asia. Products typically exported from the Philippines include optical media, clothing, consumer electronics, automotive products, cosmetics and toys.

Laws and Regulations

Legislation is needed in the Philippines to address transshipment of pirated and counterfeit products. Legislation is now being considered that would facilitate legal action against transshipments of infringing products through Philippine waters. This legislation, which would amend the Tariff and Customs Code, would make the diversion of fakes more difficult by requiring shipping companies, agents, trans-shippers or the owner of the goods to submit a certificate of discharge issued by Customs or port officials at the port of destination. However, there has been no development on this legal initiative. IACC strongly supports the enactment of such legislation.

The enactment of legislation is also needed to address online infringement and landlord liability for copyright piracy and trademark counterfeiting. At present, there are two significant bills pending in Congress aimed at strengthening the protection of intellectual property rights by addressing these issues. The first, which seeks to amend the copyright law (IP Code), provides for specific protection against piracy on the Internet. The second penalizes with imprisonment or fine storeowners who allow or tolerate the sale of counterfeit products in their premises.² The IACC is supportive of these initiatives which would bring the legal regime into greater conformity with international standards, while providing valuable tools to effectively fight counterfeiting and piracy.

As explained in more detail below, there is also a need for the Philippines government and its courts to address longstanding problems with the court system in the Philippines, including steps to expedite proceedings and provide deterrent penalties. There is a need in the Philippines for specialized intellectual property courts headed by judges duly trained to handle intellectual property issues. Such specialized courts are seen as a common-sense solution to the long-standing problem of the extremely slow-moving judicial process.

Border Control

IACC members are pleased to note that the Bureau of Customs (“BOC”) has been increasingly proactive in issuing warrants for seizure and detention for imported goods on the basis of non-payment of proper duties and taxes. In 2007 alone, the BOC hauled in an estimated P1.07 billion

² In early 2007, agents of the anti-fraud and commercial crimes division of the Philippines National Police were reported to be seeking landlord liability in connection with seizure of fake goods at three shopping centers. See, “Landlord Liability Comes to the Philippines, Managing Intellectual Property, Jan. 23, 2007, at <http://www.managingip.com/Article.aspx?ArticleID=672476>

(USD 26 million) worth of counterfeit goods, including four replicating machines and a record 37 container vans.³

During the course of seizures, counterfeits have been increasingly identified, and trademark owners informed for verification purposes. The BOC is consequently issuing more orders for the destruction of seized goods. Despite inadequate manpower, the BOC has been inviting IPR owners to record their rights to facilitate enforcement.

The destruction of the counterfeits has taken place without any issue as the importers of counterfeits rarely if at all present themselves to the BOC. However, because of delay and other problems in the court system, criminal investigations into customs cases are still only a remote possibility. Thus, while the seizures and destruction of counterfeit goods is laudable, more action needs to be taken against the perpetrators to act as a deterrent against continued trade in such goods.

Further, training is still needed to assist the BOC in prioritizing and profiling potential exports and imports of infringing items. The IP enforcement team within the Bureau of Customs also needs to be provided access to real-time electronic data on imports and exports.

Enforcement

In 2007, authorities of the National Committee on Intellectual Property Rights (“NCIPR”) seized the highest annual recorded value of pirated and counterfeit merchandise. NCIPR agencies, namely the Optical Media Board (“OMB”), Bureau of Customs (“BOC”), Philippine National Police (“PNP”), and the National Bureau of Investigation (“NBI”). Philippines authorities seized almost 3 billion pesos (US\$75 million) worth of pirated and counterfeit merchandise in 2007, more than double the value seized in each of 2005 and 2006.⁴

IACC members have over the years been encouraged by the responsiveness of Philippine police, particularly the IPR Division of the National Bureau of Investigation, in organizing criminal raids against counterfeiters and copyright pirates. In 2007, the Intellectual Property Rights Division of NBI filed 423 cases and served 310 search warrants, and the Criminal Investigation and Detection Group of the Philippines National Police reported that it filed 28 cases, served 242 search warrants, and arrested 59 individuals.⁵

However, reports persist of occasional leaks among law enforcers or court personnel prior to

³ “IP Philippines reports five most raided areas; rise in enforcement ops in 2007,” Jan. 14, 2008, available at www.ipophil.gov.ph.

