



WORLD INTERNET LAW REPORT

Monthly news and analysis on Internet law and regulation from around the world

INTELLECTUAL PROPERTY

E-Shopping for Fakes: The Internet Business in Trademark Counterfeits

By Alexandra George, Lecturer in Intellectual Property Law/Senior Research Fellow at the Queen Mary Intellectual Property Research Institute, University of London. The author may be contacted at: a.e.george@qmul.ac.uk

Internet shopping is big business indeed. So too is the trend of selling fakes over the net, leading to deep concerns among brand owners about how to enforce their trademark rights in cyberspace and how to protect their customers.

Recent e-commerce trading figures show U.K. businesses sold £23.3 billion over the Internet in 2002, representing a 39 percent rise on the £16.8 billion sold the previous year.¹ In the United States, retail sales surpassed US\$45 billion in 2002.² The average European spent EUR430 online between August and October 2002, and the equivalent of EUR543 per head was spent in the United States during the same period.³

The driving forces behind this e-commerce boom are obvious: lower overheads, a global geographic catchment area, unlimited “shelf space”, and flexibility of distribution options offer advantages to online traders. Customers benefit from competitive prices, the convenience of shopping from home and having their purchases delivered directly to their doorsteps, and from being able to choose from a much broader spectrum of products and vendors than they might find in their local area. For all of these reasons, the e-shopping trend is experiencing exponential growth. And for all of these reasons and more, the trade in counterfeit goods over the Internet is a thriving sub-industry.

Counterfeit goods infringe exclusive legal rights held by a trademark proprietor. Some counterfeits, like those of luxury goods and brands are familiar. Other fakes are more sinister: pharmaceuticals, food and drink, toys,

machines and spare parts, and domestic and electrical goods masquerade as genuine products and find their way to unsuspecting consumers.⁴ Manufactured away from the watchful eye of standards regulators and distributed through a black-market where consumer protection is optional, such counterfeits carry obvious dangers for public health and safety. The counterfeiters risk civil litigation and sometimes also criminal prosecution if they are caught.

Evading law-enforcers can be easier online, so cyberspace is an appealing market for counterfeiters to ply their wares. E-counterfeiters need not keep their stock in localised warehouses that are vulnerable to raids, but can ship their products from numerous and constantly shifting sites. They can locate themselves in jurisdictions that are “soft” on intellectual property infringement and enforcement, and they can swap domain names if they find themselves under attack. Like other groups operating outside the law, counterfeiters can camouflage their identities more easily online than they could in a traditional trading context. The e-market for fakes has thus established itself as a substantial industry in its own right, and in doing so it has presented brand-owners and enforcement authorities with a new twist to an old problem.

The Age Old Problem of Fakes

Imitation is said to be the sincerest form of flattery.⁵ Flattering or not, unauthorised imitation is likely to be an offence when trademarks are involved. The proprietor of a registered trademark has exclusive rights that are infringed if the mark is used without its consent in the relevant jurisdiction(s).⁶ In the United Kingdom, “use” includes affixing the trademark to goods or their packaging, or offering or exposing the goods for sale



and offering or supplying the goods for sale under the trademark. It also includes importing or exporting goods bearing the trademark, or using the trademark on business papers or in advertising.⁷

Counterfeiting goes a step further. An E.C. Council Regulation defines counterfeits as:

“goods, including the packaging thereof, bearing without authorization a trade mark which is identical to the trade mark validly registered in respect of the same type of goods, or which cannot be distinguished in its essential aspects from such trade mark, and which thereby infringes the rights of the holder of the trade mark in question under Community law or the law of the Member State in which the application for action by the customs authorities is made”.⁸

And the TRIPs Agreement’s requires members to provide for criminal procedures and penalties to be applied in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale.⁹

Counterfeiting is an area of serious concern within Europe, recently prompting a proposed Directive on the enforcement of intellectual property rights¹⁰ and a new regulation on counterfeit and pirated goods due to come into force on July 1, 2004.¹¹ The Regulation summarises the central anxieties these laws seek to address:

“The marketing of counterfeit and pirated goods, and indeed all goods infringing intellectual property rights, does considerable damage to law-abiding manufacturers and traders and to right-holders as well as deceiving, and in some cases endangering the health and safety of, consumers. Such goods should, in so far as is possible, be kept off the market and measures adopted to deal effectively with this unlawful activity without impeding the freedom of legitimate trade”.¹²

These worries are underpinned by statistics showing that either the counterfeiting problem is growing or that customs agencies are becoming more skilful at intercepting imports of fakes, or – as seems likely – both. For example, the E.C. reported that European Customs agencies seized almost 85 million counterfeit or pirated articles at the European Union’s external border in 2002, and 50 million in just the first half of 2003.¹³ Such trends are not only found in Europe. For example, over US\$98 million counterfeit products were seized entering the United States in the 2002 Fiscal Year,¹⁴ with the total domestic value of the seized goods rising to US\$98,900,341 from US\$57,438,680 in the same period the previous year.

