



February 17, 2009

VIA WORLD WIDE WEB

<http://www.regulations.gov>, docket number USTR-2009-0001

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

**Re: 2009 Special 301 Review: Identification of Countries Under Section 182  
of the Trade Act of 1974: Request for Public Comment. 74 Fed. Reg. 4263  
(January 23, 2009)**

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 23, 2009.

The IACC is the largest organization representing exclusively the interests of companies concerned with trademark counterfeiting and copyright piracy. Our

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members consist of over 200 corporations, trade associations, and professional firms and represent total annual revenues of approximately \$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 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 and the allocation of greater political priority and resources, as well as by raising awareness regarding the enormous—and growing—harm caused by IP violations.

The IACC applauds 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 that reads "Bob Barchiesi". The signature is written in a cursive, slightly slanted style.

Robert Barchiesi  
President



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

**Special 301 Recommendations**

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**February 17, 2009**

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## **INTRODUCTION**

The International AntiCounterfeiting Coalition, Inc. (“IACC”) is filing this submission in response to the request by the Office of 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 23, 2009.

### **IACC Membership and Mission**

The IACC, based in Washington, D.C., is the largest and oldest association representing exclusively the interests of intellectual property rights owners concerned with trademark counterfeiting and copyright piracy. Our members consist of over 200 corporations, trade associations, and professional firms, and represent estimated annual revenues of over \$750 billion. Our brand and copyright owner members consist of a broad cross-section of industries, and include many of the world’s best known brands 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 educating the public and government policymakers about the threats posed by intellectual property crimes; and 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 both rights-holders and the economy as a whole, while also creating 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, and in consumer awareness for the public at-large.

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 considerable—and increasing—harm caused by IP violations.

## **Nature and Scope of Counterfeiting**

Intellectual property crimes, including trademark counterfeiting and piracy pose a serious, and growing, threat to the US economy, and the global economy beyond our borders. These crimes deprive legitimate businesses and their workers of income, while discouraging innovation, creativity, and capital investment necessary to sustain developed economies and to speed the development of less well-established economies. Further, the global trade in counterfeit goods poses a clear threat to consumer health and safety, provides an easy source of revenue for criminals (including organized crime) and deprives governments of billions of dollars in tax revenue.

While both governments and private sector rights holders continue to make significant efforts to combat counterfeiting and piracy, the problems continue to grow more severe. Anecdotal and statistical evidence demonstrate increases in both the overall volume and the scope of the counterfeit trade, making clear that the issue requires a more coordinated and cooperative approach across international borders, and involving both public and private sector interests.

The primary concerns of the members of the IACC remain, as in the past several years:

- China and Russia

Despite some progress made in recent years, China and Russia remain hostile environments for intellectual property rights holders. According to the most recently released statistics from US Customs and Border Protection, the People's Republic of China accounts for over 80 percent of the IP-infringing goods seized at our nation's borders. Russia, meanwhile, continues to be a source of frustration for the Coalition's members – a result of legislative, enforcement, and border control issues, coupled with its failure to make good on a range of commitments it agreed to in conjunction with its efforts to accede to the World Trade Organization.

- Trans-Shipping and Free Trade Zones

The exploitation of free trade zones as a means of facilitating the global trade in counterfeits, including components, also remains a major concern to IACC members. There is an urgent need for comprehensive and clear enforcement authority by Customs personnel to ensure that effective intellectual property protections are not denied in exchange for trade facilitation. While the benefit of increased, and more efficient, trade in legitimate goods is undeniable; the misuse of free trade zones for illicit trafficking must not be permitted to continue.

- Internet Piracy and Counterfeiting

Digital piracy and the growth of the internet as both a marketplace, and distribution tool, for counterfeit goods have been increasingly noted by Coalition members. There is a significant need for increased transparency and verification of the accuracy of WHOIS data collected by Internet registrars. Web-based counterfeiters and pirates operate largely with impunity, while third-party sites continue to profit from widespread infringements facilitated by their sites, with minimal threat of liability.

### **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

The IACC supports the efforts of USTR in seeking the enactment of a new global standard for cooperation, and in seeking a global solution to what is truly a global problem. ACTA recognizes that the fight against counterfeiting cannot stop at national borders, if that effort is to be successful. IACC urges the USTR to call on participating countries to make anti-counterfeiting enforcement a high priority and to provide the necessary resources to deter counterfeiting.

- Engagement with China

The IACC commends the efforts of USTR, and the US government as a whole, for its continued efforts at constructive engagement with the Chinese government through diplomacy, capacity building, and the entire range of trade tools at its disposal. We recognize that this is no easy task, and that improvements are likely to be gradual; but this engagement is vital to the long-term trade relationship between our countries.

### **Common Concerns**

The pages following include a table summarizing IACC's Special 301 recommendations between 2000 - 2009, followed by a more detailed summary for 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 than administrative measures, such as customs seizures, and 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. Modern 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 – 2009\*

	00	01	02	03	04	05	06	07	08	09
Argentina	WL	WL	WL							
Australia										
Belize					WL	PWL	PWL	WL		
Bolivia				WL						
Brazil	WL	WL	WL		WL			PWL	WL	WL
Bulgaria			WL		WL					
Canada	WL	OO	WL	WL		WL		PWL	WL	WL
Chile	--	WL	WL	WL		WL				
China	306	306	306	306	306	PFC/306	PFC/306	PFC/306	PFC/306	PFC
Costa Rica							PWL	PWL		
Columbia			WL							
Czech Republic								WL	WL	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	WL
Pakistan					WL					
Panama				WL	WL	WL				
Paraguay		306	306	306	306			PWL/306	306	306
Peru								SM		
Philippines			PWL	PWL	PWL	PWL	PWL	WL	WL	WL
Poland			PWL	PWL	PWL					
Romania					WL					
Russia	PWL	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	WL
Ukraine		WL	PFC		PFC					
UAE			WL	WL	WL	WL		SM	OO	
Venezuela					WL					
Vietnam			WL	WL				PWL	WL	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 in China remain largely unchanged since the submission of our 2008 Special 301 recommendations.

Over the last year, the level of counterfeiting of most of our members' brands in the domestic market remains unacceptably high across numerous product sectors. Our members also report that exports of counterfeits from China remained troubling, with China remaining the top supplier of imported counterfeits circulating worldwide, including to the U.S.

There are indications that production of counterfeits within China is moving increasingly to more remote inland locations, thereby making detection and enforcement harder. Meanwhile, the use of the internet as a platform for the promotion as well as sale of fakes continues to grow almost entirely unimpeded. Over the last twelve months, our members have witnessed a significant increase in seizures by Chinese, US and other foreign customs agencies of shipments of fakes via the post and courier services, with fewer seizures of fakes in larger quantities via containers. This development provides additional evidence of the expansion in sales via the internet.

Counterfeiters are also increasingly taking pains to limit the size and value of shipments held in any one place at any one time. By doing so, they limit the risk of financial losses caused by government seizures. But more importantly, they eliminate the risk of criminal prosecution by keeping the total value of fakes seized below the thresholds for criminal prosecution mandated by the PRC Criminal Code.

IACC members report that these criminal enforcement thresholds are continuing to function as a nearly impregnable barrier to criminal enforcement against retailers and smaller wholesale vendors. The continuing blatant trade in fake fashion, sports items and electronics in the Silk Street Market as well as other notorious markets in major cities in China offers ample evidence of both the negative impact of thresholds as well as the weaknesses of administrative enforcement.

IACC members remain particularly concerned that the level of counterfeiting in China may rise even further in the coming years as a consequence of the current global economic crisis. These concerns have been stoked by credible reports from our members that high-level government authorities are instructing local officials to delay

or refrain entirely from imposing criminal and administrative enforcement measures against counterfeiters. The existence of these instructions has been confirmed through multiple reports by our members in various locations in China, as well as through Chinese press reports.

Prior to the financial crisis, many IACC members utilizing the criminal enforcement system had been pleased by a noticeable increase in the willingness of Chinese police and prosecutors to act upon their complaints. This appeared to represent a continuation of the encouraging progress that began in 2004 with the “Mountain Eagle” enforcement campaign of the Ministry of Public Security (MPS). However, overall, criminal prosecution of counterfeiting cases throughout 2008 remained the exception, rather than the norm, for most of our members in China. Consequently, the vast majority of our members—including most of those that have been able to allocate substantial resources to criminal enforcement—remain disappointed by the inadequate level of deterrence generated by their programs.

The Chinese government has made good on its earlier promises to “gradually” increase access to criminal enforcement, only relying upon existing police and prosecutorial manpower. This limiting of the resources allocated to criminal enforcement raises serious questions regarding the political will of the government to turn the tide against counterfeits, both for domestic as well as foreign brands.<sup>1</sup>

As explained in detail in prior 301 reports by the IACC, Chinese law severely limits the investigative and penalty powers of the main administrative bodies that handle over 98 percent of all enforcement against counterfeiters, the Administrations for Industry and Commerce (AICs), the Technical Supervision Bureaux (TSBs) and Customs. But perhaps the single greatest legal impediment to more effective and deterrent enforcement in China remains the numerical thresholds for criminal liability mandated by China’s Criminal Code—currently RMB50,000 or US\$7000.

IACC members had hoped that the dispute filed by USTR with the WTO in April 2007 targeting numerical thresholds would have stimulated the Chinese to begin the process of amending the intellectual property provisions within the PRC Criminal Code. The WTO panel issued a decision rejecting the U.S. government’s claims with respect to thresholds, mainly citing a lack of evidence. The IACC is still studying the ruling, but our members have already identified conclusions by the panel suggesting that if a new complaint had been accompanied by additional evidence and arguments the U.S. may well have prevailed. IACC members are therefore hopeful that the Chinese government will study the ruling closely and reconsider whether the Criminal Code and IP enforcement regime warrant deeper reforms.

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<sup>1</sup> Foreign brands are not the only victims of counterfeiters in China, and prior surveys by the State Council’s Development Research Center together with anecdotal reports from IACC members suggest the problem for local brands is roughly the same as that for foreign brands. In recent years, counterfeiting of local products has attracted the most attention in the food and beverage sectors (including milk powder and alcoholic beverages) as well as cigarettes.

Finally, there are indications that the Supreme People's Court (SPC) is encouraging local courts to increase the level of damages against counterfeiters and other egregious infringers of trademark rights. Reports of higher compensation awards involving brands in the electronics, automotive, and apparel sectors have rekindled interest among many IACC members in resorting to civil courts to redress infringements. However, few of our members believe that civil enforcement alone in China will create the needed deterrent to counterfeiting, as counterfeiters go to great lengths to shield their assets from seizure and they remain generally unwilling to pay significant compensation voluntarily.

Taking into consideration the foregoing, the IACC urges the Chinese government to consider implementing a range of other reforms and structural changes as soon as possible, both to increase the cost-effectiveness of criminal enforcement and to strengthen civil and administrative enforcement.

## **Recent Developments**

### **Scale of Problem**

Counterfeiting in China over the last year continued to cause severe harm to virtually all IACC member companies.<sup>2</sup>

The range of products affected remains the same as in prior years and includes pharmaceuticals, alcoholic beverages, computer networking equipment, computer peripherals, batteries, home appliances, auto parts, lighters, toys, apparel, footwear, luxury accessories (including handbags, jewelry, watches and eyewear), personal care and household products, food, chemicals, beauty aids and cigarettes.<sup>3</sup>

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<sup>2</sup> 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>.

<sup>3</sup> For an overview of the range of industries affected by counterfeiting in 2008, see: "Dangerous Fakes", Businessweek (Oct. 2, 2008), providing an overview of the growth of counterfeiting of computer chips, Cisco routers, and integrated circuit boards, some of which are reported to have made their way into US military equipment, available at [http://www.businessweek.com/magazine/content/08\\_41/b4103034193886.htm](http://www.businessweek.com/magazine/content/08_41/b4103034193886.htm); "RM5.5 million (US\$1.5) in Imitation Cosmetics Seized", Bernama (Dec. 10, 2008), reporting extensive counterfeiting of cosmetics in Malaysia, available at [http://www.bernama.com.my/bernama/state\\_news/news.php?id=377586&cat=nt](http://www.bernama.com.my/bernama/state_news/news.php?id=377586&cat=nt); "Counterfeit Pesticides Across Europe", European Crop Protection Association Report (Aug. 27, 2008), noting the alarming spread of Chinese-made counterfeit pesticides across Europe, available at [http://www.ecpa.be/files/ecpa/documentslive/9/17853\\_Counterfeit%20Pesticides%20across%20Europe%20-%20Facts-Consequences%20and%20Actions%20needed.pdf](http://www.ecpa.be/files/ecpa/documentslive/9/17853_Counterfeit%20Pesticides%20across%20Europe%20-%20Facts-Consequences%20and%20Actions%20needed.pdf); "NutraSweet Defends Chinese IP Rights", FoodNavigator.com (Mar. 21, 2008), available at <http://www.foodnavigator-usa.com/news/ng.asp?n=84155-nutrasweet-neotame-counterfeiting>, noting that fake NutraSweet (neotame) produced by multiple factories in China contains alarming levels of impurities; ; and "China Seizes 7.35 Billion Counterfeit Cigarettes", Xinhua report (Dec. 23, 2008), available at [http://news.xinhuanet.com/english/2008-12/23/content\\_10549608.htm](http://news.xinhuanet.com/english/2008-12/23/content_10549608.htm). This report valued the cigarettes seized in the first 11 months of 2008 at RMB4.1 billion or about US\$600 million—clearly suggesting

The latest statistics made available from the Department of Homeland Security (DHS) indicate that in 2008, China was the source of 81 percent of infringing goods seized at U.S. borders (by value), up from 80 percent in the prior year. In some sectors, the impact of Chinese imports was particularly severe. For example, the latest DHS statistics indicate China was the source of 96% of all seized imports of counterfeit footwear.<sup>4</sup>

Counterfeiting of fashion and sports brands continues to attract the most attention from IACC members, and continuing problems for these industries are illustrated by high-profile seizures in major markets in the U.S., including New York, where over \$25 million in fake footwear, clothing and batteries were seized in April 2008 following a six-month investigation by local police and federal prosecutors,<sup>5</sup> and California, where customs in Oakland seized over \$700,000 in fake footwear in October 2008.<sup>6</sup>

But clearly, the trend of “diversification” by Chinese counterfeiters continues, with fakes no longer primarily consisting of fashion articles.<sup>7</sup> Even more worrying are increasing reports of exports of counterfeit goods that pose significant risks to health and safety.