⁴ “IP Philippines reports on intellectual property cases; calls on law firms’ cooperation,” Jan. 25, 2008, available at www.ipophil.gov.ph

⁵ IP Philippines reports five most raided areas; rise in enforcement ops in 2007”, Jan. 14, 2008, available at www.ipophil.gov.ph

raids that have resulted in failed seizures. The target products are moved to different locations prior to the service of search warrants, which frustrates enforcement. There have also been a number of reports of police archiving files relating to infringers that are at-large, thereby reducing the chances that infringers will be located and arrested.

IACC members remain pleased that the National Prosecution Service established a task force of prosecutors in charge of handling IP cases. These prosecutors have proved more transparent and responsive than prosecutors attached to local governments. In an effort to advance such cases, the Department of Justice (“DOJ”), an NCIPR member agency, is reported to have recently added 20 prosecutors to its Task Force on Anti-Intellectual Property Piracy.⁶ Although the task force was created to improve the dispatch of IP cases, this commendable purpose has been undermined by the continuing change in the members of the task force. Along with the change of members comes the re-assignment of cases from former members to the new members. This sometimes results in preliminary investigation being conducted all over again and thus causing delay. The delay is further aggravated because newly assigned prosecutors outside the Metro Manila area (unlike their Metro Manila counterparts) are not as conversant with intellectual property laws.

According to the Director General of IP-Philippines, the lead coordinating agency for NCIPR, there were 64 convictions for intellectual property violations from 2005 to 2007. Most such convictions from 2001 to 2007 were for trademark infringement, unfair competition, and copyright infringement.

Nonetheless, the significant effort in enforcement continues to be undermined by the persistent failure of the Philippine courts to process both criminal and civil cases in a timely manner. According to Transparency International, “a lack of sufficient judicial personnel contributes to long delays in resolving cases. On average it takes five to six years to resolve an ordinary case in a trial court.”⁷ Such delays are seen routinely in piracy and counterfeiting cases, in which defendants routinely extend cases by exploiting procedural loopholes and raising appeals against minor rulings. As a consequence, deterrent criminal convictions or civil penalties are almost non-existent.

In light of the inordinate delay in the prosecution of civil and criminal cases, right holders have increasingly resorted to administrative enforcement of intellectual property rights violations before the Bureau of Legal Affairs of the Intellectual Property Office (“IPO”). However, the Court of Appeals ruled in 2006 that the IPO does not have jurisdiction to entertain IP rights violation cases, contrary to the express provisions of the Intellectual Property Code of the Philippines. The decision is still pending with the Court of Appeals on Motion for Reconsideration. Failing that, the decision will most likely be appealed to the Supreme Court.

⁶ “IP Philippines reports on intellectual property cases; calls on law firms’ cooperation,” Jan. 25, 2008, available at www.ipophil.gov.ph).

⁷ Judge Dolores Español, “The Philippines: Towards significant judicial reform, appearing in Transparency International, 2007 Global Corruption Report, available at http://www.transparency.org/publications/gcr/download_gcr-7 .

The concern is that all trademark counterfeiting and other infringement cases currently pending with the IPO could be dismissed for lack of jurisdiction.

These problems – serious and prejudicial delays in the courts and jurisdictional challenges to administrative enforcement – underscore the need for the Philippines to establish specialized intellectual property courts. Such courts could help improve prosecution and adjudication of intellectual property cases. The Philippines once had specialized intellectual property courts, but regrettably in 2003 the Supreme Court dismantled them. IP-Philippines has been an advocate of establishing specialized intellectual property courts,⁸ but the Supreme Court has rejected this proposal, citing the lack of disputes previously filed with the earlier courts outside major cities and provinces. IP Philippines has also pledged to resolve cases of intellectual property violations cases within 12 months from filing, and to streamline rules and procedures to reduce processing time.⁹