The range of fake goods being seized is very diverse. Informal H.M. Customs figures indicate over 1,380 seizures of counterfeit products that were being smuggled into the U.K. through the parcel-post in 2003, including fashion items (such as football shirts and watches), car parts, cigarettes, alcohol and nearly a quarter of a million fake DVDs. While some of these consignments involved organised attempts to smuggle counterfeit goods into

the country, others can probably be attributed to the success of the Internet trade in fakes.¹⁵

E-commerce has opened up worlds of opportunities when it comes to counterfeits. As the types of goods being copied strongly diversifies “away from big-name brands towards anything that will sell”, there has been a marked increase in the quantities of general consumer goods being passed off as genuine items.¹⁶ In such an environment, the risk of receiving a dubious “imitation” is all too real for shoppers who might stumble upon unscrupulous e-counterfeiters on the Internet.

The Internet: The New Supermarket for Fakes

Enter the words “fake”, “imitation” or “copy” with a noun like “watch” or “software” into an Internet search-engine, and a list of e-shops selling counterfeit products instantly appears.

Some of these e-stores are simple and uninspiring; others have sophisticated websites displaying quality photographs of their goods. Some even link to traders selling the authentic product, thus helping potential customers to compare the prices and markings of counterfeit merchandise with those of the genuine branded products. The offers on these websites are often tantalisingly attractive and really do seem “too good to be true”.

The Internet offers a smorgasbord of counterfeits of different brands and products, all of which can be bought from the comfort and relative privacy of one’s own computer. For those seduced by the glamorous images that advertisers and society have attached to branded goods, but who cannot or will not afford to pay the equally glamorous prices that tend to accompany the real thing, shopping in this supermarket of fakes is one way of at least appearing to participate in the consumption of “luxury” and fashionable goods. For other shoppers, counterfeits – whether bought as discounted genuine products or cut-price copies – help fulfil basic day-to-day needs.

Customers who purchase from websites advertising their wares as replicas or copies are arguably on notice that they cannot expect the quality associated with the product that authentically bears a trademark. *Caveat emptor!* Buyer beware! But with counterfeit luxury goods now amounting to less than one percent of goods seized at the EC’s borders,¹⁷ what about those who believe they are buying brand-name consumer goods and instead receive fakes?

Fake Pharmaceuticals

In 1998 a small, blue, diamond-shaped pill called “Viagra” was hailed as a miracle-drug for sufferers of erectile dysfunction. The fakes followed soon afterwards, leading to media reports by mid-late 2002 that Viagra had become the world’s most counterfeited drug.¹⁸

Whether these counterfeit pills are generic copies that contain exactly the same ingredients as genuine Viagra, or bogus drugs that might or might not contain any of the correct ingredients, they undoubtedly infringe trademarks in jurisdictions like the United Kingdom and the United States. In jurisdictions where the names “Viagra” and “Pfizer”, and the blue diamond tablet shape are registered trademarks of pharmaceutical company Pfizer, another trader using these signs on identical or similar products will risk proceedings for trademark infringement.

Counterfeiters of Viagra risk substantial civil lawsuits and even criminal prosecution. They are selling unauthorised medications that have not been approved by the state bodies that regulate the pharmaceutical industry and that can be seized by public law enforcement agencies in the United Kingdom as Class C drugs under the Misuse of Drugs Act 1971. However, H.M. Customs tends to confiscate these items under provisions relating to the enforcement of intellectual property rights, and during 2003 it recorded seizures of around 30,000 counterfeit Viagra tablets entering the United Kingdom through the parcel-post.¹⁹

Generic drugs are often produced by the Indian pharmaceutical industry and then exported around the world. Many other fake pharmaceuticals come from China,²⁰ and numerous online pharmacies sell look-alikes of Viagra and other popular drugs over the Internet. These websites, sometimes faking not only their products but also their whereabouts (such as the site showing a U.S. address that in fact operates out of Thailand, or the site claiming to be Canadian but that ships its drugs from India),²¹ promise authentic medical results at a much lower cost than one would expect to pay for the authentic product. Some also advertise by spamming e-mail-account holders, thus planting the idea of discretely e-shopping for pharmaceuticals in the minds of potential customers.