- In 2008, China and the Hong Kong SAR (mainly a transshipment point for goods made in China) were responsible for 75 percent of the value of DHS seizures of goods posing safety or security concerns;<sup>8</sup>

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that the scope of the problem remains enormous. The Chinese press indicated that 3,065 individuals had been prosecuted for cigarette counterfeiting in 2008, and presumably these criminal actions have created unprecedented deterrence in the cigarette market.

<sup>4</sup> U.S. Customs and Border Protection and U.S. Immigration and Customs Enforcement FY 2008 Top Trading Partners for IPR Seizures, available at [http://cbp.gov/linkhandler/cgov/trade/priority\\_trade/ipr/seizure/fy08\\_final\\_stat.ctt/fy08\\_final\\_stat.pdf](http://cbp.gov/linkhandler/cgov/trade/priority_trade/ipr/seizure/fy08_final_stat.ctt/fy08_final_stat.pdf). See also EU Report on Community Customs Activities on Counterfeit and Piracy – Results at the European Border, May 2008, setting out results of 2007 seizure statistics in the EU at <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/757&format=HTML&aged=0&language=EN&guiLanguage=en>.

<sup>5</sup> See “Police Seize Fake Goods Worth Millions”, New York Times (April 17, 2008), available at [http://www.nytimes.com/2008/04/17/nyregion/17counterfeit.html?\\_r=1&scp=19&sq=china&st=nyt&oref=slogin](http://www.nytimes.com/2008/04/17/nyregion/17counterfeit.html?_r=1&scp=19&sq=china&st=nyt&oref=slogin), reporting police seizures indicating money transfers to China.

<sup>6</sup> See “Customs officers seize more than \$700,000 worth of counterfeit Nike shoes at Port of Oakland, The Oakland Tribune (Oct. 18, 2008), available at [http://www.insidebayarea.com/oaklandtribune/localnews/ci\\_10987885](http://www.insidebayarea.com/oaklandtribune/localnews/ci_10987885).

<sup>7</sup> 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](http://www.oecd.org/document/18/0,3343,en_2649_201185_38702947_1_1_1_1,00.html). Counterfeiting by Chinese suppliers is not only impacting on brand owners from developed countries. They are targeting local brands in other developing countries as well. See “Tanzania pays price for cheap knock-offs”, Marketplace.org, (Feb. 13, 2009), available at [http://marketplace.publicradio.org/display/web/2009/02/13/pm\\_tanzania/](http://marketplace.publicradio.org/display/web/2009/02/13/pm_tanzania/), noting that as much as 20% of goods sold in Tanzania are fakes from China, and that these fakes displace as many as 140,000 local jobs, and estimating that as much as 10% of pharmaceuticals sold locally are counterfeits; see also “China-Africa: Chinese exporters destroy Nigerian textile industry, lament MAN, NTMA” (Oct. 28, 2008), reporting that Chinese fakes of Nigerian clothing brands occupies 80 percent of the market, thereby putting the local market on the verge of collapse; available at <http://daniel.rugamba.com/2008-10-28/china-africa-chinese-exporters-destroy-nigerian-textile-industry-lament-man-ntma>.

<sup>8</sup> See note 3 above.

- Counterfeiting of erectile dysfunction (ED) medications originating in China, were reported to have caused the deaths of 10 men in Singapore in 2008, due apparently to inclusion of dangerously high levels of a diabetes drug;<sup>9</sup>
- Chinese fake pharmaceuticals are now being produced with such high quality packaging that detection by the brand owners themselves is becoming challenging;<sup>10</sup>
- Fake auto parts produced in China were estimated to account for 70 percent of all fake parts circulating globally, with anecdotal reports that items such as brake pads and oil filters are being made from substandard materials, such as grass, cardboard and rags;<sup>11</sup>
- Hundreds of thousands of counterfeit electrical chargers used for mobile phones, PDAs, MP3 players and video games were recalled in the UK in 2008, following reports of faulty wiring and other problems which resulted in electrocution, fires and other threats to human health.<sup>12</sup>
- Fake cigarettes made in China were said to contain five times as much cadmium as genuine cigarettes, six times as much lead, and high levels of arsenic.<sup>13</sup>

Over the course of 2008, IACC members reported continuing instances of fakes being shipped to various countries from China with labels and other components shipped separately for assembly in destination markets.

Free Trade Zones also continue to be exploited by counterfeiters to facilitate trade in fakes in enormous quantities.

Within China, IACC member companies report that the epicenter of counterfeiting—from production, wholesaling, exporting to retailing—is within the province of Guangdong, its capital Guangzhou City, and the abutting Special Economic Zone of Shenzhen. Other regions which remain hot spots for counterfeiting include the wholesale and export center, Yiwu City, the city of Cixi in Zhejiang Province, which focuses on auto parts, and Jinjiang County and Putian District in Fuzhou City, both infamous regions in Fujian Province for the bulk of fake footwear sold globally. The

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<sup>9</sup> See Straits Times reported at Shanghaiist.com (Nov. 2, 2008) at [http://shanghaiist.com/2008/11/02/10\\_men\\_in\\_singapore\\_die\\_from\\_illega.php](http://shanghaiist.com/2008/11/02/10_men_in_singapore_die_from_illega.php).

<sup>10</sup> See “China’s Latest Deadly Counterfeits”, EnterStageRight (Aug. 11, 2008), available at <http://www.enterstageright.com/archive/articles/0808/0808chinesecounterfeit.htm>. The World Health Organization (WHO) has estimated that the counterfeiting and global trade in fake pharmaceuticals is only destined to worsen before it improves, due largely to the expanded use of the internet to facilitate promotion and distribution. See <http://cmp.hku.hk/2008/01/25/843/>.

<sup>11</sup> Ibid.

<sup>12</sup> See Asia Times (Aug. 1, 2008), available at [http://www.atimes.com/atimes/China\\_Business/JH01Cb01.html](http://www.atimes.com/atimes/China_Business/JH01Cb01.html).

<sup>13</sup> See note 3 above.

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 heightened efforts by the national and local governments to rein in the problem (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 are enjoying increased levels of cooperation from these portal operators in the form of prompt take-downs of sites offering suspected counterfeits. Remarkably, one portal, DHGate.com, was reported by an IACC member to have implemented a filter that has effectively stopped the bulk of advertising for certain brands. However, all other China-based portals are refusing to adopt filtering solutions, and in any case, counterfeiters generally regard filters and take-downs as temporary obstacles to their trade.<sup>14</sup>

Since local law does not require e-commerce portals to obtain certified evidence of the identity of vendors and advertisers, investigations of website operators to identify the source of fakes remain nearly impossible for most brand owners—thereby dissuading them from even trying. Those brands that have attempted to investigate vendors on the web report having to invest significant financial resources without any guarantees of success.

While Chinese police have begun investigating cases based on leads on the internet, they have generally given preference to targeting only the larger cases. Meanwhile, administrative enforcement authorities continue to lack the tools to investigate web-based counterfeiting rings. Consequently, nearly all Chinese traders using the web to promote their business have little fear of sanctions of any kind.

## 2008 Enforcement

As of this writing, the Chinese government had not yet published many statistics regarding the number of criminal, administrative and civil cases handled during the course of 2008.

Anecdotal reports from our members suggest that the level of criminal enforcement was probably the same or perhaps slightly greater than that in 2007.<sup>15</sup>

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<sup>14</sup> In response to filters for famous brands, counterfeiters generally respond by incorporating misspellings in the target brands.

<sup>15</sup> Industry surveys on the impact of counterfeiting in China for 2008 are not yet available. However, a 2007 survey of members of the Quality Brands Protection Committee (QBPC)—a China-based industry association in which many IACC members participate—indicated continued worsening of counterfeiting for multinational brand owners. See a summary of the 2007 at [http://www.qbpc.org.cn/QBPC\\_Membership/20\\_1.html](http://www.qbpc.org.cn/QBPC_Membership/20_1.html), indicating the following changes in brand owner perception regarding counterfeiting in 2007 as compared to 2006:

With respect to administrative enforcement, officials with the State Administration for Industry and Commerce (SAIC) recently reported having conducted 46,300 administrative seizures in 2008, down from 50,318 in 2007.<sup>16</sup> These statistics may well be adjusted upwards when the SAIC issues a formal report, likely before March 2009.

An equally significant measure of the effectiveness of administrative enforcement will be the number of AIC cases that were eventually transferred to the PSB, based on the value of seized goods exceeding the threshold for criminal liability—RMB50,000 or about US\$7,000, at current exchange rates. Since over 98 percent of enforcement actions against counterfeiters are administrative seizures initiated by the AIC and TSB, the number of criminal transfers is critical for assessing whether the criminal justice system is functioning effectively.

Chinese press reports indicate that in the first half of 2008, only 50 cases had been transferred by local AICs to the police. During all of 2007, a total of 229 cases out of 50,318 were transferred from AICs to the police—less than 0.4 percent of all AIC cases. If the latest reported statistics are accurate, this would signal a significant deterioration of what was already a critical problem: the lack of effective cooperation between police and administrative enforcement authorities in building criminal cases.

Chinese Customs announced having conducted 1,076 seizures of shipments violating IP rights in the first half of 2008, confiscating about 39 million items valued over RMB68 million (about US\$10 million). These figures indicate a mild decrease in the number and value of seizures, although it would be prudent to await year-end statistics before drawing any conclusions.

Reflecting a trend that began in 2007, IACC members believe that local Customs have been increasingly aggressive in their attempts to consult with local PSBs in transferring customs cases for criminal investigation. As in other countries, customs report reluctance by police in perhaps the majority of cases, due both to a perceived lack of manpower and the need for inter-regional travel to investigate most cases, as well as other inherent difficulties in tracking down the source of fakes. In virtually all cases in China, the exporter of record is a very small trading or freight forwarding company that has a plausible explanation for processing shipments of counterfeits. The supplier often has gone to great lengths to cover its tracks, e.g., by using portable phones and forged transactional and shipping documents.

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(a) 80 percent of respondents reported that the severity of counterfeiting in China was the same or worse, while only 12 percent indicated the situation had improved for their companies;

(b) 56 percent of respondents believe the economic impact of counterfeiting on their business was significant or worse; and

(b) 76 percent of respondents believe the problem of exports of counterfeits was the same or worse.

<sup>16</sup> See CNN report quoting Mr. Zhou Bohua, Director General of the SAIC, at <http://www.ccn.com.cn/newsHtm/2008-12/1230082425d245690.shtml>.

Given the lack of adequate evidence, Chinese prosecutors have refrained from prosecuting such middlemen, thereby making it difficult for Chinese police to squeeze them to disclose all they know regarding the ultimate source of the goods.

IACC members that have approached Chinese police (the Public Security Bureau or PSB) for assistance in many regions in China continue to be impressed by the noticeably increasing level of professionalism and willingness to intervene. In cases involving health and safety, particularly those involving pharmaceuticals, Chinese police have reportedly been routinely willing to cooperate with investigators for brand owners in organizing deep investigations and controlled purchases in order to gather more evidence of the full extent of the violation.

But the increased assistance from Chinese police still appears to be limited to particular regions. And the resources provided by the police are still too limited to create a credible and lasting deterrence against both small and large-scale violations. Indeed, due to criminal thresholds and other informal policies on the prioritization of cases, police will rarely intervene directly in cases involving retailers. Judicial authorities in some cities have reportedly increased relevant thresholds as much as three times above the nationally-mandated level in order to avoid all but the largest of cases.

IACC members continue to believe that substantially increased resources for police and prosecutors are needed, at least in the regions where counterfeiting is most severe. Using Hong Kong as a model, it is hoped that Chinese police will become more pro-active in seeking out cases—including smaller-scale violations--and investigating them more deeply, rather, than requiring brand owners to supply the bulk of the required evidence.

Finally, 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 most significant legal or policy developments over the last year with respect to counterfeiting in China included the following:

- Reports of policy edicts from the central government to local police and AICs, discouraging normal enforcement measures from being applied against factory managers.
- Issuance of a decision on January 26, 2009 in the WTO dispute by the U.S. against the PRC focusing on criminal thresholds and the handling of infringing goods seized by Chinese customs;

- The issuance of a “National IPR Strategy”, which sets out broad goals for the government, legislature and judiciary to achieve in the next few years;
- Issuance by the now-defunct IPR Protection Working Group of the State Council (now moved into the State Intellectual Property Office) of a 2008 “Action Plan”, setting out shorter term goals for IP protection.
- Continued, if uneven, progress in addressing counterfeiting in retail and wholesale markets—mainly for fashion and sportswear—relying in part on “landlord liability” strategies. IACC members have played a crucial role in this area, and the IACC itself issued proposals during the course of 2008 for the creation of “Pilot Programs” for Chinese to consider in experimenting with new enforcement initiatives in major cities.

### Policy Directives Discouraging Enforcement

The current global financial crisis is having an enormous impact in China, leading to tens of thousands of factory closures and increasing unemployment, particularly among China’s floating migrant worker population. The government and Party are clearly concerned by the risk of social instability, and as a consequence, local police have recently informed representatives of IACC members on a number of occasions that they are under instructions from higher-level authorities to refrain from pursuing criminal cases against counterfeiters. Members have also been informed by local AICs of instructions from above to refrain from conducting raids and imposing penalties against factory owners. These reports are substantiated by recent speeches by senior MPS officials, provincial-level AICs, and local prosecutors reported in the local press in December 2008 and January 2009.<sup>17</sup>

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<sup>17</sup> See Shandong PSB report of December 24, 2008, reporting on speech by Deputy MPS Minister Zhen Shaodong (recently arrested for corruption) available at [http://www.sdga.gov.cn/art/2008/12/24/art\\_3075\\_154910.html](http://www.sdga.gov.cn/art/2008/12/24/art_3075_154910.html). Deputy Minister Zhen was quoted as exhorting local police to avoid “aggravating the production problems currently faced by enterprises, and thereby increase the likelihood of mass protests...[Detention of infringers] should be limited to situations where the legal and societal consequences of enforcement are in line with the twin principles of necessity and feasibility.” See also report from Guangdong Provincial People’s Procuratorate, quoting a Guangdong Provincial Procuratorate (prosecutors office) news conference available at [http://www.gd.jcy.gov.cn/xwys/wzxw/200901/t20090106\\_122330.html](http://www.gd.jcy.gov.cn/xwys/wzxw/200901/t20090106_122330.html) "In criminal cases involving enterprise managers or other employees in key positions, the local Procuratorate should communicate with relevant department or leaders of the enterprise immediately, and cautiously choose whether the cases should be brought - when dealing with crimes where the circumstances are "light", postpone enforcement where appropriate." See also a speech by the director of the Jiangsu AIC saying, “We must breakaway from the mentality that ‘supervision equals enforcement, enforcement equals administrative punishment, and administrative punishment equals fines’ and approach the problems currently existing in the market with persuasion and education, by doing a better job admonishing others, as well as putting great effort into offering instruction, and only cautiously carrying out administrative punishment,” available at <http://www.jsgsj.gov.cn/baweb/show/sj/bawebFile/185114.html> . See also a speech by the Zhejiang provincial AIC, saying, in sum, that for those non-food safety related cases, local AICs in the province should refrain from imposing fines, and limit sanctions to warnings or administrative injunctions, available at [http://www.zjaic.gov.cn/zjaic/zfxxgk/xxgkml/zfyjywj/wj/qy/200901/t20090107\\_68282.htm](http://www.zjaic.gov.cn/zjaic/zfxxgk/xxgkml/zfyjywj/wj/qy/200901/t20090107_68282.htm).