Conclusion

The IACC reiterates its earlier recommendation for the Philippines government to:

- Enact pending legislation to amend the Tariff and Customs Code to make transshipment of infringements through Philippine territory more difficult;
- Provide additional resources and training to facilitate border enforcement, including against goods in transit, and especially in free trade zones in the Philippines;
- Enact pending legislation related to online infringement and landlord liability;
- Continue to strengthen resources for routine police investigations against trademark and copyright pirates, including mall sweeps throughout the notorious counterfeit malls in country;
- Establish specialized IP tribunals to handle civil and criminal cases, at least in major cities; and
- Address systematic problems that have for too long resulted in unacceptable delays in criminal and civil actions in Philippine courts;

⁸ “IP Philippines reports on intellectual property cases; calls on law firms’ cooperation”, www.ipophil.gov.ph)

⁹ IP-Philippines at www.ipophil.gov.ph

VIETNAM

Recommendation: Watch List

Introduction

In tandem with the country's impressive economic development, trademark counterfeiting and copyright piracy in Vietnam continue to grow in scope, scale and complexity. The majority of trademark counterfeits continue to be imported from China, but counterfeits produced in Vietnam are now becoming a greater threat to many of our members, including those in the fields of apparel, personal care, and other manufacturing industries.

In 2007, the USTR retained Vietnam on the Special 301 Watch List, although it noted "Vietnam made significant improvements to its IPR legal and enforcement regime in 2006, culminating in Vietnam's accession to the WTO in January 2007."¹ Vietnam enacted new intellectual property laws in 2006, and implementing rules were expected to increase the effectiveness of anti-counterfeiting action and eliminate confusion as to which government departments are responsible for the enforcement of particular rights.² Also in 2006, key Vietnamese government ministries³ issued an Action Plan⁴ to address trademark counterfeiting as well as other intellectual property infringements. The Action Plan has been particularly useful in helping to

¹ U.S. Trade Representative, 2007 Special 301 Report, April 30, 2007, available at http://www.ustr.gov/assets/Document_Library/Reports_Publications/2007/2007_Special_301_Review/asset_upload_file230_11122.pdf.

² The IP Law and other new legislation set out in greater detail the responsibilities of various government organs. These include the Inspectorate under the Ministry of Science and Technology, the Market Management Bureau (MMB), Customs, the Economic Police and the courts. The Inspectorate under the Ministry of Science and Technology is responsible for all administrative anti-counterfeiting activities, the MMB is responsible for domestic trade, the Economic Police is responsible for counterfeiting crimes, Customs is responsible for Import-Export anti-counterfeiting activities and the courts are responsible for judicial activities. According to The New Major Laws, independent IP assessment organizations and individuals will be, for the first time, established to take charge in verifying whether an activity constitutes infringement, as well as evaluating damages, if any. The establishment of IP assessment organizations and individuals will ease the burden of State authorities in determining infringement and thus pave the way for anti-counterfeiting activities to be settled quickly and more objectively.

³ Since 2001, Steering Committee No. 127, which is led by the Ministry of Trade (now the Ministry of Industry and Trade) and includes representatives from both the central and provincial governments, has been responsible for coordinating all government departments responsible for anti-counterfeiting work.

⁴ The Action Plan was jointly issued by the Ministry of Science and Technology, Ministry of Culture and Information (now Ministry of Culture, Sport and Tourism), Ministry of Police, Ministry of Trade (now Ministry of Industry and Trade), Ministry of Agriculture and Rural Development and the Ministry of Finance. The Ministry of Post and Telecommunication (now Ministry of Information and Communication) then joined the Action Plan.

clarify the functions of relevant ministries and encourage greater cooperation and coordination among them.⁵

IACC agrees with calls by the USTR for Vietnam to make further progress in intellectual property enforcement and implementation of its new intellectual property laws. Such progress should include enacting measures that result in the imposition of deterrent penalties for trademark counterfeiting and copyright infringement, seizure and destruction of infringing goods and the equipment and materials used to make them, and establishment of a central intellectual property recordation system for border control. The Government of Vietnam should also significantly increase the resources and training provided for criminal enforcement of intellectual property rights.