Unsuspecting purchasers have told H.M. Customs officers that they thought the drugs they were buying were genuine pharmaceuticals that were cheap because they were sold off-shore.²² Another common misconception among e-purchasers is that the generics are legal, that their production is regulated, and that they necessarily contain the same ingredients and will have the same effects as the patented drugs.²³ However, the U.S. Food and Drug Administration (“FDA”) has demonstrated that some counterfeit pharmaceuticals contain no active ingredient at all.²⁴ Others, incorporating ingredients such as talcum powder, bleach, sugar, starch and even poisons, are quite simply dangerous.²⁵

Viagra is just one of many pharmaceuticals targeted by counterfeiters. A World Health Organisation fact-sheet reports that fake drugs could account for more than 10 percent of the world’s pharmaceuticals, and up to 25 percent of pharmaceuticals consumed in poor countries.²⁶ The FDA has issued warnings to American consumers wishing to purchase medications over the

Internet,²⁷ but it cautions that the problem of counterfeits found within the United States’ drug supply is,

“not the same problem as the distinct risks posed by unapproved drugs and potentially unsafe drugs that are being imported via the Internet and other unregulated international channels. Under current law those drugs are purchased outside of U.S. and foreign consumer protection systems, so they are “buyer beware” products that have traveled outside of the regulatory protections of the legal U.S. drug distribution system”.²⁸

It seems the overwhelming message for e-consumers, regardless of whether they think they are buying genuine products or fakes, is again: buyer beware!

The Reaction of Trademark Proprietors

Trademark proprietors react with dismay, anger and apprehension to the counterfeiting of their branded products. They fear the damage that the trade in fakes could do to their trademarks, business reputations and profits. The e-commerce in counterfeits exacerbates their concerns.

A Federation of the Swiss Watch Industry dossier catalogues the sorts of losses feared by trademark proprietors as a result of counterfeiting of their products. These include losses of sales, particularly when fakes are sold as authentic products; a decline in the value of the trademark when customers are discouraged from buying the authentic product in an environment swamped with copies; misplaced dissatisfaction with a trademark proprietor when a customer unwittingly buys a fake product that fails to live up to the expectations associated with the genuine brand; and the financial cost of enforcement – the protection and defence – of their trademarks and other intellectual property rights.²⁹

The e-trade in fakes arguably intensifies these problems by stretching the geographical sphere in which counterfeiters can easily reach potential customers and by providing counterfeiters with an opaque marketplace in which it is easier for an egregious trader to evade capture. It compounds the number of fronts on which trademark proprietors must fight against infringers.

Brand owners are intensifying their responses to the sale of counterfeit versions of their trademarked products. They increasingly engage public enforcement agencies – such as the police, customs, Trading Standards and consumer protection organisations – in their battles to prevent counterfeit goods reaching the market. Their industry bodies also lobby governments for stronger laws and tougher penalties for counterfeiting.

The challenge of combating e-counterfeiting means some additional approaches have been added to the repertoire. A number of firms offer cybersurveillance services, whereby they monitor the Internet for possible infringements of their clients’ trademarks and manage enforcement activities when likely infringers are identi-

fied. In addition to traditional enforcement options such as “cease and desist” communications, filing proceedings for trademark infringement and unfair competition (such as passing off in common law jurisdictions), an e-specific option is to submit a procedure under the World Intellectual Property Organisation’s “Uniform Domain Dispute Resolution Policy”, which provides trademark proprietors with an administrative mechanism for resolving disputes arising out of bad faith registration and use by third parties of domain names corresponding to those trademark rights.³⁰ If counterfeiters’ physical premises can be located, they can also be raided and infringing goods seized, often with the assistance of public enforcement agencies. Injunctions and orders for the delivery up and disposal of offending goods can also be sought.

When the e-trade in counterfeits is being conducted via a third-party site, such as an e-auction or e-market site, trademark proprietors have sometimes found it helpful to draw the host website into assisting with the enforcement task. For example, e-business eBay provides an Internet marketplace where individuals can buy and sell items online. It has been an attractive target for vendors wanting to sell consignments of counterfeits. This prompted eBay to establish the Verified Rights Owner (VeRO) Programme, giving participating proprietors of intellectual property rights the ability to identify and request removal of allegedly infringing items and materials from the site, and eBay says it is committed to removing infringing items that are reported to it by a rights holder. Through such cooperative measures, trademark proprietors can work with third parties to disrupt counterfeiters’ contact with potential customers.

