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# Regulatory Breach

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## Welcome...

2007 has proved to be an exciting year for the Regulatory Breach group at St Pauls Chambers. Following recognition in the new edition of Legal 500, we are delighted to announce that we have been appointed to conduct B SkyB prosecutions on behalf of FACT, having faced stiff competition from a number of other high quality chambers. This appointment reflects the enthusiasm and commitment the team, and will help us build a core group with experience and knowledge in a specialist area.

In this edition, we decided to concentrate on **counterfeiting**, as it is clear that this is a subject which is dominating not only domestic retail in clothing and DVDs, but also a great deal of international trade being conducted from the UK. We are delighted to have a major contribution from a research group at Leeds University Faculty of Law who are contributing to a major European project considering counterfeiting in the luxury fashion market.

Other articles include an interesting review on sentencing in counterfeiting cases and a short account of the scale and effects of global counterfeiting in different market sectors.

Feedback on the publication has shown that many solicitors need advice as to the level of sentencing in regulatory cases. We have therefore decided to collect and collate as many varied and interesting first instance decisions and carry them on our new site [www.regulatorybreach.com](http://www.regulatorybreach.com) where all early editions of Regulatory Breach and full versions of articles can be found.

## Policing counterfeit goods in the 21<sup>st</sup> Century global market

The counterfeiting industry has become rampant in recent years following advances in technology, globalisation and consumer preferences for branded goods. Some commentators have estimated that the market for counterfeit goods now constitutes between five and seven percent of all world trade (Brut 1997:7 in Yar, 2005:2; Hetzer, 2002:306). The main problem with counterfeited goods is that consumers, and also many victims, do not tend to see the problem. Consumers are always on the lookout for a good bargain which the counterfeit goods seem to represent and brands are reluctant to report their victimisation because of possible damage to their reputation. This confusion between the private and public interest can blur the focus of regulating and policing counterfeiting.

Counterfeiting affects all kinds of industries with quite different consequences. Some types, such as, fake pharmaceuticals or airline parts can kill their consumers and the case for action in the public interest is clearly cut. The case for action in the public interest in other forms of counterfeiting such as branded fashion goods is, however, less clear. This is because they are broadly viewed as unproblematic by consumers who they think they are getting a designer product at a more accessible price. Even the victims (the trademark holders themselves) often appear to view counterfeiting as a tolerable part of their business practice. The consequence of such perceptions is to diminish counterfeiting as a law enforcement priority. However, a closer look at the impact of counterfeiting reveals its magnitude. In some cases there is both a direct effect upon victims in terms of loss of profits as well as long term damage to brand reputation, especially where the counterfeits are poor quality and may subsequently deter people from purchasing genuine products. The prestige brand Burberry, for example, has allegedly been adversely affected by being linked with 'chav' culture (council house and violence, or Cheltenham average – depending upon interpretation) and the subsequent explosion in counterfeit goods illicitly carrying the distinctive Burberry design.

In addition to directly impacting upon the victim, there may also be wider social and economic consequences such as lost tax revenue and alleged links to organised crime. Research by Vagg and Harris in 1998 found that counterfeiting is no longer a "cottage industry" run by one or two petty criminals, but can now take place through organised criminal networks. Indeed, initial findings from the COUTURE research project (see later) are beginning to suggest links between counterfeiting and criminal gangs that are fuelled by the combination of relatively low levels of perceived risk associated with counterfeiting, and the sheer enormity of the return on investment. Not only is the mark-up on counterfeited goods potentially greater than drug trafficking, but the penalties are also much lower.

Despite the enormity of the counterfeiting business very little is known about it especially with regard to luxury fashion goods in a European legal context. To this end, *Project Couture* is a two year EU (AGIS) research project being conducted by the University of Leeds (UK) in collaboration with TRANSCRIME (Italy) and the Sorbonne (France). Due to be completed by December 2007, the principal aim of *Couture* is to "improve the response to counterfeiting of fashion apparel trade marks by developing a crime proofing mechanism at both a national and European level".

### What can be done about counterfeiting?

One of the big debates over counterfeiting is about how it should be policed. Surprisingly, this debate does not centre round the power of law, because many jurisdictions have strong law that can be applied. In

the UK, for example, the Trade Marks Act 1994 is the key piece of legislation used to police fashion trade marks and covers both the registration of UK trade marks and the protection of registered UK trade marks. Rather, the main focus of the debate over counterfeiting is over who should be responsible for policing it.

As outlined earlier, the private and public interests in counterfeiting potentially conflict. On the one hand there are those who believe that counterfeiting is detrimental only to businesses and therefore argue that it is in fact they who should shoulder the responsibility for policing it. Thus, 'businesses should set up an effective system of their own to monitor the flow of counterfeiting goods and keep the relevant institutions of their governments well informed' (Chen, 1996:128; OECD, 2000:36 cited in Bosworth and Yang, 2002:22). This is, however, a contentious viewpoint and one that arguably reflects many of the preconceptions about fashion counterfeiting which *Project Couture* seeks to engage. On the other hand, there are those, such as the Alliance Against Intellectual Property Theft, who believe that this role must be taken up by the police and Trading Standards officers because of the broader societal implications of counterfeiting.