Nature and Scope of Counterfeiting in Vietnam

Neither industry nor the Vietnamese government has published reliable and complete statistics that accurately measure the scale of counterfeiting in the country.⁶ However, there are clear indications that the problem is serious, and getting worse. Counterfeit products in Vietnam are now becoming an everyday part of life in the consumer and industrial markets.⁷

In 2007, our members reported the increased presence of counterfeit and pirated products in a wide range of industries—from apparel, health and beauty aids and personal care products, automotive products, and electronics to media and entertainment and food and drink. Counterfeiting appears to be most serious in the main cities of Vietnam, Hanoi and Ho Chi Minh City.⁸ Piracy of optical disks of audio and visual works and software remains very serious throughout Vietnam.⁹ Both counterfeit Chinese imports and locally produced counterfeit goods

⁵ “Cooperation among the seven ministries has been strengthened”, said by Mr. Hoang Van Phong, Minister of Science and Technology (http://www.khoahocphattrien.com.vn/services/in/?cat_url=sohuutritue&art_id=3639).

⁶ “Information and reports on enforcement activities are not systematic and complete.” (“One year as official member of WTO: Petition from the Ministry of Science and Technology for the implementation of accession commitments,” available at http://www.trade.hochiminhcity.gov.vn/data/tth/2008/18-01-2008_0.7169957547582635.html).

⁷ “Counterfeit and imitated goods are overwhelming”, said by Mr. Le The Bao, Chairman of the Vietnam Association for Anti-counterfeiting and Trademark Protection (VATAP) at a workshop on preventing counterfeit and imitated goods in Ho Chi Minh City, October 17, 2007, available at http://hanggiavietnam.com/index.php?o=modules&n=news&f=news_detail&idnews=894&idtype=238.

⁸ The total population of Vietnam is 84.1 million, and the population of Hanoi in 2006 was estimated at 3.2 million, and that of Ho Chi Minh City 6.1 million. See the official website of the General Statistics Office at: <http://www.gso.gov.vn/default.aspx?tabid=387&idmid=3&ItemID=6156>.

⁹ “The rate of software infringement in 2007 in Vietnam is 88 %.” See *Điểm báo ngày*, PC World Vietnam, Dec. 14, 2007, available at <http://www.pcworld.com.vn/pcworld/pconline.asp?t=pcolarticle&arid=8605> (Vietnamese).

are sold within a wide range of markets in Vietnam, including street markets, online and general retail. One member even reports that counterfeit packaging for household products were being filled with dirt and sold.

Counterfeits continue to be imported mainly from China. Vietnamese officials have privately estimated that as much as 80 percent of counterfeits circulating in Vietnam originate from China. Most goods are smuggled across the relatively porous border shared by the two countries. Members report this to be particularly troublesome near the border points in the north part of the country such as Lang Son.

In 2007, however, our members noted increased local production of counterfeit and pirated products within Vietnam, and some members report that Vietnam has become a producer of counterfeit products and components for export. Counterfeit products include foods, drink, apparel, cosmetics, motorbikes, electronic goods, and plant protection products. Several manufacturing members report production of component or other “low tech” parts within Vietnam for export to the target market and then assembled locally.¹⁰ Thus, Vietnam has become an exporter of counterfeits to other countries of locally made counterfeit products, as well as of those originating in China.

Laws and Regulations

Three laws enacted between 2004 and 2005 provide the basis of Vietnam’s anti-counterfeiting legislation - the Law on Intellectual Property (IP Law), the Competition Law, and the Commercial Law, the latter particularly with respect to administrative and civil enforcement.

Three corresponding Decrees (Nos. 103/2006/ND-CP, 105/2006/ND-CP, and 106/2006/ND-CP) were issued in September 2006 to provide further guidance on IP registration and enforcement. These decrees were helpful in a number of ways, particularly with respect to clarification regarding the types of evidence needed to confirm that infringement had taken place. Just as importantly, the new laws increase the maximum fines for counterfeiters and copyright pirates to five times the value of the infringing goods.