IACC members are deeply concerned that the recent policy guidance to local enforcement authorities will be taken as a signal by counterfeiters that the risk of serious penalties is now greatly reduced—thereby potentially leading to a dramatic rise in violations and a flooding of international markets with fakes.

Further, by giving local authorities greater discretion in pursuing cases and penalizing infringers, the risk of corruption may increase dramatically, thereby making it harder later on for the central and provincial governments to correct the situation.

### Criminal Thresholds

As explained in prior IACC 301 reports,<sup>18</sup> China’s Criminal Code imposes criminal liability against trademark counterfeiters only where the “situation is serious” or the infringer’s sales are “relatively large”. Prison sentences of a minimum three years up to seven years must be imposed where the “situation is extremely serious” or sales are characterized as “huge”.<sup>19</sup> The criteria of “serious” and “relatively large” are not defined in the law itself, but rather in judicial interpretations issued by the Supreme People’s Court (SPC) and the Supreme People’s Procuratorate (SPP), the highest prosecutorial body in China.<sup>20</sup> The minimum threshold for prosecution and liability under these interpretations is RMB50,000, or about US\$7,000. Under this threshold, an infringer may only be subject to administrative penalties by the AIC or TSB—mainly confiscation of infringing goods and the imposition of a fine up to 300 percent of the value of the goods.<sup>21</sup> In practice, fines imposed by the AICs and TSBs fall far below the maximum, and the latest available statistics from the SAIC suggest the average is about US\$1200.<sup>22</sup>

IACC members have been grateful for the speed and relatively low cost of administrative enforcement in China. At the same time, however, they believe the penalties imposed by administrative authorities fail to create sufficient deterrence against future violations, indirectly encouraging the growth of the problem, and ultimately putting into question China’s compliance with Article 41 of the TRIPS Agreement of the WTO.

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<sup>18</sup> See [www.iacc.org](http://www.iacc.org) for access to the 2007 and 2008 301 reports.

<sup>19</sup> See Arts. 213, 214 and 215 of the PRC Criminal Code.

<sup>20</sup> See 2008 IACC 301 report for an overview of the 2004 and 2007 judicial interpretations, which cover a range of issues, including the methods for calculating case values (aka “illegal business amounts”), reductions in thresholds applicable to manufacturers that infringe two or more brands at the same time, the calculation of thresholds involving repeat offenders, and the conditions under which custodial sentence (as opposed to suspended sentences) must be imposed.

<sup>21</sup> Administrative fines are generally calculated by reference to the infringer’s product prices, rather than the prevailing price of the genuine product. The Implementing Regulations to the Trademark Law allows in theory for the imposition of discretionary (statutory) fines up to RMB100,000 (about US\$14,000) in cases where the scope of the infringer’s production or sales is impossible to prove; but in practice, local AICs have refrained from imposing fines on this basis due to the lack of more detailed guidelines to help determine when they are applicable and how they are to be calculated.

<sup>22</sup> [http://news.ipr.gov.cn/ipr/news/info/Article.jsp?a\\_no=241766&col\\_no=1016&dir=200810](http://news.ipr.gov.cn/ipr/news/info/Article.jsp?a_no=241766&col_no=1016&dir=200810).

While the IACC believes that top priority should be given to increasing resources and training for police and prosecutors, we have consistently asserted over the years that the numerical thresholds imposed under China's Criminal Code create an unacceptable barrier to criminal enforcement.

IACC members have for many years complained that the thresholds from criminal liability function more as a tool for limiting the flow of cases to police rather than as a consistent measure for violations that meet the "serious circumstances" and other applicable criteria in the PRC Criminal Code. Chinese police have the authority to investigate any case that they have reason to suspect would constitute a crime, but they will in most cases suggest trademark owners first bring their cases to administrative authorities, who (as noted above) have limited investigative powers and who—even when thresholds are ostensibly satisfied—rarely transfer cases to the police for criminal investigation.

The U.S. filed a WTO dispute against China in April 2007 claiming in essence that the thresholds imposed under the Criminal Code fail to meet the "commercial scale" requirement set out in Article 61 of the TRIPS Agreement<sup>23</sup>. IACC members had hoped that a decision in favor of the U.S. would require the Chinese to begin the process of revising their current Criminal Code and judicial interpretations so as to eliminate or substantially reduce the RMB50,000 threshold, provide Chinese police and administrative authorities overlapping jurisdiction to handle cases, increase the flow of criminal cases, and send a stronger message of deterrence against infringers who are caught with only limited stocks at the time of seizures are performed.

The WTO panel's January 26, 2009, decision<sup>24</sup> was ultimately in favor of the Chinese government, which mainly held that the evidence presented by the U.S. was insufficient to prove its case. But a close reading of the decision suggests the required evidence was indeed presented, but not argued in sufficient specificity in some cases and given inadequate attention by the panel in others.<sup>25</sup>

The WTO panel meanwhile appeared to reach a number of critical conclusions that China's main legal arguments were rejected. In particular, the panel held:

- **China's administrative enforcement regime does not constitute an acceptable substitute for criminal enforcement.**<sup>26</sup> China has for many years argued that, since most small-scale infringements in other countries are penalized with mere confiscations and fines, its administrative enforcement system—which

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<sup>23</sup> Art. 61 of TRIPS states "Members shall provide for criminal procedures and penalties to be applied at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale."

<sup>24</sup> The WTO panel's decision is available at [http://www.wto.int/english/news\\_e/news09\\_e/362r\\_e.htm](http://www.wto.int/english/news_e/news09_e/362r_e.htm).

<sup>25</sup> It appears also that the legal standard used by the panel was erroneous and vague. The panel's interpretation, in essence, added the words "typical and usual" as qualifying language to the operative terms "commercial scale". This made the issue of proof even more difficult.

<sup>26</sup> See paragraph Paras. 7.447-478 of the panel decision.

imposes similar sanctions—provide functionally identical deterrence. However, the panel clearly disagreed.<sup>27</sup>

- **Article 61 of TRIPS imposes a clear obligation on China to ensure that its criminal laws allow for criminal sanctions against “all acts of willful trademark counterfeiting...on a commercial scale...(T)here are no exceptions”.**<sup>28</sup> The U.S. did not assert that China must actually apply criminal sanctions against all violations that meet the definition of “commercial scale”, since prosecutorial discretion is clearly necessary to avoid over-burdening judicial resources. But the panel’s statement above, together with that on administrative enforcement underscore that thresholds must not be used as a substitute for prosecutorial discretion.
- **Any determination of “commercial scale” will depend on various factors, including the “type of commerce concerned”.** This suggests that a fixed threshold of one amount—RMB50,000—may be unsupportable on its face, since, clearly, at least for some product categories, an amount under RMB50,000 would arguably meet the commercial scale standard.<sup>29</sup>

The WTO panel’s decision is subject to appeal within 60 days, and the IACC believes serious consideration should be given to challenging the ruling, given the importance of the issue to our members and the clear grounds available for an appeal.<sup>30</sup>

The option is also available for the U.S. or other concerned governments to file a fresh complaint on substantially the same legal issues (something which is not precluded by law)<sup>31</sup>, supported this time with additional arguments and/or evidence, including those that that respond to many of the original panel’s views.<sup>32</sup>

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<sup>27</sup> Common sense dictates that the deterrent impact of criminal versus administrative penalties should normally be much higher, given (a) the greater stigma attached to criminal convictions; (b) the fact criminal penalties are imposed in a public forum; (c) greater unpredictability in the severity of the penalties that may be imposed by a criminal court; and (d) more severe penalties for repeat criminal offenders.

<sup>28</sup> The Panel acknowledged the U.S. argument that thresholds, say of 500 units of pirated works, cannot be sustainable on their face, given the lack of any significant difference between 499 and 500 units. But the panel curiously noted that the U.S. had failed to illustrate its concerns by providing examples of particular products where the 499 standard might be considered “commercial scale”. See Paras. 7.611. The panel’s reluctance to apply this argumentation to evidence presented was unfortunate, and arguably incorrect.

<sup>29</sup> See Paras. 7.544-544.

<sup>30</sup> There are a number of areas where the panel’s decision might be challenged on appeal, and the IACC would be pleased to provide its views to USTR in this regard, on request.

<sup>31</sup> As indicated in the WTO panel report in *Argentina Poultry*, paras. 7.33-7-42, there is no WTO rule involving estoppel or *res judicata*. There is only a requirement that WTO Members bring cases in “good faith”.

<sup>32</sup> The risk of re-filing the case, as compared to an immediate appeal, is that the second panel may be inclined to use the erroneous legal standard of “typical or usual” commercial scale. It may also follow the first panel is using a single threshold amount for all different products and markets. Given the short time frame for WTO appeals, it may be sensible (depending on the circumstances) to have pursue an appeal and seek to correct the legal standard, and then re-file a case if later required.

A third and perhaps preferred option would be for China and the US to commence negotiations towards a settlement of the dispute—one which would set a timeline for China to adopt meaningful changes in the current system for determinations to investigate, prosecute and convict counterfeiters, and ideally to amend the Criminal Code as well.

Under any settlement, China might be encouraged issue a new judicial interpretation that would largely retain existing thresholds for decisions to prosecute,<sup>33</sup> but otherwise permit trademark owners to pursue criminal sanctions against smaller-scale violations through private criminal prosecutions. IACC members have been reluctant to support private criminal prosecutions, in principle, due to the higher cost and the risk that local police will refuse to take new cases citing the trademark owner's access to private prosecution. To address industry concerns in this regard, the Chinese government provides reassurances that Chinese police will not begin refusing cases simply because IP owners have easier access to private prosecution.

The SPP and MPS have reportedly been preparing new prosecution standards (as distinct from liability standards), and a draft of these new standards reviewed by some of our members would introduce a few new criteria for criminalization, in addition to the current thresholds. However, details of these proposed standards, including the timeline for their issuance, remain unclear, but they appear to take into consideration repeat offences, the number of workers and machines used to produce fakes, as well as the duration of production. The IACC is hopeful that the authorities will provide ample opportunity to industry to comment upon future drafts of these proposed prosecution standards, but for now the consultation process is highly reserved.

IACC members appreciate that USTR has a number of priorities with respect to China trade, but we remain deeply concerned that the status quo in China leaves a dangerous precedent for other countries that currently rely on thresholds for determining criminal liability. Principal among these countries are Russia, which is currently negotiating its WTO accession package, and Vietnam, a recent entrant to the WTO that has agreed in principle that its thresholds should be amended, but not yet amended relevant laws and judicial interpretations accordingly. Both Vietnam and Russia are no doubt watching carefully how the U.S. and the WTO will deal with any appeal or re-filing.

Of perhaps even greater importance to IACC members is the impact of thresholds in impeding action against counterfeiters operating on the internet, where proving the full extent of violations is particularly challenging.<sup>34</sup>

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<sup>33</sup> Such thresholds are informally adopted even in the U.S., but mainly by federal prosecutors, and not by state prosecutors. Thus, trademark owners always have recourse to local prosecutors when federal authorities refuse to intervene on a particular case.

<sup>34</sup> The IACC is heartened in this regard by language in the panel decision suggesting that commercial scale counterfeiting and copyright piracy conducted via the internet should be subject to the same considerations as violations in more traditional contexts. See panel decision Para. 7.657, stating “The Panel emphasizes that the terms used in the first sentence of Article 61, in particular “commercial”, are technology-neutral. A “commercial scale” can apply to various forms of commerce and, hence, various means of infringement.”

## National IPR Strategy and 2008 IP Protection Action Plan

During 2008, the national government issued two significant policy papers that include a number of provisions intended to strengthen IP protection in the medium and long-term.

The first of these papers was the “2008 IP Protection Action Plan”, issued on March 18, 2008 by the State Council’s now-defunct National Working Group on IPR Protection.<sup>35</sup> This plan set out a large number of priorities for IPR research, education and enforcement projects to be undertaken in the coming year. Among these were the following:

- enforcement campaigns to boost IPR protection during the Beijing Olympics, particularly for Olympic trademarks;<sup>36</sup>
- strengthening of enforcement of IP rights in retail markets frequented by tourists;
- the introduction of a “trademark authorization system” in retail markets nationally, thereby building on landlord liability principles (see below);
- more intensive action targeting counterfeiters of drugs and food; and
- research programs focusing on the compliance of China’s Criminal Code with relevant provisions of the TRIPS Agreement and possible expansion in the use of private criminal prosecution in dealing with counterfeit and pirated products.

The results of these and other projects have not yet been reported by the Chinese government, although a fair amount of activity was reported in the Chinese press over 2008 with respect to the heightened protection of Olympic trademarks and somewhat tighter enforcement against counterfeiters of food and drugs.

The National IPR Strategy, issued by the State Council in June 2008, sets out broader objectives for improving IP protection, mainly targeting patents and capacity building for local companies. However, a number of worthwhile provisions with respect to IP enforcement are contained in the Strategy that are directly relevant to anti-counterfeiting, including the following.

- The Strategy proposes that courts increase the level of civil damages awarded in enforcement cases in order to lower the cost of enforcement for IP owners, increase the costs to infringers and ensure that IP owners are adequately compensated for lost profits. This provision in the Strategy already appears to be bearing fruit, as damage awards for

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<sup>35</sup> The English version of the 2008 Action Plan is available at [http://www.ipr.gov.cn/ipr/en/info/Article.jsp?a\\_no=197210&col\\_no=925&dir=200804](http://www.ipr.gov.cn/ipr/en/info/Article.jsp?a_no=197210&col_no=925&dir=200804).