However, such tactics are clearly more difficult to employ when a counterfeiter and/or its host website is located off-shore, or when a third party is uncooperative, and enforcement will be easier where third parties and public enforcement agencies are eager to assist in the fight against counterfeiting.

Solutions

E-commerce has “the potential to lead to dramatic growth in trade, increase markets, improve efficiency and effectiveness and transform business processes”.³¹ It offers fresh opportunities for business, including for those in the business of counterfeiting. It thus presents new challenges for trademark proprietors, law enforcement agencies and consumers alike.

If counterfeiting and piracy of items protected by intellectual property rights really do account for between five and seven percent of international trade,³² it seems likely that the sale of fakes will similarly account for a significant proportion of e-trade. It also seems unlikely that counterfeiting can or will be stopped while a demand for these goods remains. As the World Health Organisation has noted:

“When prices of medicines are high and price differentials between identical products exist there is a greater

incentive for the consumer to seek medicines outside the normal supply system. Poverty, then, is one of the major factors in the production and consumption of substandard products”.³³

This pattern presumably applies in relation to other goods as well, and is driven not only by poverty but also by a desire to obtain the necessities for life and the comforts offered by modern consumer society.

It therefore seems likely that the demand for genuine consumer goods will be sufficient to drive the counterfeit-production industry, even if the demand for fake luxury goods continues to dissipate. If the genuine product costs more than the fake – even if only because of a mark-up by retailers – cheaper counterfeits will have appeal. When a fake is passed off as a genuine trademarked item, the customer will not necessarily be any the wiser at the point of sale. The problem of counterfeits increasingly poses a risk not only to those who dabble in the market for luxury look-alikes, but to all members of society.

In the long-term, the most successful anti-counterfeiting measures seem likely to be those that take a multi-dimensional approach, attacking the problem at its source and disrupting the supply and distribution channels of counterfeiters. This will continue to be an important area of focus for businesses wishing to protect their trademarks and brand image. Now more than ever before, it is also becoming essential that consumers also be made aware of the very real risks to their health and safety that are posed by the explosion in the counterfeiting of everyday products. This is a battle that is increasingly shifting from a matter of private concern for trademark proprietors into one of public alarm as the physical well-being of people around the world is being compromised by counterfeits. It is to be hoped that a spirit of cooperation between brand owners, law enforcement agencies and the consuming public will eventually defeat this problem.

- 1 National Statistics, “2002 e-commerce survey of business: value of e-trading (experimental statistics)”, (December 4, 2003). Available at: www.statistics.gov.uk/StatBase/Product.asp?vlnk=6645.
- 2 E-Commerce Times, “E-commerce sales on the up in US” (February 2003, 26). Available at: www.nua.ie/surveys/index.cgi?f=VS&art_id=905358730&rel=true
- 3 ZDNet, “Europeans spending more online” (March 4, 2003). Available at: www.nua.ie/surveys/index.cgi?f=VS&art_id=905358734&rel=true. Citing study by RoperASW and AOL Time Warner.
- 4 For examples of some of the actual counterfeit products seized in Europe, see the EC Taxation and Customs Union Counterfeiting and Piracy website: “An Evolving Problem: The Nature of Counterfeit Goods” at http://europa.eu.int/comm/taxation_customs/customs/counterfeit_piracy/counterfeit2_en.htm.
- 5 Charles Caleb Colton, *Lacon* (1825).
- 6 U.K. Trade Marks Act 1994, s.9(1).
- 7 Trade Marks Act 1994, s.10(4).
- 8 Council Regulation (EC) No 3295/94 of December 22, 1994 laying down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods, Article 2(a).
- 9 Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs Agreement) 1994, Article 61.