IACC members are also deeply concerned by provisions in the Vietnamese Criminal Code, which creates obstacles to the criminalization of counterfeiting and copyright piracy. There are not yet any changes in the Criminal Code with respect to trademark counterfeiting, although an implementing circular is being prepared and may be published in August 2008. IACC looks forward to reviewing any proposed changes.

¹⁰ The enforcement authorities have reported counterfeit accessories and parts are imported into Vietnam, which are and labeled with well-known marks as products originating from Thailand or Japan. Footwear, eyewear, confectionary, and socks are also products counterfeited in big quantities. “Nạn hàng giả vẫn ở mức báo động,” Laodong, July 16, 2007, available at <http://www.laodong.com.vn/Home/kinhte/thitruong/2007/7/45838.laodong> .

Border Control

Vietnam is still clearly in the early days of providing customs enforcement for IP rights. Some IACC members have reported positive experiences in working with Vietnamese Customs, but the lack of manpower, resources, training and detailed implementing rules have made it difficult for our members to rely on Vietnamese Customs on a more routine and reliable basis.

There were no Customs laws or regulations with respect to trademark counterfeiting issued in 2007. More detailed regulations should be drafted to cover recordal measures, temporary seizures, verification of infringements, customs bonds to be paid by rights holders (if any), the seizure and destruction of infringing goods, administrative penalties, disclosure of information to rights holders, and the transfer of appropriate cases to police and prosecutors.

The IACC urges Vietnam to draft appropriate implementing rules as soon as possible and to consult with industry during the process. Resources and targeted enforcement should take place on the sensitive border trading areas with China where the flow of counterfeit and pirated goods occurs relatively freely.

Enforcement

Our members report taking actions in Vietnam but remain frustrated by the lack of resources provided to enforcement agencies, and by diversion of seized counterfeit products to the market. Vietnam's enforcement regime parallels that of China to a great degree, including its extreme reliance on administrative enforcement tools. IACC members report continuing difficulties in obtaining effective and deterrent remedies through administrative enforcement and this is clearly contributing to the overall problem.

IACC members are also deeply concerned by provisions in the Vietnamese Criminal Code, which creates obstacles to the criminalization of counterfeiting and copyright piracy. Criminal enforcement against counterfeiters and copyright pirates has, to date, been extremely rare.

Administrative Enforcement

Figures for 2007 are not yet available, but the Market Management Bureau (MMB) reported in 2006 that the number of administrative cases involving counterfeit products increased 300 percent from 1998 to 2004, from 2000 to 5,977.¹¹ Complaints filed with the National Office of Intellectual Property (NOIP) seeking verification of infringements rose nearly 70 percent from 2003 to 2005, from 354 to 596.¹² In 2007, the NOIP issued 502¹³ letters to provide its

¹¹ See <http://www1.mot.gov.vn/qltt/index.asp?id=45> (Vietnamese).

¹² See [https://203.162.163.40/noip/resource.nsf/vwResourceList/0459E247C1628CAE4725713A003F5366/\\$FILE](https://203.162.163.40/noip/resource.nsf/vwResourceList/0459E247C1628CAE4725713A003F5366/$FILE)

assessment¹⁴ regarding IP infringement and unfair competition as requested by enforcement authorities and to respond to questions from other organizations and individuals.¹⁵

In practice, administrative authorities have not yet begun imposing fines at levels much higher than those imposed under earlier legislation, and it is hoped that the implementing rules will be swiftly issued in order to give clearer guidance to enforcers to assist them in calculating appropriate fines. The highest fine imposed has been VND100,000,000 or only about US\$6250). The Ministry of Science and Technology is drafting an implementing circular on administrative settlement of industrial property infringement. It is also hoped that future guidelines will clarify that, if the evidence obtained in a given case is inconclusive as to the infringer's prices, reference should be made instead to the retail prices of the corresponding legitimate product.

