

## TRANSPORT OF COUNTERFEIT GOODS

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**Keywords:** transport, borders, intellectual property rights, counterfeiting, counterfeit goods, brand, trade mark

**Abstract:** The paper is focused on a current problem of transport of counterfeit goods in the European Union. Counterfeiting has a strong influence on the distribution organizations worldwide because most of counterfeit goods threaten the health and safety of consumers. Counterfeiting is a serious problem in the world economy today. The purpose of this paper is to point out the danger of counterfeiting in connection with the transport of Intellectual Property (IP) rights - infringing goods. Background of the paper's content is based on secondary data research of publicly available sources - international statistics and world reports.

### 1 Intellectual Property Rights

Intellectual property (IP) rights are the rights given to persons over the creations of their minds. They usually give the creators an exclusive right over the use of their creation for a certain period of time [29].

In general terms, intellectual property is any product of the human intellect that the law protects from unauthorized use by others. The ownership of intellectual property inherently creates a limited monopoly in the protected property [6].

Intellectual property rights are customarily divided into two main areas: [29]

1. Copyright and rights related to copyright (the rights of authors of literary and artistic works, rights of performers, producers of phonograms and broadcasting organizations).
2. Industrial property (trademarks, geographical indications, inventions (protected by patents), industrial designs and trade secrets).

For the purpose of our paper, we will deal with just one part of the industrial property – the trade mark, because trade marks can be easily counterfeit and distributed all over the world.

Clifton and Simmons describe brand as *“the most important and sustainable asset of any organization – whether a product - or service - based corporation or a not-for-profit concern – and it should be the central organizing principle behind every decision and every action.”* Any organization wanting to add value to day-to-day process and cost needs to think of itself as a brand [5]. American Marketing Association [24] defines brand as: *“Name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers.”*

Brand Finance [4] defines brand as the *“Trade mark and associated intellectual property including the word mark and trade mark iconography”*. On the basis of existing definitions of the brand we define brand as: *“Perceptible sign of the organization and its products to*

*the human senses, through which the customer is able to differentiate an organization and its products from others. Brand identifies organization and its products and at the same time differentiates it from the other competitors”* [3]. Legally protected “brand” becomes “a trade mark”. Conditions for registrability of a trade mark in the Slovak Republic are given by The Act No 506/2009 Coll. on Trade marks. The term of protection of the registered trade mark is 10 years as from the filing date of the trade mark application [16].

According to the Industrial Property Office of the Slovak Republic, *“a trade mark proprietor shall have an exclusive right to use a trade mark in relation to his goods or services, for which a trade mark is registered.”*

A trade mark owner uses the sign ® along with the trade mark. The owner of the trade mark is entitled to prevent third parties not having his consent from using in the course of trade a sign:

- identical with a trade mark for goods or services identical with those, for which a trade mark is registered;
- if because of its identity with or similarity to the trade mark and the identity or similarity of goods or services there exists a likelihood of confusion on the part of the public; the likelihood of confusion includes the likelihood of association of the trade mark;
- identical with or similar to the trade mark with the reputation in the territory of the Slovak Republic, not registered for identical or similar goods or services, if the use of that sign without due case takes unfair advantage of, or is detrimental to the distinctive character or the repute of trade mark [17].

As Gregory Pollack states in his article, many companies and brands in the global market are engaged in partnership marketing, marketing alliances, strategic partnerships or even in partnership brand marketing programs. The true success of partnership brand marketing lies in its power to open up new and alternative

**TRANSPORT OF COUNTERFEIT GOODS**

Dagmar Babčanová

channels of distribution for both the companies and the brands involved [22].

Brand (or legal protected brand = trademark) facilitates activities associated with the distribution of goods and also simplifies the process of ordering goods. Brand should be involved in the marketing program, and in all its parts, which are product, pricing, communication and distribution strategy. The last mentioned strategy solves problems within distribution channels. Through distribution channels manufacturers offer the brand to the wholesalers and retailers who sell branded goods. Manufacturers who want to have a complete control over the whole distribution, they have to build up its own sales network.