- 10 See *World Internet Law Report*, September 2003, Kelly D. Talcott, "The Proposed E.U. Intellectual Property Enforcement Directive: Is Uniform Enforcement an Appropriate Goal?"
- 11 Council Regulation (EC) No 1383/2003 of July 22, 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights.
- 12 See Footnote 11. Preamble §2.
- 13 E.U. Institutions Press Release, "Customs: Counterfeiters and pirates increasingly turning to mass-produced goods" (November 24, 2003). Available at: [www.europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/03/1589|0|RAPID&lg=EN&display=](http://www.europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/03/1589|0|RAPID&lg=EN&display=p_action.gettxt=gt&doc=IP/03/1589|0|RAPID&lg=EN&display=)
- 14 International Anti-counterfeiting Coalition, "Customs Seizures over \$98 million in Counterfeits during Fiscal Year" (January 2003): www.iacc.org/teampublish/109_476_1742.cfm. The Fiscal Year dated from October 1, 2001 to September 30, 2002.
- 15 See footnote 13.
- 16 See footnote 13.
- 17 EC Taxations and Customs Union website: "An Evolving Problem: The Nature of Counterfeit Goods": http://europa.eu.int/comm/taxation_customs/customs/counterfeit_piracy/counterfeit2_en.htm
- 18 "Bogus Viagra Business Booms", CBS Evening News (October 2, 2002). Available at: www.cbsnews.com/stories/2002/10/02/eveningnews/main524109.shtml.
- 19 Unofficial figures indicating seizures at H.M. Customs' Coventry Postal Depot between January 1, 2003 and December 10, 2003.
- 20 "Counterfeit Viagra Flooding China", Ananova Website (January 20, 2001). Available at: www.ananova.com/news/story/sm_180109.html
- 21 Randolph E. Schmid, "Effort planned to block counterfeit, unapproved imports", Associated Press (no date recorded). Available at: www.buyviagragerenics.com/viagrastory14.html.
- 22 Conversation with HM Customs Functional Manager Collin Taylor, Coventry Postal Depot, December 14, 2003.
- 23 See footnote 22.
- 24 Randolph E. Schmid, "U.S. to counterattack counterfeit drugs", Associated Press (June 25, 2003). Copy available at: www.miami.com/mid/miamiherald/business/6162243.htm
- 25 E.U. Institutions Press Release, "Customs: Counterfeiting and Piracy in 2001" (July 26, 2002). Available at http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/02/1163|0|RAPID&lg=EN&display=.
- 26 World Health Organisation, "Substandard and Counterfeit Medicines", Fact Sheet N°275 (November 2003). Available at: www.who.int/mediacentre/factsheets/2003/fs275/en/, citing U.S. Food and Drug Administration estimates.
- 27 See, e.g., FDA site "Counterfeit Drugs: Questions and Answers": www.fda.gov/oc/initiatives/counterfeit/qa.html
- 28 FDA Press Release, "FDA Anti-Counterfeiting Task Force Interim Report Focuses on High-Tech Weapons and Other Promising New Counter Measures" (October 2, 2003). Available at: www.fda.gov/bbs/topics/NEWS/2003/NEW00949.html.
- 29 Federation of the Swiss Watch Industry, "Scale and Effects of the Problem", Factsheet in dossier advising enforcement authorities on counterfeiting in the watch industry (November 2001).
- 30 WIPO Arbitration and Mediation Center, Guide to WIPO Domain Name Dispute Resolution, p.5. Available at: <http://arbitrator.wipo.int/center/publications/guide-en-web.pdf> (cited December 16, 2003).
- 31 U.K. Office for National Statistics, "e-Commerce and Internet: Why we measure web business and internet access" (September 12, 2002). Available at: www.statistics.gov.uk/CCL/nugget.asp?ID=177
- 32 E.U. Institutions Press Release, "Counterfeiting: the Commission welcomes the adoption of a new regulation to strengthen customs action" (July 22, 2003). Available at: http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/03/1059|0|RAPID&lg=en&display=.
- 33 World Health Organisation, "Substandard and Counterfeit Medicines", Fact Sheet N°275 (November 2003). Available at: www.who.int/mediacentre/factsheets/2003/fs275/en/.

This article was first published in December 2003 issue of *World Internet Law Report*, Volume 4, Issue 12

World Internet Law Report

True to the nature of the Internet, the issues involved in its regulation are wide ranging, encompassing several of the "traditional" practice areas.

- Delivers expert commentary and digest in an ordered and easy-to-access format on key developments in E-commerce, Intellectual Property, Jurisdiction, Security & Surveillance and Privacy
- Gives an insight into how key issues are being handled in different jurisdictions, looking for example at, defamation, liability, data protection, dispute resolution and copyright infringement
- Draws upon expert opinion from leading specialists in commerce and industry
- Tap into BNA's network of correspondents, giving you early warning and details of new legislation and developments
- Detailed commentary to help you understand global compliance issue



INTERNATIONAL BNA BNA International Inc., 29th Floor, Millbank Tower, 21-24 Millbank, London SW1P 4QP, England.
 Phone: + 44 (0) 20 7559 4801 Fax: + 44 (0) 20 7559 4840
 Email: marketing@bnai.com Website: www.bnai.com