<sup>36</sup> See Sina.com news report (Aug. 11, 2008) reporting that the Haidian District People’s Procuratorate had handled 13 criminal cases in Beijing involving counterfeit s of Olympics-licensed products or services, available at <http://news.sina.com.cn/s/2008-08-26/150716176441>.

counterfeiting and other trademark infringement cases appear in many cases to be increasing compared to prior years.<sup>37</sup>

- The Strategy proposed the expansion of experiments under which a greater number of local courts will handle the full range of IPR cases--including civil, criminal or administrative cases. To date, such tribunals have generally handled only civil cases. For the time being, these experiments will likely be limited to local-level courts, which do not normally handle IP cases involving foreign brands. But their extension is promising, nonetheless.
- The Strategy also indicated plans to accelerate the processing of trademark applications and the handling of registry disputes. Immediately after the Strategy's issuance, the SAIC doubled the number of examiners, and announced plans to eliminate the current backlog of cases within three years.
- Both the Action Plan and National IPR Strategy made references to plans to amend the Trademark Law. In the IACC's 2008 301 report, an analysis was provided of the latest draft of the law circulated to industry for comment. However, no new drafts have been issued since then and the latest projections are that the law will not be amended before 2010.

Regrettably, no plans are indicated in the Action Plan or the National IPR Strategy to amend the IPR provisions of the PRC Criminal Code. As indicated in our latest 301 report, the IACC continues to believe that amendment of this law would bring a wide range of benefits to China as well as to IP owners—not only with respect to the question of thresholds but a range of other issues as well.

Finally, neither the Action Plan nor the IPR Strategy suggest plans are in the pipeline to significantly increase the level of resources available for police and prosecutor resources to handle counterfeiting cases. As indicated in earlier IACC reports, the increase in resources for criminal enforcement is arguably the most important reform that industry is seeking.

The MPS laudably established a specialized IPR protection office under the Economic Crimes Investigation Division in 2006, manned by less than 10 officials. This office,

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<sup>37</sup> SPC judges have actively encouraged local judges handling IPR cases to be more generous in their civil awards. See Xinhua report (Dec. 11, 2008), available at [http://english.ipr.gov.cn/ipr/en/info/Article.jsp?a\\_no=255703&col\\_no=925&dir=200812](http://english.ipr.gov.cn/ipr/en/info/Article.jsp?a_no=255703&col_no=925&dir=200812), quoting Deputy Head of the IP Tribunal of the SPC, Kong Xiangjun (“(A)ll financial losses of the offended should be taken into consideration when fining the violator... Courts should deprive violators all illegal profits garnered through using someone else's intellectual property. Compensation should also include legal costs of the victim. Through a strict compensation rule, we hope to increase the cost people have to pay for harming intellectual property rights... Through this, we hope to improve public awareness of the importance to protect intellectual property rights”).

while limited in its own resources, has done a great deal to promote awareness and training of IPR enforcement among police divisions nationally – similar reforms are needed, and would be welcome, in regional hotspots.

### Administrative Enforcement

As indicated above, our members recognize the high level of service, convenience and cost-savings made available through administrative enforcement in China. However, our members have continuing deep concerns over a range of problems (described in our last 301 report)<sup>38</sup>that dilute the deterrent impact of administrative enforcement, create unnecessary costs and delays, and otherwise offer unjustifiable loopholes for infringers.

The IACC encourages the SAIC and the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ—the parent organization of local TSBs) to consider adopting more innovative measures to investigate and penalize counterfeiters. Over the last year, aside from periodic “campaigns”, neither the SAIC nor the AQSIQ have reported any initiatives to introduce new investigation or enforcement techniques, including those targeting infringers that openly promote or conduct business over the internet.

### Counterfeiting in Retail / Wholesale Markets

Counterfeiting of a wide range of consumer and industrial products is endemic in many retail and wholesale markets throughout the country. Among the more egregious examples of this phenomenon is the Silk Street Market in Beijing, which attracted extensive press coverage during the Beijing Olympics in August 2008.<sup>39</sup>

As indicated in the IACC’s last 301 recommendation, a coalition of fashion and sports brands, most of whom are IACC members, has been pressing collectively for more systematic reforms by targeting major markets in the cities of Beijing, Shanghai, Guangzhou and Shenzhen. In support of this initiative, the IACC developed a

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<sup>38</sup> The main problems with AIC and TSB enforcement explained in earlier IACC reports include the following:

- (a) seized product is frequently returned to infringers under improper circumstances;
- (b) AICs often demand case handling fees, without issuing receipts or providing regulations which confirm their legality;
- (c) AICs in some regions continue to deny rights holders access to penalty decisions and are reluctant to publish decisions on the internet or otherwise;
- (d) 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;
- (e) the SAIC issued regulations in 2007 requiring agents to present notarized and legalized powers of attorney authorizing the issuance of verification letters. Many regions—including Beijing, Guangzhou and Shenzhen, also require legalization of Powers of Attorney before they are willing to take action against infringers. These requirements do not apply to local trademark holders, thereby presenting questions over whether they comply with WTO rules on national treatment.

<sup>39</sup> For a compendium of press reports on counterfeiting during the Olympics in the Silk Street Market as well as other retail markets in Beijing, see <http://www.iacc.org/olympicspresssilkmarket>.

proposal for a “Pilot Program” to be introduced in several districts in these four cities, thereby facilitating the adoption of more innovative and (hopefully) cost-effective solutions. This proposal was submitted to the Ministry of Commerce (MOFCOM) and it is hoped that solutions based on it might be presented in future bilateral working group meetings between the U.S. and Chinese.

The key elements of the pilot program focus on the following:

- strengthening administrative enforcement, including higher fines, monitoring and more appropriate penalization of repeat offenders, and more effective cooperation with local police in both investigations and case transfers;
- pressing landlords to prevent infringements by more closely monitoring products offered by their tenants and requiring they provide evidence of the source of their goods and the authorization of the trademark owner to trade in the brand;
- greater resources for local police and prosecutors, so as to facilitate more proactive investigations of both larger counterfeiting rings as well as smaller distributors;
- clarifying the standards for criminal enforcement and higher damages awards from civil courts; and
- more active government leadership and coordination to ensure the effective functioning of the pilot programs.

Otherwise, 2008 witnessed scattered progress in the efforts of IACC members to promote landlord liability strategies. Most noteworthy among these efforts was the filing in mid-2008 of 25 civil actions by luxury brands Burberry, Chanel, Gucci, Louis Vuitton, and Prada against the landlord of the Silk Street Market. These civil actions eventually led to a December 2008 settlement, actively mediated by the Beijing courts, under which the brands commenced a trial program to test the willingness of the landlord to cooperate. Under this program, the brand owners are currently supplying the landlord on a monthly basis with notarized sightings of counterfeit sales, after which the landlord is required to temporarily suspend the operations of first-time offenders and terminate the leases of two-time offenders. Similar cooperation protocols have been successfully adopted in other markets in Beijing and Guangzhou by coalition members, and there are plans to expand the initiative to still more markets over the coming year.

The IACC has been particularly impressed with the proactive support of the Beijing courts in brokering the recent settlement with our members and actively assisting in its implementation. The 25 civil actions against the Silk Market were withdrawn and there are formally no pending civil actions before the Beijing courts. Normally, Chinese courts are unwilling to intervene in any way under less they have an active dispute on their docket. The willingness of the court in this case to supervise implementation of a cooperation protocol between brand owners and a landlord represents an innovation in Chinese judicial practice--one that can hopefully be exploited more widely in China in the future.

As of this writing, implementation of the settlement between the brands and the Silk Market was in progress. Questions have already arisen in the course of implementation over the landlord's willingness to comply, and the IACC will be monitoring the situation closely over the coming months.

## **Customs**

As indicated above, comprehensive statistics for customs enforcement in 2008 have not yet been issued by the General Administration of Customs (GAC), and mid-year figures suggest seizures are likely to remain on track with 2007.

IACC members continue to be impressed by the cooperative attitude of GAC and local customs officials in many cities—both in the handling of day-to-day cases, in training, and special operations.

The IACC understands that the GAC has entered into new cooperation protocols with DHS and the European Union to promote the expansion of cooperation and exchanges of data. These protocols will hopefully lead to greater follow-up on concrete leads developed in each of the countries concerned. To date, cooperation on trans-border investigations has been far from routine and limited only to a handful of high-profile cases. IACC members believe it is essential for such cooperation to become more regular, targeting not only large-scale cases but also smaller ones—including those where the infringers have used the internet as a platform for promoting their business.

The deepening of cooperation in customs-related cases will no doubt also require involvement of police and perhaps prosecutors in all of the countries concerned.

In due course, IACC members look forward to discussing with relevant enforcement authorities the ways brand owners can better exploit these new enforcement opportunities under the new protocols.

Otherwise, the concerns set out in the IACC's last 301 report with respect to customs enforcement in China were largely unaddressed in 2008. These are summarized below. It is hoped greater progress can be achieved on these points in the coming year.

- **Criminal Enforcement** – Customs and local PSBs need to explore ways of increasing the number of cases that can be transferred for criminal investigation by police and prosecutors. The IACC continues to encourage Customs, SPP, SPC and MPS to intensify their efforts to address the practical and legal barriers to greater progress on this front.
- **Investigating and Penalizing Small Traders** – Increasingly, exports of larger shipments of counterfeits are handled by small trading companies with little or no assets, and little or no paperwork indicating the source of the goods—whether it be a factory or another wholesale trader. Consequently,

criminal transfers are more difficult and customs itself finds it difficult to impose deterrent penalties on the right target. The GAC should be encouraged to examine these problems more closely and consider new potential solutions.

- 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.<sup>40</sup> 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 WTO panel decision, issued January 26, 2009, sided with the U.S. claims in this regard. The IACC is hopeful that China will agree to make appropriate amendments to its customs regulations to implement the panel decision—and at the same time review other potential loopholes relating to the disposition of confiscated fakes.
- 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 increase the level of fines to at least those provided for in the Implementing Regulations to the Trademark Law—currently 300 percent of the value of the goods. Consideration should also be given to exploring ways to ensure fines are actually paid—e.g., perhaps through a bonding system initially targeting repeat offenders.
- Access to Information and Documentation/Transparency – The GAC should be encouraged to find ways to provide more detailed information to brand owners to facilitate private investigations into counterfeiters, particularly buyers located overseas. The privacy concerns arising from this sort of change will need to be carefully considered, but also carefully weighed against the interests of consumers, as well as brand owners.

## Conclusion

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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.”

The IACC recognizes that Chinese authorities have invested and continue to invest enormous resources in anti-counterfeiting—reflecting the needs of consumers as well as trademark owners. It is hoped the Chinese will acknowledge the continuing high levels of counterfeiting, including the apparent growth of the problem as it relates to exports and the use of the internet as a platform for promotion and sales.

The issuance of the WTO panel’s decision and the arrival of a new administration in the U.S. present a window of opportunity for the two governments to explore cooperative initiatives to address long-standing concerns, including particularly the need for substantially greater resources for criminal enforcement, the elimination of unnecessary barriers to the prosecution and conviction of infringers, and the strengthening of the investigation and penalty powers of the administrative enforcement authorities.

To sum up, the main recommendations of the IACC with respect to anti-counterfeiting in China today include the following:

- Increase resources and training for Chinese police and prosecutors, and consider the establishment of specialized IP enforcement teams in regional hotspots, including Shenzhen, Guangzhou and Dongguan in Guangdong Province, and the cities of Yiwu, Beijing, and Cixi, among others;
- Urgently review the options for amending the Criminal Code, judicial interpretations and/or prosecution guidelines to render them fully compliant with the TRIPS Agreement. These changes should make it possible for Chinese police and prosecutors to criminally investigate smaller-scale infringers when deemed appropriate to create deterrence at a given level of distribution, including retail. Further, any thresholds which are retained in future provisions should be broad enough to ensure that judicial authorities can make determinations to prosecute and convict based on a much wider range of available evidence, including repeat offenses, semi-finished products, the number of employees, the value of production equipment and other relevant factors;
- Increase the deterrent impact of administrative enforcement through adoption of pilot programs along the lines recommended by the IACC;
- Build on the encouraging steps of the Beijing courts and administrative authorities in various cities by continuing to expand landlord liability strategies throughout major cities, including the adoption of the “Trademark Authorization System”, proposed in the 2008 IPR Protection Action Plan;
- Continue the recent trend of increasing civil awards by local civil courts;
- Publish online more complete enforcement statistics, including break outs by region and type of violation;

- Carefully study the current nature and trends relating to counterfeiting on the internet in China, and devise new measures for dealing with infringers through more aggressive take-down strategies, new standards for ensuring that traders properly identify themselves, and greater allocations of police and AIC resources in surveying the web and investigating a significant number of targets—both large and small; and
- Revise Chinese Customs regulations to ensure compliance with WTO requirements, and address other outstanding problems, including the need for greater cooperation with Chinese police in the investigation and transfer of cases, closer monitoring of repeat offenders (including mere one-time offenders), increasing administrative fines, and the prompt provision of relevant information and documentation by customs to IP owners.

## RUSSIA

### **Recommendation:      **Priority Watch List****

#### **Introduction**

As in the IACC's 2008 Special 301 recommendations, Russia remains a major concern to U.S. trademark and copyright owners-- the result of a range of problems including weak enforcement, sporadic prosecutions, official corruption, inadequate border controls, and a lack of coordination by government authorities. Trademark counterfeiting and copyright piracy continue at unacceptably high levels across a broad spectrum of industries. While comprehensive statistics are not available, pirated computer software is estimated to account for nearly 60% of the market<sup>41</sup>; counterfeit and pirated compact discs and DVDs for approximately 70%.<sup>42</sup> While some Russian sources indicate progress in combating the market share of counterfeit apparel and footwear, the IACC's members from the apparel and footwear sector continue to report large-scale infringements, with counterfeit product frequently being sold at retail alongside their legitimate goods. A single member estimates their losses in the Russian market to be as much as 13 Billion Rubles (approximately US \$374 Million).<sup>43</sup>

The Russian trade in counterfeit and pirated goods – both with regard to domestic consumption and manufacturing for export – appears to have continued, largely unabated during the past year; in spite of the government's commitments undertaken in the 2006 U.S.-Russia Market Access Agreement on Intellectual Property Rights<sup>44</sup>, and the efforts at modernizing their legislative and regulatory regimes. On the whole, IACC members have reported little in the way of progress in the past year, and strongly recommend that the USTR maintain Russia on the Priority Watch List.

#### **Scope and Nature of Piracy and Counterfeiting in Russia**

As reported in recent years' submissions by the IACC, trademark counterfeiting has remained a problem during the past year for members of the Coalition from nearly every product sector – most notably in the apparel, automotive, tobacco, pharmaceutical, chemical, business and entertainment software, music, motion picture, consumer goods

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<sup>41</sup> See "US IP Attaches Take Hard Line on Overseas IP Enforcement." Intellectual Property Watch. 26 December 2008, at: <http://www.ip-watch.org/weblog/index.php?p=1387>, last accessed on 11 January 2009.