## 2 Counterfeiting in the world

As Paul Paradise mentioned in his publication, by the 1970s, counterfeiting was costing U.S. companies billions of dollars, upwards of \$100 billion in the years leading up to the Trademark Counterfeiting Act of 1984. Most counterfeit manufactures were small companies that once a civil suit was filed against them, would virtually disappear. Lack of penalties for counterfeiters also meant that products could be sold that were not safe and up to regulatory standards including medications, cosmetics, and machinery parts [21].

The garment industry is one of the largest areas of counterfeit goods. Louis Vuitton estimates that two to three million counterfeit Louis Vuitton pieces are produced each year (ca. twice the number of genuine products it manufactures). Therefore Louis Vuitton upwards of 5 % of its revenue fighting off counterfeiters; about 1,500 actions/civil proceedings. According to the International Trademark Association (INTA), between 1991 –1995, apparel and footwear companies lost 22 % of their sales, around \$ 2.1 billion, due to trademark counterfeiting [20].

Area of automotive parts is also a large area of counterfeit goods. The U.S. automobile industry would employ another 200,000 - plus employees if it could manage to put counterfeit supplies out of business [18]. According to the Counterfeiting Intelligence Bureau (CIB) of the International Chamber of Commerce (ICC) of the World Business Organization (WBO), counterfeiting accounts for between 5 – 7 % of world trade (\$ 600 billion a year). The Counterfeiting Intelligence Bureau (CIB) formed in 1985 (as a specialized bureau within Commercial Crime Services - CCS), protects industry from the damage caused by counterfeiting by gathering intelligence, making undercover enquiries, organizing the seizure of counterfeits, and providing expert advice and training to its members. Members of CIB are large multinational companies, trade associations, law firms, technology producers and investigative firms. Recognized by the British Home Office and World Customs Organization (WCO), the CIB has carried out more than 600

investigations in over 35 countries into counterfeit goods ranging from pharmaceuticals and alcoholic beverages, to furniture and wall coverings [14].

CIB analyses links between websites involved in the marketing and distribution of counterfeit products to identify vulnerabilities and trends [15].

## 3 Counterfeiting regulation in the European Union

Customs administrations of European Commission (EC) are active in enforcing IP rights at the EU borders. Regulation (EU) No 608/2013 issued in 2013 (came into effect in 1 January 2014) concerning customs enforcement of IP rights replaces Council Regulation (EC) No 1383/2003. The new regulation provides procedural rules for customs authorities to enforce intellectual property rights with regard to goods liable to customs supervision or customs control. *The new regulation* [8, 23]:

- expands the range of IP rights infringements covered,
- adjusts procedures in order to reduce administrative burdens and costs,
- ensures that high quality information is provided to customs so as to enable better risk management,
- includes measures to ensure that the interests of legitimate traders are protected.

If IP right holders feel that their IP rights have been infringed then they have to submit an application for action to the customs authorities. The identification and grounds for suspicion of an infringement rely on the information provided by industry in the application for action (such as the type of IP rights infringing goods, information on production and means of transport, physical characteristics of original goods, etc.). The European Commission with EU Member States has established a manual for right holders for lodging and processing applications for action. When right holders suspect that their rights might be infringed, they may lodge an application, requesting customs to take action [7].

## 4 Counterfeit goods and their import in the European Union

The involvement of European customs authorities with articles suspected of infringing IP rights such as trademarks, copyrights or patents is increasing year by year. Statistics published on a regular basis by the European Commission registered 86,854 cases of shipments suspected of violating IP rights in 2013, which is 3,619 less than the previous year 2012 [9].

According to World Intellectual Property Organization (WIPO), there are different ways that counterfeit goods can come to the attention of the authorities. IP rights owners themselves may become aware of distributors or retailers trading in counterfeit goods and bring the trade to the attention of the police. Also counterfeits may be

**TRANSPORT OF COUNTERFEIT GOODS**

Dagmar Babčanová

detected by law enforcement officers who are specifically empowered under trade mark legislation to take action against traders in counterfeit goods [27].