IACC members remain concerned over certain procedural requirements that have increased the cost to rights holders without apparent justification. Among these is the requirement that rights holders must now notarize and legalize declarations prior to filing. In practice, the authorities still apply these requirements, which are burdensome for enforcement and right holders.

Criminal Enforcement

National police recently reported that between 2001 and 2006, local police had investigated 1260 cases involving counterfeits and other fake products¹⁶. Figures for 2007 are not yet available. As in China, many of these cases involved products that posed a risk to human health.

IACC members find that criminal enforcement simply is not a practical option. Articles 131 and 171 of Vietnam's Criminal Code provide for criminal enforcement mainly where it can be shown

[E/report2005m.htm](#) (Vietnamese). The statistics of the MMB and the NOIP overlap to a great degree, as enterprises will often submit the same cases first to the NOIP for verification, after which the complaint will be forwarded to the MMB for enforcement action.

¹³ The decrease of NOIP's verification letters issued does not mean that the infringement is reduced. This decrease is because of the change of the NOIP's function (see footnote 14).

¹⁴ As of 21 October 2006 (the date the NOIP issued the official letter No. 2543/TB-SHTT), the NOIP has ceased verifying industrial property infringement and unfair competition. This function has been handled by the newly established Institute of Intellectual Property Research and Assessment under the Ministry of Science and Technology. The NOIP only provides its assessment regarding IP infringement and unfair competition as requested by enforcement authorities.

¹⁵ Available at https://203.162.163.40/noip/cms_vn.nsf/vwDisplayContent/EF2A2D1A08B8897E472573D5001D13AA?OpenDocument

¹⁶ The General Department of Police under the Ministry of Police disclosed that local police had investigated 1260 cases between 2001 and 2006. See Vietnam Investment Review online at <http://www.vir.com.vn/Client/Dautu/dautu.asp?CatID=56&DocID=12117> (Vietnamese).

that infringement has already been completed and the harm caused is “serious”.¹⁷ Consequently, criminal liability against counterfeiters in Vietnam currently requires that rights holders and police produce evidence of prior sales that exceed specified numerical thresholds, failing which a violation would be deemed a mere administrative offence. Under Article 156 of the Criminal Code, the numerical level is VND30,000,000 (about US\$1,875).

These thresholds discourage Vietnamese police from commencing investigations into potential criminal cases. The requirement that IP owners and judicial authorities prove such sales creates an unacceptable burden on their respective resources, and effectively creates a loophole for infringers. Experience in China, in particular, has proved that infringers are extremely adept at exploiting these loopholes, e.g., by hiding transactional records and keeping stocks of infringing products held in any one location below the relevant numerical threshold.¹⁸ In Vietnam, the clever counterfeiters usually produce or transport the goods with value below the numerical level (VND30,000,000) to avoid criminal sanctions.

These requirements are inconsistent with Article 61 of the TRIPS Agreement, in that they impose a much higher standard of proof for criminalization. The critical provision in the TRIPS Agreement vis-à-vis anti-counterfeiting and anti-piracy is Article 61, which mandates access to criminal enforcement in cases of willful infringements on a “commercial scale.” Article 61 was clearly intended to ensure that governments retain maximum flexibility in dealing both with small-scale infringers and more clever counterfeiters that go to great lengths to appear to be operating on a small scale.

These requirements also defy common sense when applied to IPR enforcement, since in virtually all cases, an infringer will in fact have engaged in significant prior sales of infringing items for a considerable period, and almost always have exceeded relevant numerical standards for criminal liability.

The IACC consequently takes the view (consistent with its positions regarding China and Russia) that Vietnam should amend its Criminal Code as soon as possible, and adopt provisions in the law that are compatible not only with WTO standards, but which are consistent with international practice. Without the threat of potential criminal action, a government is deprived of a critical weapon for deterrence, and both police and IP owners are required to spend significantly greater resources to prove the full extent of prior transactions. This is a difficult task in the best of circumstances.