<sup>42</sup> See, "Legal Efforts to Stamp Out Piracy." Moscow Times. May 23, 2008, at: <http://www.cdi.org/russia/johnson/2008-102-24.cfm> , last accessed: February 17, 2009.

<sup>43</sup> See, "False Profits." The Moscow News. August 21, 2008 at: <http://mnweekly.ru/business/20080821/55342942.html> , last accessed: February 17, 2009.

<sup>44</sup> The text of this Side Letter Intellectual is available at : [http://www.ustr.gov/Trade\\_Sectors/Intellectual\\_Property/Russia/Section\\_Index.html](http://www.ustr.gov/Trade_Sectors/Intellectual_Property/Russia/Section_Index.html).

and personal care product sectors. Most industry sectors have noted that their problems in Russia span both domestic consumption and manufacture for export. With respect to hard goods, the most frequent complaints center around retail sales, both in traditional brick-and-mortar outlets and street markets, coupled with a general lack of cooperation from law enforcement and prosecutors. The software and entertainment sectors remain concerned with the growth in online distribution of their copyrighted works. Trafficking in components and labels, as well as the assembly and finishing of counterfeit goods for export to the European market— an issue raised in last year’s submission -- also remains a problem for many members. This last issue is exacerbated by continuing deficiencies with regard to Russia’s customs enforcement regime.

IACC members have expressed concerns regarding Russia’s growing trade relationship with China, which is viewed by some as likely to exacerbate many of the current problems, including the displacement of legitimate sales by cheap counterfeits imported from China.

Retail sales and distribution remain a key concern for IACC members in a variety of industries, particularly in the apparel, wine and spirits, tobacco, food, and consumer goods / personal care product sectors. While members have reported some action by law enforcement with regard to the retail sector, that limited action appears to be focused on very small-scale operations, and with little, if any, follow-up investigation of those individuals or organizations further up the supply chain. Furthermore, serious concerns have been raised regarding the lack of communication from law enforcement officials to private sector rights-holders in instances where enforcement action has been taken, which in turn precludes those companies from undertaking any investigation or civil action of their own accord.

## **Legislation**

Russia’s legislative regime with regard to intellectual property rights has been in a state of flux during the past two to three years, beginning with the proposal of the new Part IV of the Civil Code, its subsequent enactment, and the entrance into force of those amendments in January of last year. Implementation of the Part IV amendments is still under way, and the true impact of the legislation remains to be seen. As you are no doubt aware, 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, particularly with regard to the compliance of those provisions with international norms. And while rights-holders in the United States and Europe were largely excluded from that legislative process, the Russian government committed 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.

Regrettably, the government does not appear to have made the fulfillment of that commitment a priority; and its progress in enacting and implementing such necessary provisions has been slow in coming. A number of these have been introduced in the State Duma, though no final action has yet been taken. The IACC is hopeful that the Duma will move more swiftly during 2009, to enact these long-awaited and much needed amendments to Russia's legal regime. In addition to these amendments however, the IACC urges the Russian government to move swiftly to enact legislation addressing other outstanding legislative gaps, particularly with regard to providing ex officio authority to Customs personnel, and the adoption of data protection standards in-line with international norms.

## **Enforcement**

For over a decade, intellectual property rights-holders in the US and abroad, have bemoaned the lack of enforcement of IP rights in Russia.<sup>45</sup> Unfortunately, the IACC's members have reported no significant improvement in line with the Russian government's commitments to undertake "meaningful enforcement" on a "priority" basis. Intellectual property enforcement in Russia continues to suffer as a result of a variety of fundamental problems, including the lack of cooperation and communication between law enforcement and prosecutors, the inefficiency of the trademark registration process which hinders the assertion of rights, rampant corruption, and an overall lack of urgency on the part of the government with regard to improving the environment for IPR protection.

IACC members have described Russian law enforcement as having little interest in working with private sector rights-holders, leaving the impression that the authorities tasked with IP enforcement do not take the problem seriously, in spite of the government's often positive rhetoric. As noted above, where enforcement action is taken, it seems to target the "low-hanging fruit" – small vendors, who receive minimal, if any, punishment. Actions against such individuals have virtually no effect on the overall problems, as they're often able to resume operating with only a brief disruption of their business. There is an urgent need for law enforcement to devote greater energy to investigating those vendors' supply chains, and to target higher-level distributors. Likewise, there is a need for prosecutors to seek, and for the courts to impose, more stringent penalties that might serve as a true deterrent.

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<sup>45</sup> Throughout the period of discussion which led to the adoption of Part IV of the Civil Code, US industry representatives expressed concerns that the exercise was diverting attention from the need for improved enforcement – a need which far exceeded the need for comprehensive legislative reform in the area of IP. This view was underscored by the IACC's 2007 recommendations to USTR, in which the Coalition noted [as one of its greatest concerns the potentially negative impact upon the enforcement environment that could result from Russia's comprehensive amendment of its IP laws with Part IV of the Civil Code]. Insert quote from 07 report.

The lack of resources – both with regard to personnel and material – noted in prior years’ reports remained an issue in 2008. This lack of resources has been cited frequently as a root cause of the current enforcement environment for IP. Providing funding to hire additional law enforcement personnel, along with training aimed at improving the efficiency of those currently tasked with IP enforcement could have a significant positive impact. Some rights-holders have sought to address this issue at their own expense, by seeking to engage law enforcement through training and capacity building exercises, but have reported little success, and a generally lackluster response to such efforts.

Another complaint highlighted by IACC members this year was the continuing lack of transparency throughout the entire enforcement process – from the investigation phase, through arrest and prosecution, to the final disposition of the case and of any goods seized. Rights-holders cited a lack of responsiveness to their positive inquiries, and the routine failure of law enforcement to provide information regarding the status of cases. Frequently, brand owners are not notified when counterfeit shipments are seized, or when other enforcement actions are taken, hampering their own efforts and precluding their ability to assist law enforcement. This general lack of communication is particularly frustrating to rights-holders.

Many IACC members have a long-standing presence in Russia, and are well-equipped and eager to provide information and assistance to law enforcement and prosecutors based on their past experiences. We support the idea of hosting an IPR Roundtable, as recently suggested by Tracy Perelli, the US IP attaché for Russia, as a means of fostering this increased dialogue between the government and law enforcement community and private sector rights-holders in Russia.

## **Customs**

The IACC’s concerns with regards to Customs enforcement at Russia’s borders remain largely unchanged since our previous submission to USTR. Customs enforcement remains a significant issue for IACC members, as most report Russia’s status as both an end-market for counterfeit goods, and as a manufacturing and transshipping point for counterfeit products destined for markets beyond its borders. China and Turkey appear to be two of the major external sources for counterfeit products imported for sale within Russia; while most exports appear bound for other European markets. In some cases, members have noted the importation of components and labels, where they are assembled or used to finish the manufacturing of counterfeit goods for both domestic retail-level distribution and re-export into Eastern European states and beyond.

As noted in previous years, there remains a need to enact amendments to the Customs Code providing ex officio authority to Russian Customs. That authority is an essential component of an effective customs enforcement regime – a point the IACC has also underscored repeatedly in its comments on the need for similar enactments in other jurisdictions, e.g., Canada. 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. To date, Customs authorities lack express authority to take such action. We are informed that relevant changes introducing ex officio authority into the Customs Code have passed the first reading in the State Duma. Further efforts to support this initiative may be required.

Members also continue to express concerns regarding the lack of transparency by relevant state authorities (State Executors and the Federal Property Fund) regarding the final (and verifiable) disposition of counterfeit goods, when they have been seized.

Although the Federal Customs Service has increased its seizures in recent years, those increases have had little apparent impact on the availability of counterfeit products available in the Russian market – likely a result of previously discussed factors such as a greater total volume of counterfeit goods entering the country and the lack of deterrent penalties which might discourage the counterfeit trade.

## **Conclusion**

The level of counterfeiting and piracy, across a number of industries, and the lack of effective enforcement both at, and within, Russia's borders are a continuing source of concern for the members of the IACC. In the coming year, the IACC is hopeful that the Russian government will undertake 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;
- Take steps to improve transparency in dealing with rights-holders; and
- Ensure deterrent penalties are imposed on violators.

## PARAGUAY

### **Recommendation: Section 306 Monitoring**

#### **Introduction**

Paraguay has made great strides towards improving its intellectual property protection and enforcement regimes in recent years. As noted in the IACC's 2008 submission, the government has steadily increased the number of raids undertaken, along with the number of seizures of counterfeit and pirated goods. This has been accomplished, in part, thanks to the Paraguayan government's positive approach to addressing problems, and through concrete actions such as the enactment of new legislation to bridge existing gaps. The creation and use of law enforcement units with specialized training, 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"), have also made a positive impact.

While Paraguay continued to demonstrate progress in some areas throughout 2008, rights-holders continue to have serious concerns regarding the sufficiency of border control measures, and the need for more deterrent penalties, among others. The most recent Memorandum of Understanding between the governments of the United States and Paraguay provides an effective roadmap for the improvements that need to be made; and while Paraguay has clearly taken positive steps in 2008, continued monitoring of those efforts (including the implementation of new legal provisions) is necessary. Accordingly, 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**

Coalition members in Paraguay estimate that imports from Asia (primarily China) account for roughly 95% of the counterfeit products that enter into Paraguay. This illicit cargo enters primarily through the ports of Argentina, Uruguay, Chile, and Brazil, before being shipped on to Paraguay. As in previous years, the exploitation of free trade zones by smugglers of counterfeits and other illicit goods remains a significant problem for Paraguayan Customs officials.

In contrast to Brazil, Paraguay is not a significant end-market for counterfeit products; but serves as a transshipment hub for many of the nearby, larger, and more affluent consumer markets.

## **Border Control**

Counterfeiters in Paraguay are widely reported to have adopted the sophisticated methods seen in other transshipment centers, including the large-scale trafficking of counterfeit labels and packaging separate from the physical goods with which they'll be used in connection.

Last year, the IACC reported on an advisory issued by the General Customs Administration ("GCA") in late-2007, concerning the implementation of a trademark recordation system. That internal communication was followed by Resolution No. 101, dated February 22, 2008, which formally established the manner in which rights-holders could register their marks with the GCA. Such a system should be helpful in allowing Customs officials to work with rights-holders in identifying and detaining counterfeit shipments.

While this news was welcomed by rights-holders, there remains room for improvement. Pursuant to Resolution No. 101, the Customs Administration shall notify the authorized agent of a right-holder whenever a customs declaration is filed including the recorded mark, and that the rights-holder must request suspension of clearance proceedings within 12 hours. Following that request, the rights-holder must obtain a court order to extend the suspension of clearance proceedings and order the inspection of the goods in question. While we appreciate the countervailing concern that IP inspections not result in an unnecessary delay of legitimate commerce, the limited timeframe provided could greatly limit the effectiveness of the newly adopted recordation system. These concerns have already been communicated to the GCA by some in the rights-holder community, and it is hoped that the issue can be resolved quickly.

While the recordation system represents progress, it is not sufficient, of itself, to solve Paraguay's border control problems. Paraguay still lacks the necessary resources and technology to adequately address the high volume of counterfeit goods that pass through its borders. In addition, better cooperation with its neighbors, particularly those end-markets for the illicit products passing through Paraguay, is a necessity. Finally, the IACC would support the adoption of tighter controls with regard to the exploitation of Paraguay's free trade zones and more strict regulation of import licenses.

## **Criminal Enforcement**

In July of last year, Law No. 3440/08 introduced a number of modifications to Paraguay's Criminal Code, including several welcome changes to Article 184, regarding the "Violation of the Intellectual Property Right". These amendments are set to take effect in July of 2009, and include the authorization of increased prison terms for the criminal violation of trademark rights. The current maximum term of imprisonment is 3 years, but that will be raised to 5 years when the new law enters into force. In addition, the new law allows for a more severe penalty of 8 years imprisonment in cases

involving special circumstances.<sup>46</sup> These amendments, and the possibility for the imposition of more deterrent penalties are viewed as a positive development, though it remains to be seen whether the courts will take advantage of their availability.

### **Expectations for the New Government**

On April 20, 2008, Fernando Lugo was elected President of Paraguay, taking office on August 15<sup>th</sup>. President Lugo has stated that his governmental priorities will include the respect of all private property. Only six months into his term, it remains to be seen whether this will include intellectual property rights, but we have seen initial reports of an increase in the number of IP-related investigations since President Lugo took office. The rights-holder community is hopeful that his administration will continue to build upon the progress seen in Paraguay in recent years.

### **Conclusion**

The Paraguayan government has taken important steps to fight product counterfeiting, but much more remains to be done to address the high volume export and transshipment of counterfeits. In the coming year, the IACC encourages the government of Paraguay to take the following steps towards improving its IPR regime:

- 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
- Work closely with private-sector rights-holders to determine the efficacy of the recently adopted Customs Recordation measures and amendments to the Criminal Code.

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<sup>46</sup> Special circumstances is defined as, inter alia, the use of industrial-scale production methods, production of products with a high economic value, or an offense which causes considerable economic harm.

## **BRAZIL**

### **Recommendation: Watch List**

#### **Introduction**

In 2008, USTR maintained Brazil on the Special 301 Watch List, citing a continuing need for improved legislation and the hindrance of protection of rights in the areas of trademarks, patents, and data protection. In addition, USTR noted its desire that Brazil accede to, and implement, the WIPO Internet Treaties. Unfortunately, IACC members report little progress in these areas over the course of the past year, and accordingly recommend that Brazil be retained on the Watch List in 2009. While some progress has been made in recent years, much remains to be done – particularly in the areas of effective border control measures, retail sales of counterfeit goods which continue to supplant the legitimate market in a number of product sectors, and ensuring the availability of effective and deterrent penalties for violations of IP rights. IACC members continue to report significant concerns, and a lack of necessary progress, in those areas discussed in its 2008 submission. The most serious of these are the need for more effective border controls, and the need for Brazil’s government to work more closely with its neighbors in stemming the flow of illicit goods throughout South America.

Members report no significant increases in the amount of public resources devoted to Customs and law enforcement aimed at improving the detection of infringing goods. The Brazilian Federal Treasury (“BFT”) has made efforts at modernizing detection technology in major ports, but those efforts have reportedly been blocked by the Public Prosecutors. The IACC previously urged the adoption of a centralized customs recordation system as a means of improving counterfeit detection and cooperation between personnel in Brazil’s ports. While we were pleased by the BFT’s announcement of a new system, “Harpia”, which will connect the existing databases in Brazil’s ports; members report that the new system is not yet operational, and it remains to be seen how effective Harpia will be in practice.