Another way in which action against counterfeit goods can be taken occurs at ports of entry of imports. If a trade mark owner becomes aware that consignments of counterfeit goods are on their way to the country, he can alert the customs authorities, who will keep watch for the goods and impound them when they arrive. Action can then be taken against the importer [27].

In 2014 The European Parliament has backed powers for customs bodies to seize counterfeit goods travelling through the EU. Years before customs could detain only fake goods suspected of entering the single market, rather than those heading for beyond EU borders [28].

The largest number of cases were detained through postal and express carrier transport (72 %), followed by air transport (17 %). Figure 1 shows most used means of transport to import suspected IP rights - infringing goods into the EU [9].

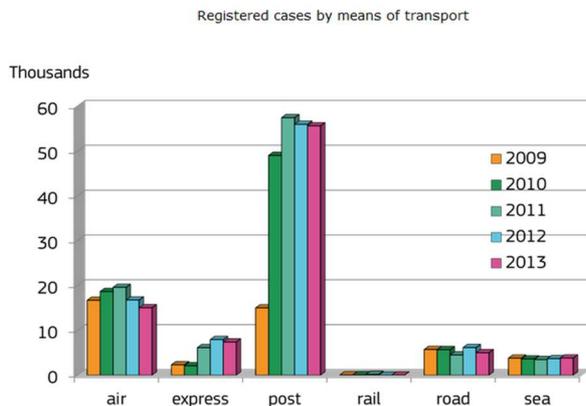


Figure 1 Registered cases by means of transport [9]

In comparison to the years 2010 – 2012, the trend in number of cases 2013 did not change extremely. Still are topped postal, airs and express transport - the most important means of transport in number of cases detained, whereas sea transport of containers is the main transport modality in number of articles [9].

Analyzing intellectual property statistics reports (Report on EU customs enforcement of intellectual property rights, Results at EU border) published by the EU from 2012 – 2014, gathered information show that in the reporting period 2011 – 2013 the percentage of cases detained through postal transport constitutes the largest amount in comparison to other means of transport (Table 1) [9, 10, 11].

Table 1 Cases by means of transport in % (2011 - 2013) [9, 10, 11]

Mean of transport	2013	2012	2011
Air	17.32	18.52	21.46
Express courier	8.51	8.77	6.72
Post	64.00	61.82	62.91
Rail	0.03	0.00	0.19

Road	5.75	6.80	4.92
Sea	4.40	4.08	3.80

The percentage of articles detained through the sea transport constitutes the largest percentage unlike the other means of transport (Table 2) [9, 10, 11].

Table 2 Articles by means of transport in % (2011 - 2013) [9, 10, 11]

Mean of transport	2013	2012	2011
Air	10.83	14.47	5.02
Express courier	11.38	4.97	2.96
Post	3.09	2.68	1.67
Rail	0.17	0.00	0.10
Road	11.92	19.25	22.30
Sea	62.62	58.62	67.95

The percentage of value detained through the sea transport constitutes the largest percentage in contrast to other means of transport of IP rights infringing goods (Table 3) [9, 10, 11].

Table 3 Value by means of transport in % (2011 - 2013) [9, 10, 11]

Mean of transport	2013	2012	2011
Air	10.95	15.54	15.48
Express courier	5.61	4.75	6.70
Post	9.15	11.82	5.47
Rail	0.13	0.02	0.55
Road	8.06	11.99	8.30
Sea	66.10	55.88	63.50

According to IP rights statistics 2014 (Report on EU customs enforcement of intellectual property rights. Results at the EU border 2013), China is still the main country of provenance from where goods suspected of infringing an IP rights entered the European Union. In terms of product category, other countries appear as country of provenance, i.e. Egypt for foodstuffs, Turkey for perfumes and cosmetics and Hong Kong, China for other body care items, mobile phones, memory cards and sticks, ink cartridges and electrical household appliances. The cases related to postal and courier traffic accounted for 72 % of all detentions and principally concerned [9]:

- sport shoes,
- personal accessories like bags and wallets,
- clothing,
- sunglasses,
- watches.