Vietnam is considering changing numerical thresholds in the Criminal Code, and a draft revision is expected in August 2008. Meanwhile, guidelines could be adopted to facilitate the transfer of cases from administrative authorities to the police for criminal investigation based on considerations of the public interest. The Supreme Court, together with national prosecutors and

¹⁷ Another type of infringement which may be subject to criminal enforcement is “repeated act of infringement”.

¹⁸ For further examination of the issues raised by threshold requirements, see the China chapters of the IACC’s 2005 and 2006 301 reports.

police, are preparing a Circular to reduce relevant thresholds to the point where they meet the “commercial scale” standard required under Article 61 of the TRIPS Agreement.

The IACC urges Vietnamese authorities to ensure that the Circular substantially relaxes requirements of proving harm and eliminates any thresholds for criminalization of smaller-scale cases. It is further hoped that the proposed Circular and any future revisions to the Criminal Code will make clear that criminal enforcement is required in cases involving repeat offenders, i.e., infringers who have previously been dealt with by administrative authorities, but who continue to infringe.

The IACC hopes that the Vietnamese legislature will adopt amendments to the Criminal Code that will effectively provide for concurrent jurisdiction of administrative and criminal enforcement authorities over most cases. Under a future dual-track system, most criminal cases would be initiated upon the request of the rights holders. As in almost all countries, the police would retain the discretion to process cases.

Future laws and guidelines in this regard will need to take into consideration the need to clarify the handling of cases involving corporate infringers as opposed to individual infringers. Under current law, Vietnam does not apply criminal liability against corporate entities. Consequently, most administrative penalties are imposed upon corporate entities, whereas police and prosecutors normally focus their efforts to bring criminal prosecutions against individual violators.

Education and Technical Assistance

The Government chose November 29, 2007 as the day of preventing and fighting against counterfeits and imitated goods.¹⁹ The Government authorities, separately or in coordination with IP right holders and/or foreign organizations and/or governments organize many trainings, workshop and seminars on anti-counterfeiting and anti-piracy with participants from Police, Market Management Bureau, Customs, Inspectorate of Science and Technology, and other agencies and representatives of organizations, associations and companies. The publication of IP laws and regulations and anti-counterfeiting has been conducted via local mass media (such as Vietnam Television) and newspapers. However, the awareness and knowledge of the public to IP issues are still limited.²⁰

¹⁹ Official Letter No. 6512/VPCP-V.I issued by the Government Office of Vietnam on 12 November 2007, available at http://www.chinhphu.vn/portal/page?_pageid=33,760959&_dad=portal&_schema=PORTAL&_piref33_760993_33_760959_760959.docid=46115&_piref33_760993_33_760959_760959.detail=1

²⁰ “One year as official member of WTO: Petition from the Ministry of Science and Technology for the implementation of accession commitments,” available at http://www.trade.hochiminhcity.gov.vn/data/tth/2008/18-01-2008_0.7169957547582635.html

Conclusion

IACC commends Vietnam for recent progress, but much remains to be done in order to effectively protect intellectual property rights in Vietnam. The IACC therefore calls on the Vietnamese government to continue its reform efforts, in particular the following:

- Enact amendments to the Criminal Code to eliminate numerical thresholds for trademark counterfeiting and commercial-scale copyright piracy, and facilitate transfer of criminal cases from administrative and border control authorities to law enforcement authorities;
- Issue a new circular on criminal enforcement of IPR that relaxes requirements for proving harm and eliminates thresholds for criminalization of smaller-scale cases;
- Impose deterrent penalties in administrative proceedings of piracy and trademark counterfeiting;
- Promulgate detailed border control regulations on recordation of intellectual property rights, detention and seizure of suspected infringements, destruction of infringements, disclosure of information to rights holders, and transfer of criminal cases to law enforcement authorities;
- Increase training and resources for government enforcement of IPR, particularly among border control, administrative authorities, police, prosecutors and criminal court judges; and
- Increase public awareness about IPR and counterfeits by organizing more seminars, conferences and training courses for enforcement authorities, enterprises and students.