The Coalition’s members in Brazil also remain frustrated by the lack of consistent criminal prosecutions, and the government’s failure to take action on numerous deficiencies in the country’s legislative regime.

#### **Nature and Scope of Counterfeiting and Piracy in Brazil**

The problems of counterfeiting and piracy in Brazil are tied in part to the country’s demographics and its geography. As the largest consumer market in South America, it has become an end-market for inexpensive counterfeit and pirated products, manufactured domestically and abroad. The importation of those products in the latter category is facilitated by Brazil’s long, and porous border with its neighbors –

particularly Paraguay – which offers numerous routes that can be exploited by smugglers with relative ease. While some counterfeit goods are produced locally, the majority appear to have been produced elsewhere. As noted in the IACC’s submission in 2008, Brazilian Customs has made improved enforcement efforts in the traditional crossings between Brazil and Paraguay, but alternative routes have sprung up in other areas (e.g., through ports in the Northern Cone); and there seems to be little net improvement with regard to the overall volume of counterfeit and pirated products seen in the marketplace.

As is the case in most consumer markets for counterfeit goods, China appears to be the most significant source of the products flowing into Brazil. This traffic tends to flow via maritime routes, both directly into Brazil, and via land routes from elsewhere in Latin America after entry through one of the continent’s Free Trade Zones. As in 2008, IACC members continue to report the importation of counterfeit components into Paraguay, which are subsequently assembled prior to their final shipment to the Brazilian market.

IACC members report that counterfeit and pirated products across a broad range of industry sectors remained widely available in 2008. These include apparel and footwear, luxury goods, automotive parts, personal care and health/beauty products, entertainment software, motion pictures, and music, all of which can be readily found in both retail stores and *feiras* in cities throughout Brazil.

Conducted in 2007, in cooperation between the US Chamber of Commerce, the National Association to Protect Intellectual Property (ANGARDI) and IBOPE, a Brazilian consultancy, the most recent study of the economic harm attributable to counterfeiting in the apparel, footwear, and toy sectors exceeded US \$26 Billion.<sup>47</sup> This underscores the need for substantial improvements in both the enforcement of intellectual property rights and with regard to consumer awareness and education programs.

## **Legislation**

In its 2008 recommendations to USTR, the IACC noted its concern about reports that the Brazilian Congress intended to give expedited consideration to Bill No 1893/2007. That legislation was introduced with the intent of authorizing cross-retaliation against the United States (in response to the purported failure of the U.S. to comply with a WTO decision in a cotton subsidies case brought by Brazil). IACC members have reported recently that the Congress appears prepared to move forward with the legislation, which could have severe negative effects on American IP rights-holders in Brazil. The imposition of such trade barriers would likely have the effect of significantly increasing the cost to consumers in Brazil seeking to purchase legitimate products.<sup>48</sup> Such action

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<sup>47</sup> “Pais perde ‘uma CPMF’ por ano com pirataria, mostra pesquisa,” G1 Globo, available at <http://g1.globo.com/Noticias/o.,PIO235581-0356.00.html>.

<sup>48</sup> Price disparity between counterfeit and pirated goods, and their legitimate counterparts, has been one of the most frequently-cited reasons for consumers’ decisions to purchase illicit goods, particularly with regard to digital products such as software, music, and motion pictures, in Brazil and elsewhere.

by the government would be unfortunate in light of the progress that has been made in Brazil in recent years. Bill 1893/2007 has moved with some speed in the Congress, and several permanent commissions were favorable to it. The Foreign Affairs Permanent Commission (CRE) has sought to undertake an analysis of the legislation, though according to the most recent information received from members in the region, the bill has not yet been sent to the CRE for review.

Last year, the IACC noted its support for the enactment of Bill No. 333/1999 which the Brazilian Congress has failed to act on for nearly a decade. That legislation would increase prison terms for counterfeiting to a minimum of two years to a maximum of four years. More importantly though, it would remove a substantial practical impediment to prosecutors' ability to bring cases against trademark counterfeiters.<sup>49</sup> Brand owners are hopeful that the Brazilian Congress' Anti-Piracy Commission will present a persuasive report to the new Congress' President, and that 333/1999 will be brought up during the plenary session.

Brand owners have also noted their support in recent years for the introduction of legislation that would establish specialized IP courts in Brazil – both to alleviate the significant delays that rights-holders frequently experience in pursuing remedies, and to improve the expertise of the members of the judiciary handling such cases. No such legislation was introduced in the past year, and we have received no reports of any high-level or serious discussion regarding the adoption of such a plan.

### **Border Control and Enforcement Actions**

IACC members are greatly concerned with the current level of enforcement in Brazil, where there appears to have been an across the board decrease in the number of raids, the number of individuals detained or imprisoned, and the number of shipments seized by Customs personnel. A member provided the following data compilations to illustrate.

Number of Raids

	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>JANUARY</b>	<b>21</b>	<b>58</b>	<b>14</b>
<b>FEBRUARY</b>	<b>55</b>	<b>51</b>	<b>97</b>
<b>MARCH</b>	<b>71</b>	<b>75</b>	<b>15</b>
<b>APRIL</b>	<b>22</b>	<b>35</b>	<b>32</b>

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Accordingly, there is concern that a decision by the Brazilian government which raises the cost to consumers of legitimate goods, could in turn result in a concurrent increase in consumer demand for the illicit counterparts.

<sup>49</sup> See IACC 2008 recommendations for discussion of how current penalty levels hinder prosecution of counterfeiting offenses.

<b>MAY</b>	<b>118</b>	<b>105</b>	<b>33</b>
<b>JUNE</b>	<b>36</b>	<b>69</b>	<b>58</b>
<b>JULY</b>	<b>30</b>	<b>57</b>	<b>39</b>
<b>AUGUST</b>	<b>35</b>	<b>54</b>	<b>28</b>
<b>SEPTEMBER</b>	<b>33</b>	<b>25</b>	<b>77</b>
<b>OCTOBER</b>	<b>31</b>	<b>29</b>	
<b>NOVEMBER</b>	<b>34</b>	<b>140</b>	
<b>DECEMBER</b>	<b>16</b>	<b>68</b>	
<b>TOTAL</b>	<b>502</b>	<b>766</b>	<b>393</b>
<b>1st Semester</b>	<b>323</b>	<b>393</b>	<b>249</b>
<b>2nd Semester</b>	<b>179</b>	<b>373</b>	<b>144</b>

While statistics from the last quarter of 2008 were not available, there was a 36% decrease in the number of raids conducted during the first half of 2008.

#### Detentions / Imprisonments

<b>2007</b>	<b>2008</b>
<b>23.716</b>	<b>17.370</b>

Detentions and imprisonments decreased in 2008 by nearly 27%.

#### Customs Retentions

<b>2007</b>	<b>2008</b>
<b>2269</b>	<b>2137</b>

Customs retentions meanwhile decreased by nearly 6% over the past year.

IACC members continue to be frustrated by the lack of a centralized intellectual property database and of formal, national customs recordation system for intellectual property rights, but are encouraged by the announcement of the Harpia system (see above). Much work remains to be done however, before rights-holders can expect significant improvement in the environment for intellectual property rights. Isolated efforts were made in 2008 by Brazilian Customs to protect against the entry of, and to seize, illegal products, but these efforts are far from sufficient to address the massive volume of counterfeit and pirated goods coming into and through Brazil. Far more needs to be done to considerably decrease the incidence of counterfeiting and piracy within the country.

The Brazilian government must commit to providing greater resources to the border control problem if significant progress is to be made in reducing the influx of counterfeits into the country.

### **Criminal Enforcement**

As was the case with Customs enforcement in 2008, there appears to have been a drop-off in the level of criminal enforcement, though a less pronounced one. In 2007, members reported 8,698 police inquiries into suspected piracy and counterfeiting offenses – up nearly 25% from the previous year. In the past year however, the number dropped to 8,582. The IACC had encouraged the Brazilian authorities to further intensify its enforcement efforts, and to build upon the successes of specialized anti-counterfeiting enforcement teams and facilities in Rio, Pernambuco, Sao Paulo, and Parana. Regrettably, the achievements of those model programs have not been duplicated elsewhere in the country. There is a continued need for more specialized training of both State Police and Federal Police, the lack of which has been seen as a hindrance to more effective and efficient investigations and enforcement actions.

Coalition members also reiterated concerns noted in previous years' filings related to the general reluctance of prosecutors to pursue cases against counterfeiters and pirates, in part due to the minimal penalties available for IP offenses. Prison sentences for product counterfeiting range from a minimum of one month to a maximum of 12 months, offering negligible deterrent effect. This should be addressed with the adoption of Bill No. 333/1999, discussed in the legislative issues section above.

### **Public Education**

One of the bright spots reported by IACC members in 2007 was the increased public awareness that had resulted from significant media coverage and from education campaigns led by both the public and private sectors. Sadly, counterfeiting and piracy received significantly less coverage in the Brazilian press during 2008, and brand owners report the stagnation of the consumer awareness campaigns. Such campaigns are essential to addressing the demand side of the counterfeiting and piracy problem, particularly in a market such as Brazil's where retail distribution remains commonplace. It is hoped that government and industry will retrench their efforts in 2009, to reinvigorate the programs that showed much promise a short time ago.

### **Conclusion**

While the Brazilian government has made significant progress in addressing international concerns over the high levels of counterfeiting and piracy, the problems

there remain significant, and it appears that that earlier progress slowed, and in some areas regressed in 2008.

The IACC encourages the Brazilian Government to take action in the following areas in the coming year:

- Fully implement the Harpia system to improve coordination between Customs personnel in the country's many ports; ;
- 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; and
- Work more closely with the private sector in developing effective campaigns to increase consumer awareness of the threats posed by counterfeiting and piracy.

## CANADA

### **Recommendation: Watch List**

#### **Introduction**

In its 2008 submissions, the IACC reported report that the Canadian Federal government had taken encouraging and promising first steps toward legislative reform and strongly recommended the Canadian Government make IP enforcement a political priority and devote significantly greater resources to Customs, police and prosecutors, particularly at key points of entry such as Vancouver, Toronto, Montreal and Halifax. The USTR, in its 2008 Special 301 Submissions, reported that Canada will remain on the Watch List, subject to essential progress on key issues.

For 2008, IACC's members report that no progress has been made on these key issues. The Canadian Federal government has neither enacted nor tabled legislation reforming its IP laws. Therefore, serious obstacles to effective enforcement of intellectual property rights in Canada remain.

#### **Legislative Progress**

Following the “all party” Industry Committee’s February 6, 2007 report to Parliament calling for government action on copyright reform, counterfeiting and piracy, on March 20, 2007, the Standing Committee on Public Safety and National Security decided to hold information sessions on counterfeit goods in Canada, with an emphasis on the health and safety risks presented by counterfeit products.

On March 21, 2007, 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.

Meetings were held in spring 2007, and both Committees heard testimony from experts, interested persons and representatives of departments and agencies engaged in the fight against counterfeiting and piracy in Canada.

On June 4, 2007, the Standing Committee on Public Safety and National Security tabled its report entitled “Counterfeit Goods in Canada – A Threat to Public Safety” in the House of Commons.<sup>50</sup> This report concluded in part that:

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<sup>50</sup> The full report can be found at:  
<http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?COM=10804&Lang=1&SourceId=209854>

“[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 Report presented fourteen specific recommendations for reform.

On June 20, 2007, the Standing Committee on Industry, Science and Technology tabled its report entitled “Counterfeiting and Piracy are Theft” in the House of Commons.<sup>51</sup>

This report 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.”

Nineteen (19) specific recommendations were presented, including:

- New criminal provisions, including legislation making it an offense 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;
- Canada Border Services Agency and law enforcement authorization to target, detain, seize, and destroy counterfeit and pirated goods on their own initiative;
- The provision of adequate resources to the RCMP and Department of Justice to effectively address counterfeiting and piracy; and

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<sup>51</sup> The full report can be found at:

<http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?COM=10476&Lang=1&SourceId=213200>

- 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.

The Federal Government issued substantively identical responses to both reports. In its responses, the 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 stated that the Minister of Public Safety has been “tasked” to work with other Ministers “to develop options to strengthen and modernize Canada’s enforcement regime.”

The first steps toward the process of legislative reform were affirmed in the October 16, 2007 Throne Speech in which it was stated:

“[O]ur government will improve the protection of cultural and intellectual property rights in Canada, including Copyright Reform.”

To the knowledge of the IACC’s Canadian members this was the first express reference to intellectual property rights in a Throne Speech.

IACC’s members awaited the introduction of specific legislative amendments, proposals and initiatives consistent with the specific recommendations presented. However, a Federal election intervened and no legislative amendments relevant to IP were passed prior to Parliament being dissolved.

The November 19, 2008 Throne Speech once again hinted at legislative reform:

“Our Government will proceed with legislation to modernize Canada’s copyright laws and ensure stronger protection for intellectual property.”

Still, no new legislation has been tabled with the new Parliament. Thus, Canada’s existing legislation and the lack of devoted resources to intellectual property matters continue to present an obstacle to effective protection of intellectual property rights.

## **Legislative Gaps**

The gaps in Canada’s legislation identified in previous IACC reports, acknowledged by the recommendations by both Standing Committees, remain.

## **Cooperation, Resources and Coordination**

Border enforcement issues remain, but resource issues have now joined the “reactive approach” and legislative inadequacies identified in previous submissions. 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, brand 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.

Given the RCMP’s resource issues, IACC members continue to try to enlist the assistance of municipal police services in certain centers. Lack of support and involvement by Crown Prosecutors further dissuade law enforcement involvement. 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 trade-marked merchandise is at issue. As well, in circumstances where law enforcement has taken positive steps, Crown Prosecutors are declining to proceed with the case for reasons that are far from clear and objectively supportable. For example, in December 2007 the Toronto Police Services executed approximately seven (7) separate search warrants simultaneously. The execution resulted in the seizure of over \$12,000,000.00 in counterfeit apparel, accessories, shoes and luxury goods. One of the accused was a wholesaler/importer who had been previously caught dealing in counterfeits and had shown the undercover investigator how to be careful not to be caught selling counterfeits. The Crown Prosecutor decided not to proceed with the criminal charges. The counterfeiter requested return of the thousands of counterfeit items that the police had seized. The Crown did not seek an Order of the Court for destruction of the counterfeits. The matter is pending.