In 2013, in over 92 % of all cases, customs action was started whilst the goods concerned were under an import procedure. In almost 5 % of the cases, goods were discovered whilst being in transit with a destination in the European Union and in 1 % of the cases goods were under re-export procedure with a destination outside the European Union [9].

Detailed information mentioned above are shown in proportions in Figure 2.

**TRANSPORT OF COUNTERFEIT GOODS**

Dagmar Babčanová

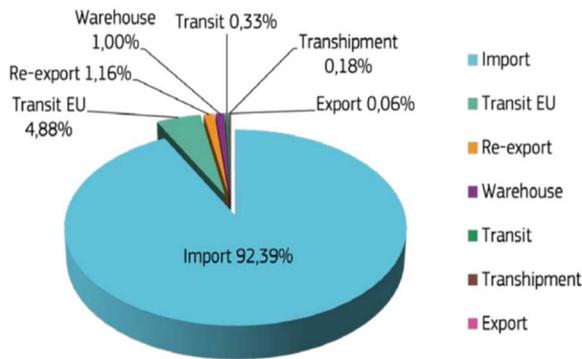


Figure 2 Breakdown of cases by procedure [9]

Figure 3 provides detailed proportions of countries of provenance by articles:

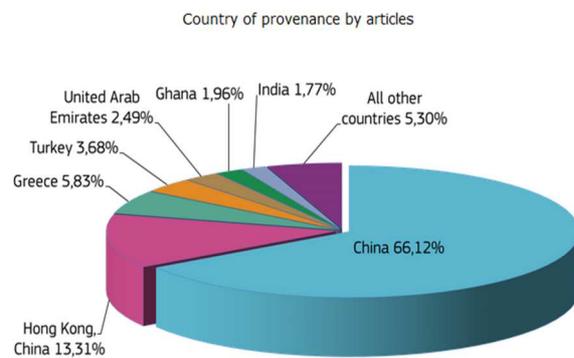


Figure 3 Country of provenance by articles [9]

The majority of articles detained by customs in 2013 were suspected of infringing a Community or national trade mark [9]. According to International Trademark Association (INTA) reports, in large number of cases, the European Union is transit territory. A substantial part of the commerce between Europe and the Far East is conducted through the North Sea ports of Antwerp, Rotterdam and Hamburg (cause is that the EU has a central position and excellent traffic facilities) [1]. Customs authorities of the EU member states (according to the Counterfeit Goods Regulation), care entitled to take action when goods crossing the EU's external borders are suspected of infringing IPR, irrespective of whether the consignment is only in transit or in transshipment through the EU Customs territory [1].

In cases of Nokia and Phillips, the European Court of Justice (ECJ) has held that customs officers in the EU cannot seize counterfeit goods which are merely transiting through the EU, if those goods are (or claim to be) ultimately destined for a non - EU country. Only counterfeit goods which are put on the market in the EU

(or where there are sufficient grounds for suspecting this will be the case) can be impounded and destroyed [25].

According to The Guide for International Counsel: Customs Enforcement of IP Rights in Europe & Germany – The New Rules, the new Regulation does not change the situation for goods which are shipped from third - party countries into the European Union and intended for another third - party country. The new Regulation does not modify the solution given by the Court of Justice's decision in Philips and Nokia, wherein the Court decided that goods, prima facie not intended for the EU market, can nevertheless be seized if there is convincing evidence and substantial likelihood that the goods will be re-routed to sale on the EU market [20].

**5 Fighting counterfeiting**

Companies and organisations operating in today's global environment are faced with a growing complexity of their supply chain, with multiple tiers of trading partners, intermodal transport and cross-border trade issues. In a recent Aberdeen study, 78 % of Chief Supply Chain Officers identified improving extended supply chain visibility as a top priority [2].

There are many ways how to fight against counterfeiting. In 2007, GS1 and the World Customs Organization (WCO) signed a Memorandum of Understanding (MoU), recognizing their common business interests and providing a framework for further cooperation. One major initiative is to improve the effectiveness and efficiency of Customs administrations around the world by [12]:

1. Setting global standards to facilitate cross-border trade.
2. Securing the global supply chain.
3. Facilitating legitimate trade.