In a separate matter, the Vancouver Police seized thousands of counterfeit apparel and related items from a business/individual. Over thirty (30) different brands were seized. The individual was believed to be supplying counterfeit products to 7 websites and at least one retail location, all based in the Vancouver area. The individual had previously been served with Federal Court of Canada Anton Piller Orders on behalf of rights holders; had been convicted of criminal charges relating to counterfeiting; had paid a \$25,000.00 fine and had been sued successfully by approximately eleven (11) different rights holders, which lawsuits resulted in permanent injunctions being ordered by the Court in addition to other relief. After extensive disclosure of relevant documents, the

Crown Prosecutor declined to proceed with the vast majority of the charges. In particular, the Crown did not proceed with any of the charges relating to the merchandise seized during the execution of the search warrant and affecting thirty (30) separate brand owners. More significantly, the Crown declined to seek a Court directing the forfeiture and destruction of the seized counterfeit items. The Crown advised the rights holders to deal with it themselves. The matter is still pending.

IACC members believe that 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 needed to 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 IACC members report significant decisions in the civil context in which Courts have awarded significant damages, criminal proceedings consistently result in nominal fines, which, in turn, leads 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 IACC urges the Government of Canada to implement swiftly the recommendations of the two (2) Standing Committees, and, in conjunction with that legislative reform, to allocate sufficient resources to permit the effective use of the new and amended legislation.

## CZECH REPUBLIC

### **Recommendation: Watch List**

#### **Introduction**

In each of the past two years, the IACC has recommended the inclusion of the Czech Republic on USTR's Special 301 Watch List. In spite of positive rhetoric on the part of the government since that time, little action has been taken during the past two years to indicate that the Czech government treats the issue of IP protection and enforcement with the level of seriousness that it should. Members of the IACC remain concerned by the continued existence, and in some cases expansion, of open-air markets on the German and Austrian borders.

As noted in previous years' submissions by the IACC and others, these markets have become havens for individuals trafficking in counterfeit and pirated goods. In spite of occasional enforcement actions, the trade in illicit goods continues to flourish in these areas. Focused, and sustained enforcement actions against those operating in these markets is needed; along with more stringent licensing requirements, and the enactment of legislation to extend liability to all of those who profit from the illegal activities being committed.

#### **Nature and Scope of Piracy and Counterfeiting**

Among the dozens of markets operating along the German and Austrian borders, IACC members have found a wide variety of illicit goods available, including, but not limited to spirits, tobacco, pirated DVDs and compact discs, apparel, footwear, and luxury goods. Counterfeit product appears to be sourced largely from China, Vietnam, and Russia.

#### **Enforcement**

Czech Customs authorities engaged in an extended campaign of market raids during April, May, and June of 2008, which temporarily reduced the availability of counterfeit and pirated goods in those markets where the presence of enforcement personnel was most pronounced. However, the campaign appears to have had little or no lasting effect, as the trafficking returned to normal levels after the program was concluded.

There has been no reported reduction in the availability of infringing goods, and local law enforcement officers generally make little attempt to continue the work done by Customs. Absent more sustained efforts, and lacking better coordination and cooperation between federal and local enforcement personnel, it is doubtful that the situation will improve. The Czech government has been unwilling to adopt creative enforcement strategies, including the landlord liability strategies which have been

successful in other countries.

IACC members continue to report a lack urgency by the government in addressing the need for better enforcement practices. In addition, the Czech Ministry of Trade and Industry has refused to consider strengthening market licensing requirements, and members report that Czech authorities are even failing to enforce existing market licensing rules. The current rules, which require the managers of the markets to know the identity of the individual in control of each and every stall in the market are wholly insufficient to discourage illegal activities. The lax regulation encourages the market managers to remain willfully ignorant of the illegal conduct of their vendors.

Stronger, and more consistently enforced 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.

As reported last year, law enforcement agencies still face significant difficulties in obtaining search warrants, hindering their ability to investigate fully the criminal activities taking place in the markets or to target storage facilities. As a result, any action taken is unlikely to have much of an impact on the availability of counterfeits in the market – any materials seized can be replaced with little interruption of business.

Where enforcement action has been taken, the IACC is unaware of any case in which courts have imposed any sentence which might be considered a deterrent to future violations.

## **Conclusion**

In light of the considerable lack of positive action taken by the Czech government during the past year, the IACC re-iterates each of the action items enumerated in its 2008 Special 301 recommendations. 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; and
- 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**

Counterfeiting and piracy in Mexico remained a major concern for IACC members in 2008, with brand owners citing a range of continuing problems including:

- Domestic manufacturing and finishing of counterfeit goods;
- Large-scale retail distribution;
- Transshipment to other markets;
- The need for increased enforcement, particularly at the notorious street markets;
- Insufficient resources for administrative and law enforcement authorities;
- The lack of deterrent sentencing; and
- An overly-formalistic approach to IPR enforcement.

#### **Nature and Scope of Counterfeiting in Mexico**

As reported in 2008, manufacturing of counterfeit goods remains prevalent in Mexico, with members reporting specialization in certain regions. For example, in the region of Guanajuato, counterfeiting of leather goods in the apparel, footwear and accessories sectors continues to be problematic. Other regions have seen increases in the market penetration of counterfeit pharmaceuticals and spirits. Retail level infringement, particularly in well-known markets, such as Mercado Libertad in Guadalajara, spans a variety of product sectors and remains perhaps the most-widely identified problem for Coalition members in all industries.

#### **Customs**

IACC members were largely positive in their comments about the work performed by the Mexican Custom Service in 2008. As has been reported previously, Mexican Customs personnel have no statutory power to detain a shipment under IP violations, and require a judicial order issued by the competent authority (the AGO or IMPI) to detain infringing goods. The lack of a centralized recordation system has also been a source of concern for members. However, it should be noted that Customs personnel may detain shipments for purposes of investigating taxation issues, and will in some cases provide notice to the IP holders during this period, thereby allowing rights-holders an opportunity to obtain the necessary court order to prevent the release of goods

suspected to infringe their rights. Members also report the assignment of a small number of Customs agents to deal exclusively with IP-related issues and to coordinate with private-sector rights-holders and other law enforcement personnel to improve enforcement.

Mexican Customs and IMPI are reported to be moving forward with a database on Industrial Property right holders, and have actively sought the assistance of rights-holders and their local counsel to enhance the detection and enforcement of counterfeit shipments.

In spite of these improvements, the high volume of counterfeit product available in the Mexican market demonstrates that there remains a great deal of room for improvement. Mexican Customs must establish more efficient methods to curb the smuggling of counterfeit products into the country; this would be a much easier task if the legislative impediments – such as the above-mentioned lack of authority to seize goods in the absence of a court order – were removed.

Last year, the IACC suggested the extension of criminal or administrative liability to customs brokers who knowingly facilitate the trafficking of counterfeit goods into and through Mexico. To date, no such legislation has been introduced. At a minimum, administrative sanctions should be available to be imposed on the brokers that are involved in counterfeiting activities.

## **Enforcement**

Though the Mexican Government has taken some steps with regard to improving IP enforcement, rights-holders still face a number of obstacles in enforcing their rights.

### *Administrative Enforcement*

Administrative enforcement through IMPI, provides brand-owners with limited success, due largely to the minimal penalties in which such actions generally result – the imposition of a (nominal) fine, temporary closing of the establishment, or the administrative arrest of the infringer for no more than 36 hours. Increased penalties are necessary to increase the deterrent effect of the laws.

Members also continue to report the need for better cooperation between IMPI and the other authorities tasked with enforcing intellectual property rights. Further, members continue to report long delays in the adjudication of cases – in some instances, up to five years between filing and final disposition. The extended timeframe for these proceedings, and the inefficiency of proceedings related to the disposition of infringing goods results in significantly increased expenses to rights-holders, while decreasing the overall deterrence of enforcement.

## *Criminal Enforcement*

Members report a continuing need for more extensive training of prosecutors, noting that even some assigned to specialized units and the Expert Division of the Attorney General's Office often have limited knowledge of intellectual property matters, and little practical experience trying IP cases.

As in administrative proceedings, the destruction of infringing goods often suffers from unnecessary delays; the verification of the disposition of infringing goods also remains an issue. While members have been pleased by increases in product seizures, more criminal convictions are a prerequisite to decreasing the volume of pirated and counterfeit goods in the market.

In addition, better training of law enforcement officers is necessary to effectively deal with the apparent growth in violent organized criminal gangs engaged in the trade of counterfeit and pirated goods. In one incident in October 2008, at the Mercado Libertad, law enforcement officials and brand representatives came under violent attack by armed vendors, and were forced to discontinue their raid. It was apparent that the officers involved were not prepared or equipped to deal with such a response.

## **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:

- Application of greater resources to border control issues and verification of import documentation;
- 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;
- Prosecutors should place a greater emphasis on increasing the number of criminal indictments related to IP;
- Removal of structural impediments to Customs' seizure of suspected counterfeits, in the absence of a court order;
- 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 2008, the Office of the US Trade Representative maintained the Philippines on the Special 301 Watch List, citing a number of continuing problems in the country's IPR legal and enforcement regimes, including the need to strengthen the Optical Media Board in response to reports of increased levels of piracy, and the need for more effective Customs enforcement. Rights-holders among the IACC's membership report mixed results in the Philippines over the past year, and insufficient progress to warrant its removal from the Watch list.

IACC members concerns remain largely unchanged in recent years, as rights-holders continue to cite the need for the application of greater resources for enforcement, long delays in the judicial system, insufficient transparency, the flourishing of large-scale retail markets, and a reluctance of enforcement personnel to take a proactive approach to IP enforcement. In addition, members reiterated their concerns regarding the need for improved Customs measures to combat the influx of counterfeit goods from abroad and the transshipment of illicit goods through the Philippines and on to third countries.

#### **Nature and Scope of Counterfeiting in the Philippines**

Trademark counterfeiting in the Philippines remains a significant concern for a broad range of product sectors, including companies in the food and beverage, pharmaceutical, automotive, and apparel industries; while online and hard goods piracy remains a severe problem for producers of business and entertainment software, motion pictures, and music.

The National Committee on Intellectual Property Rights reported nearly 2,000 operations in 2008, resulting in the seizure of over 5 million counterfeit items. The Optical Media Board, which is responsible for regulating the manufacture, mastering, replication, import and export of optical media has reported that piracy is down by 2% in the past year – a result of focused campaigns against organized piracy syndicates.<sup>52</sup> In spite of these positive reports by the government of the Philippines, rights-holders have disputed these as overly-optimistic, noting that pirates continue to hold as much as 80% of the market share in the music industry, and a similarly high market share in the recorded music sector. Trademark owners, likewise, point to the continued vitality of notorious retail markets such as Greenhills, where counterfeit goods remain readily available (as has been the case for years).

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<sup>52</sup> See, "Piracy Operations in RP down by 2% - OMB", GMA News. May 26, 2008, last accessed 1/09/09. Available at: [http://www.omb.gov.ph/newsdetails.jsp?news\\_id=1](http://www.omb.gov.ph/newsdetails.jsp?news_id=1).

As noted in the IACC's 2008 submission, the transshipment and export of domestically manufactured goods from the Philippines to other Asian markets, particularly in the apparel, consumer electronics, toy, and cosmetics sectors, remains a concern of US-based brand owners.

## **Laws and Regulations**

On June 21, 2008, President Gloria Macapagal-Arroyo signed Executive Order No. 736, creating the National Committee on Intellectual Property Rights (NCIPR), an intergovernmental body to be jointly chaired by the Intellectual Property Office (IPO) and the Department of Trade and Industry (DTI). The NCIPR is tasked with formulating and implementing national plans on IPR protection and enforcement, and includes a range of public sector stakeholders with jurisdiction over various aspects of IP-related issues in the Philippines.<sup>53</sup> It is hoped that the efforts of the NCIPR will have a positive impact on interagency coordination efforts, and that the order from President Macapagal-Arroyo is indicative of an increased political will that is essential to improving the IP enforcement situation in the Philippines.

In September of last year, the Bureau of Customs (BOC) issued Customs Administrative Order 08-2008, creating a permanent Intellectual Property Rights Division (IPRD) with the BOC. The IPRD was created to enhance efforts at improving border control measures and to curb cross-border movement of IPR-violative goods. Among the IPRD's enumerated duties are: handling applications for recordation of IP rights, collecting and managing data related to IP enforcement, coordinating Customs' enforcement activities, and providing IPR training to border control personnel. The announcement of the IPRD is a welcome sign of progress in an area where improvements are sorely needed. IACC members will continue to monitor the activities of the IPRD to determine the effectiveness of the division and its impact on the overall border enforcement environment.

As discussed in previous years' submissions, there is a need for the Philippines' government and its courts to address long-standing 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. The IACC supports the introduction of legislation that would enact these recommendations.

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<sup>53</sup> See, "PGMA Bolsters Promotion, Protection of Intellectual Property Rights", Office of the President, July 6, 2008, at: <http://www.news.ops.gov.ph/archives2008/jul06.htm> (last accessed: Feb. 15, 2009).

## **Border Control**

While IACC members are pleased by steps such as the creation of the IPRD (discussed above), the Bureau of Customs continues to experience fundamental problems such as the lack of sufficient manpower and resources. These issues contribute to right-holders' complaints regarding the need for more pro-active enforcement action by Customs personnel and a more responsive attitude in dealing with rights-holders.

More specialized IPR training is needed to improve the efficiency of operations, and members remain hopeful that the efforts of the IPRD and NCIPR will address this need more adequately in the coming year. Members continue to report that while seizures are made by Customs, the inefficient court system makes follow-up criminal investigations and prosecutions a rarity.

## **Enforcement**

Members of the Coalition reported significant deficiencies in IPR enforcement in 2008, citing in particular the lack of deterrent penalties, and failure of federal law enforcement to take significant action against counterfeiters and pirates in well-known retail markets. In addition, there have been some reports of apparent disinterest of law enforcement in addressing counterfeiting in a number of product sectors, including apparel and pharmaceuticals.

Where criminal prosecutions of counterfeiting offenses have taken place, brand owners have expressed concerns that the maximum term of imprisonment (currently 6 years) is insufficient to deter offenders, and also note that courts frequently hand down sentences of probation, with little or no time in prison, even in the case of large-scale counterfeiting and piracy. IACC members continue to report positively on the cooperation and responsiveness of the National Bureau of Investigation. However, as in the case of Customs enforcement, the efforts of law enforcement in investigating offenses are often discounted as a result of significant delays in the prosecution and adjudication of cases. Where cases are brought, brand owners often face significant hurdles as a result of inconsistent and contradictory rulings by courts. There remains a significant need for better training of the judiciary and prosecutors.