GS1 is an international not-for-profit association with Member Organisations in over 100 countries. GS1 is dedicated to the design and implementation of global standards and solutions to improve the efficiency and visibility of supply and demand chains globally and across sectors. The GS1 system of standards is the most widely used supply chain standards system in the world [12].

IPM (Interface Public - Members) is the WCO anti-counterfeiting tool, which enables right holders to give Customs officers direct access to information that would assist them in the detection of counterfeit goods. IPM provides [13]:

1. A database of product information (photos, packaging, routes, etc.) provided by Right Holders;
2. A Web-based interface accessible via Customs' Intranet allowing officers to consult the Rights Holders database.

Integration of IPM tool and GS1 standards is following (Figure 4):

**TRANSPORT OF COUNTERFEIT GOODS**

Dagmar Babčanová

1. Right Holders upload valuable product information to the IPM database;
2. Customs officer scans the GTIN of the product he/she inspects;
3. Customs officer accesses authentication data from IPM and registered product Identity information from GS1 services (which product, what is it).

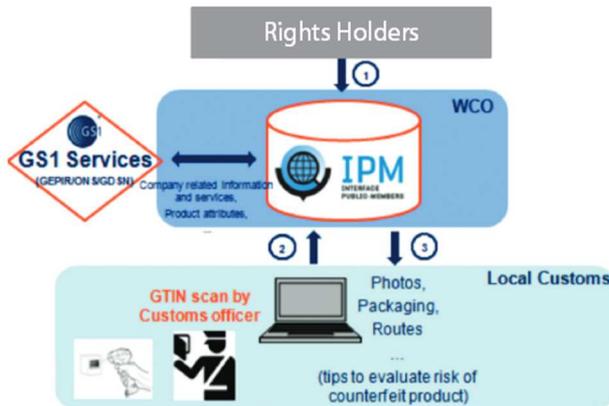


Figure 4 IPM tool and GS1 Standards fitting [13]

By accessing key specific elements about the product they inspect on the ground, Customs officers are able to quickly detect counterfeit goods. IPM also enables officers to contact concerned Rights Holders immediately in order to verify their suspicions and initiate follow-up legal action [26].

WCO Secretary General, Kunio Mikuriya stated: "Faced with the growing trade in counterfeit goods, the WCO and its Members are determined to work with GS1 and other concerned organizations to fight this menace in order to protect the health and safety of consumers across the globe." And also added: "IPM's usefulness is now globally recognized by our private sector partners. Our cooperation with GS1 has enabled us to further develop IPM's functionalities making it even more accessible and reliable. IPM is undoubtedly an essential tool to help Customs officers distinguish between genuine and fake products." [26]

## Conclusion

Systematic improvement of distribution channels should be an integral part of industry activities to fight counterfeiting, because one of the main challenges that counterfeiters face is distribution of their products. Intellectual property right owners should be able monitor the movements of their products from manufacturers to the retailers. There is a need to co-work with distributors, suppliers, retailers and consumers to ensure the protection of intellectual property rights properly. The harder to get into the supply chain, the greater the chance for intellectual property rights protection.

The relationship between progress in IT technologies and anti-counterfeit solutions is indisputable. Generally, new technologies enable to be a step ahead of

counterfeiters. However, progress in technologies entails positive aspect on the one hand and negative aspect on the other hand. Positive aspect is that intellectual property rights owners have latest anti-counterfeit tools and negative aspect implies also the possibility using IT advances in counterfeiting operations. Intellectual property rights owners should (in their own interests) should try to collect as much evidence of counterfeits as it is possible in the future and engage themselves in an active fight against illicit trading with counterfeit goods.

Regulatory authorities, intellectual property right owners, brand managers, supply chain managers, distribution organizations and IT specialists should work together to develop and implement appropriate counterfeit protection systems, new effective anti-counterfeit strategies.

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**TRANSPORT OF COUNTERFEIT GOODS**

Dagmar Babčanová

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**Review process**

Single-blind peer reviewed process by two reviewers.