## **Conclusion**

The IACC reiterates its earlier recommendations that the government of the Philippines:

- Enact legislation to amend the Tariff and Customs Code to make transshipment of infringing goods through Philippine territory more difficult;
- Provide more resources and specialized training to improve border enforcement, including against goods in transit, and in free trade zones;

- Take targeted enforcement action against trademark counterfeiters and copyright pirates operating in large retail markets throughout the country; and
- Provide necessary training to prosecutors and the judiciary, and establish specialized IP tribunals to handle civil and criminal cases, as a means of addressing the long delays experienced by rights-holders.

## TURKEY

### **Recommendation: Watch List**

#### **Introduction**

In 2008, the Office of the US Trade Representative lowered Turkey from the Special 301 Priority Watch List to the Watch List, citing “notable progress on copyright enforcement ... impositions of deterrent-level penalties by the courts, improved pharmaceutical protection, and increased cooperation between law enforcement authorities and the private sector.” While the IACC acknowledges the progress that has been made in recent years in Turkey with regard to the above matters, IACC members continue to report a range of concerns related to trademark protection and enforcement, where progress has been less pronounced. In May of last year, Turkey was listed as one of the top sources for counterfeit seizures at the borders of the European Union; and as the top country of origin for seizures in the food and beverage sector – accounting for over 45% of all seizures. Counterfeiting remains severe in other sectors – Turkey accounted for 28.68% of cosmetics and personal care products seized (2<sup>nd</sup> overall), 19.44% of sportswear (2<sup>nd</sup>), 10.32% of other apparel (2<sup>nd</sup>), 11.65% of fashion accessories (third), 1.24% of footwear (5<sup>th</sup>), and 1.17% of electrical goods (8<sup>th</sup>).<sup>54</sup>

While a relatively small portion of Turkish counterfeits reach the US market, IACC members point to the displacement of their legitimate goods in the Turkish market and throughout Europe as reason to maintain Turkey’s place on the Watch List in 2009. Further, the Coalition would support consideration of an Out-of-Cycle review of Turkey’s trademark protection and enforcement regime.

#### **Nature and Scope of Counterfeiting in Turkey**

Coalition members from a variety of product sectors reported significant counterfeiting problems during the past year; these were most pronounced in the food and beverage, apparel, personal care products, and agricultural and bulk chemical sectors. The scope of issues faced by brand owners exceeds even the scope of industries affected, including problems of manufacturing, border controls, lack of deterrent penalties, and the lack of sufficient training and understanding of intellectual property issues by law enforcement, prosecutors, and the judiciary, among others.

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<sup>54</sup> See, “Report on Community Customs Activities On Counterfeit and Piracy.” European Commission. Available at: [http://ec.europa.eu/taxation\\_customs/resources/documents/customs/customs\\_controls/counterfeit\\_piracy/statistics2007.pdf](http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/counterfeit_piracy/statistics2007.pdf), last accessed Feb. 17, 2009.

## **Laws and Regulations**

Brand owners have reported a number of concerns regarding the Turkish legal regime. Among those most frequently cited are the lack of legal certainty and coherence with regard to decisions rendered by the Courts and the Trademark Office, and the lack of sufficiently detailed, published court opinions to elucidate the legal justifications on which those decisions were based. As a result, members report that their efforts at asserting and defending their rights are often hampered by a reluctance on the part of law enforcement and prosecutors to proceed with actions against infringers.

Members also point to the misapplication by the Trademark Office and the Courts of basic concepts of trademark protection including distinctiveness, well-known trademarks, and likelihood of confusion. This has led to significant difficulties, for example, in preventing the marketing of look-alike products which imitate a manufacturer's distinctive color-combinations. Protection of colors as a trademark, and particularly of distinctive combinations of colors, has been widely-recognized as sufficient to establish trademark rights, but Turkish Courts have, in the experience of the IACC's members, rarely enforced such rights, even in clear cases of copying.

## **Border Control**

IACC members continue to report serious problems with regard to the import, export, and transshipment of counterfeit goods through the Turkish market. The lack of effective border control measures is exemplified by above-described high volume of Turkish-origin counterfeit goods, from a variety of product sectors, seized at European borders. The Turkish government should significantly increase the resources available to Customs, and provide for more intensive, specialized IPR training for Customs personnel.

The IACC was pleased to receive a positive report from a correspondent Turkish law firm regarding a Turkish Court of Appeals decision involving remedies of rights holder against goods in transit. The Court of Appeals held that since a defendant ordered and imported a shipment of counterfeit goods without a proper license, he should have known that his actions would constitute trademark infringement. According to the Court, the fact that the goods were not subject to domestic trade did not alter the fact that infringement had occurred. The Court drew essentially no distinction between goods intended for the Turkish market, and goods merely passing through Turkish territory, but bound for another market.<sup>55</sup>

## **Enforcement**

Members cite a lack of deterrent sentences in trademark enforcement actions in Turkey,

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<sup>55</sup> See, Borderwatch – Turkey at, <http://www.lawincontext.com>. Baris Kalayci, Mehmet Gun & Partners.

a factor that may be attributable in part to other previously-mentioned concerns raised by rights-holders, including the need for more specialized training for prosecutors and judges. It is hoped that as the courts develop greater expertise, they will develop concurrently a greater appreciation of the importance of strong deterrence in bringing down the levels of counterfeiting in Turkey.

There is some consensus that the adjudication of cases is too often subject to unnecessary delays, and some members note problems with apparent protectionism in the courts – Courts appear reluctant to rule against Turkish companies in actions brought by foreign-based rights-holders. In some cases, that reluctance to rule against local (and at times well-connected or influential companies) has given rise to the perception of corruption.

In spite of these concerns, Coalition members acknowledge that Turkish jurisprudence in the area of intellectual property remains in the early stages, and note with optimism the speed of its development.

## **Education and Technical Assistance**

Brand owners have reported their disappointment that, to date, there are no local professional bodies or committees which focus on the development and improvement of the Turkish legislative and enforcement regimes. At present, there are some brand owner associations, but these organizations fail to draw upon the full range of legal professionals, academics, and government personnel who could provide a more comprehensive approach to addressing the current impediments faced by IP rights-holders. The Turkish government should make efforts in 2009 to work more closely with the private sector to address their common concerns with regard to IPR.

## **Conclusion**

The IACC acknowledges the strides that the Turkish government has made in recent years, with regard to copyright enforcement, but remains concerned about the pace of progress in the area of trademarks. The IACC urges Turkey to take steps in 2009 with the aim of:

- Providing additional resources and training to Turkish Customs to significantly decrease the volume of counterfeit goods exported to European markets;
- Imposing more deterrent penalties in trademark counterfeiting cases;
- Increasing IPR training available to police, prosecutors and the judiciary; and
- Engaging private sector rights holders in a cooperative effort to increase the understanding of government personnel and the public awareness about the importance of intellectual property rights and the threats posed by counterfeiting

and piracy.

## VIETNAM

### **Recommendation: Watch List**

#### **Introduction**

As in 2007, IACC members continued to report troubling levels of counterfeiting and piracy in Vietnam during 2008. As the local economy has seen significant growth in recent years, rights-holders have seen a concurrent rise in the scope and scale trademark and copyright violations. While China remains the primary source of the illicit goods available in Vietnam, domestic production appears to be increasing. It is worth noting that in certain product sectors, Vietnam ranks among the top countries of origin of seized items within the European Union<sup>56</sup> -- accounting for nearly 1% of counterfeit food and beverage seizures (9<sup>th</sup> overall) and over 4.5% of apparel and footwear (4<sup>th</sup> overall).

In 2007, the USTR retained Vietnam on the Special 301 Watch List, citing the need for improvements in its criminal, administrative, and border enforcement regimes. Though the Vietnamese government has taken some steps to address these deficiencies, IACC members recommend Vietnam's retention on the Watch List in 2009, noting continued short-comings in border controls, criminal enforcement, deterrent penalties, and the need for the application of greater resources to address all of these problems.

#### **Nature and Scope of Counterfeiting in Vietnam**

Reports of counterfeiting and piracy continued across a variety of product sectors in 2008 -- from apparel, health and beauty aids and personal care products, automotive products, and electronics to media and entertainment and food and drink. While most prevalent in and around major cities, e.g., Hanoi and Ho Chi Minh City, some members have reported increased activity in more outlying areas during 2008. Piracy of copyrighted works remains prevalent throughout Vietnam, as evidenced by a series of inspections conducted by the Inspectorate Office of the Ministry of Culture, Sport and Tourism during May of last year.<sup>57</sup> Of approximately 200 computers inspected, nearly half were found to have been installed with unlicensed software. Retail-level infringement in both street markets and more traditional brick and mortar outlets remains a problem in Vietnam, and online infringement likewise continues to be a

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<sup>56</sup> See, "Report on Community Customs Activities On Counterfeit and Piracy." European Commission. Available at: [http://ec.europa.eu/taxation\\_customs/resources/documents/customs/customs\\_controls/counterfeit\\_piracy/statistics2007.pdf](http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/counterfeit_piracy/statistics2007.pdf), last accessed Feb. 17, 2009.

<sup>57</sup> See, "Vietnam: Efforts to combat IPR Infringement Boosted", InvestIP Industrial Property Joint Stock Company News & Events. <http://www.investip.vn/news/39/67/ddetailtemplate-tinominhat-title/>, last accessed: Jan. 12, 2009.

source of concern, both for copyright and trademark owners.

While domestic production of counterfeits appears to have grown in recent years, imports from China continue to dominate the market, exploiting the relatively porous border between the two countries. Vietnamese officials have estimated that in excess of three-quarters of the counterfeit products found in the domestic market are sourced from China.

## **Laws and Regulations**

The Vietnamese government enacted three laws between 2004 and 2005, which provide the basis of Vietnam's anti-counterfeiting legislation. These include the Law on Intellectual Property (IP Law), the Competition Law, and the Commercial Law, the latter dealing with administrative and civil enforcement. These were followed by the issuance of Decrees (Nos. 103/2006/ND-CP, 105/2006/ND-CP, and 106/2006/ND-CP) in September 2006 to provide further guidance on IP registration and enforcement, and which clarified various issues including the types of evidence needed to confirm that infringement had taken place. The laws also increased the maximum fines for counterfeiters and copyright pirates to five times the value of the infringing goods. Additional directives were promulgated in 2008, concerning IP enforcement and border control measures. While the IACC welcomes the Vietnamese government's willingness to continue examining its laws and regulations as they relate to the provision of effective protection of intellectual property rights, members remain concerned about structural and practical impediments to enforcing their rights, particularly with respect to criminal actions against counterfeiters and pirates.

## **Border Control**

Coalition members continued to report a lack of effective border controls in Vietnam throughout 2008. Members noted that customs authorities focus primarily on the collection of taxes levied on imports and exports, rather than regulating the entry of counterfeit and pirated products. In addition, the country's long land border with China offers many routes by which smugglers may transport illicit products into (and out of) the country with relative ease. This problem is compounded by the lack of human and material resources devoted to addressing IP enforcement at Vietnam's borders, along with the need for more specialized training for those resources that are engaged. Some IACC members however, have reported positive experiences in working with Vietnamese Customs – there seems to be a willingness to assist brand owners, though perhaps not always the means to take the necessary action.

The issuance of the Regulation on Receiving Petition of Control of Imports and Exports in Relation to IPR, on March 31<sup>st</sup> of last year is seen as a positive step, though members have not reported on the regulation's effectiveness. Additional regulations concerning the verification of infringements, 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 would be welcomed by rights-holders.

## **Enforcement**

Our members remain frustrated by the lack of resources provided to enforcement agencies during the past year, and the Vietnamese enforcement regime's over-reliance on administrative enforcement tools – viewed by most rights-holders as insufficient to provide the type of deterrent effect necessary to make a significant impact on the volume of counterfeit products available in the market. IACC members believe that more consistently deterrent penalties are essential to achieving a significant reduction in the level of counterfeiting and piracy in the Vietnamese market.

IACC members are also deeply concerned by provisions in the Vietnamese Criminal Code, which create obstacles to the criminalization of counterfeiting and copyright piracy. For example, under the current Vietnamese criminal law, only individuals who commit IPR infringement can be criminally prosecuted; while in practice, most IPR infringements are committed by organizations. In addition, enforcement authorities tend to be hesitant in prosecuting IPR offenders, as such offenses are often considered to not cause serious consequences. Criminal prosecution of IPR offenses remain a rarity.

IACC members remain concerned about overly-burdensome procedural requirements, e.g., requirements that rights-holders notarize and legalize declarations prior to filing declarations, in administrative enforcement actions. In addition, IACC members report that, as a practical matter, criminal enforcement remains largely unavailable. Criminal liability against counterfeiters in Vietnam requires evidence of prior sales that exceed specified numerical thresholds, failing which a violation would be deemed a mere administrative offense. These threshold requirements create a significant burden on law enforcement, rights-holders, and the judiciary, while providing a loophole that is easily exploited by infringers to avoid criminal sanctions.

On September 8, 2008, the Prime Minister of Vietnam issued Directive 28/2008CT-TTG, calling for the ministers and heads of offices and enforcement agencies to implement eight urgent measures to fight counterfeiting activities. Among the items included in that Directive was an order that the Ministry of Justice and the Ministry of Industry and Trade and National Anti-Counterfeiting Commission review and evaluate the current legal regime and propose new regulations to fight counterfeiting and piracy. It is hoped that the issues discussed herein will be given appropriate consideration during that process.

## **Education and Technical Assistance**

In October, 2008, the Hanoi's Anti-Counterfeit and Trademark Protection Association was established with the aim of creating a public-private partnership in the fight against trademark counterfeiting. The IACC applauds the group's creation as a positive step, and looks forward to working in concert with the new organization, which can play an important role in the education of consumers, law enforcement personnel, and policy makers about the threats posed by IP crimes, and the importance of strong intellectual property protection to innovation and economic development.

## **Conclusion**

The IACC applauds the progress that the Vietnamese government has made in recent years, but much remains to be done in order to ensure the effective protection of intellectual property rights in Vietnam. The IACC urges the Vietnamese government to continue its reform efforts, by:

- Enacting 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;
- Imposing deterrent penalties in administrative proceedings of piracy and trademark counterfeiting;
- Promulgating detailed border control regulations on recordation of intellectual property rights, detention and seizure of suspected infringements, destruction of infringing goods, disclosure of information to rights holders, and transfer of criminal cases to law enforcement authorities;
- Increasing training and resources for government enforcement of IPR, among border control, administrative authorities, police, prosecutors and criminal court judges; and
- Increasing public awareness about IPR and counterfeiting by organizing more seminars, conferences and training courses for enforcement authorities, businesses, and students.