One could rightly argue that the both arguments should be easy to reconcile and that those promoting public and private interests should work together, with the brand owners driving the process. Whilst this may appear to be logical and desirable, in fact the opposite is being found. In the UK, the bulk of policing counterfeiting – the enforcement of trade mark protection – is conducted by Trading Standards Officers at local and county levels, often with the support of police and HM Customs where imported goods are being seized. Curiously absent in this process is the cooperation of brand owners, some of whom display a marked reluctance to participate. What is becoming apparent from the early findings of *project Couture* is the complexity of the relationship between the private and public interests and it is hoped that once its dynamics are understood through further research then the basis will be formed for creating effective new policing partnerships.

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# An Introduction to Hands

Dennis Mac Hands



Hands is a UK health and safety resource site providing links to information, law and downloads on a range of H&S topics, with emphasis on issues affecting employees in the engineering, construction, manufacturing and clerical fields. It offers research assistance to Safety Representatives, professionals and those in studies by providing links to pages and booklets across the Internet, on topics such as hazardous substances, manual handling, noise, heights, confined spaces, fire safety and many others.

The site offers a collection of sample risk assessments, inspection checklists, PowerPoint presentations, clipart, a guide to HSE publications, numerous links to free publications, and links to all current UK health and safety legislation. Hands also supports the role of workplace representatives with pages on consultation and Safety Representative's rights and responsibilities.

Hands is the voluntary work of Dennis Mac, a former safety representative for Amicus. Begun with a one-page listing of useful bookmarks, the site has evolved and expanded, as Dennis has focused in on the needs of people who have approached him.

The site has received the support of Amicus, recognition from the HSE, and was the winner of a Ceramics Industry Pledge Award in 2005.

# The Approach to Sentencing in Trade Mark Cases Alun Jones

This is the first of a two-part article considering the sentences for offences of: making counterfeit goods; selling counterfeit goods; and possessing counterfeit goods with a view to selling them (section 92(1) of the Trade Marks Act 1994). The first article will deal with the general considerations.

There is no 'guideline' authority reported for offences contrary to section 92(1) of the Trade Marks Act 1994. Similarly, at present, the Sentencing Guidelines Council has not produced any guidelines for such offences.

Section 92(1) of the Act provides "A person commits an offence who with a view to gain for himself or another, or with intent to cause loss to another, and without the consent of the proprietor—

- (a) applies to goods or their packaging a sign identical to, or likely to be mistaken for, a registered trade mark, or
- (b) sells or lets for hire, offers or exposes for sale or hire or distributes goods which bear, or the packaging of which bears, such a sign, or
- (c) has in his possession, custody or control in the course of a business any such goods with a view to the doing of anything, by himself or another, which would be an offence under paragraph (b).

The courts generally view the actual making of counterfeit goods as more serious than simply supplying the goods. Similarly, selling counterfeit goods is viewed more seriously than possessing counterfeit goods with a view to gain. ('view to gain' is further defined by the Act in s.92(2) & 92(3)).

It is important when viewing the authorities to differentiate between the sentences received for the different types offences within s.92(1).

Unless the counterfeiting operation is on a substantial scale, for practical reasons, many Trading Standards Departments will pursue a Defendant for an offence of possessing with a view to gain rather than selling counterfeit goods even where there is clear evidence of past sales.

It is obviously easier to raid a defendant's premises and then send off the seized items for analysis by the trade mark holders (or their approved agents) rather than the laborious task of tracing goods previously sold.

Of the all the authorities, R v Ansari & Others [2001] 1 Cr. App. R (S) is a helpful indicator of the general approach that the Court of Appeal has taken in such offences.

Three general considerations for sentences in this class of offence were identified:

- i. The offence undermined reputable companies;
- ii. The sentencer should consider how professional the enterprise was; and

- iii. The sentencer should consider the likely or actual profit made from the enterprise.

"The offence undermined reputable companies".

This consideration is more significant in cases where the quality of the items is relatively poor. The damage to a trade mark holder's brand value can be severely affected when an honest purchaser buys poor quality counterfeit goods but believes they are getting the genuine item. Furthermore, the fact that counterfeit goods can be sold at much lower prices increases the apparent availability of the product and affects its exclusivity – what has been the effect on the Burberry baseball cap!

When the price paid for counterfeit goods is close to the actual retail price, the reputable companies are further affected by direct loss of sales.

In many cases, the last proposition does not arguably hold true in reality. In many of the recent cases, the offences have been committed by way of the on-line auction site eBay. If someone is paying £30 for a Prada Handbag or for a pair of Louis Vuitton boots ordinarily retailing at £800 or £1,000, it is reasonable to say there is no realistic loss of a direct sale.

The other adverse effect on reputable companies is not to the trade mark holder, but to other reputable companies selling genuine goods. They will be potentially affected by the loss of sales.

Courts are also concerned with the affect on the public who may be purchasing counterfeit goods at retail prices. Often, in internet cases, the prices paid are often considerably lower than the retail price. It is reasonable mitigation to say the public purchasing the items "know what they are getting" when they pay considerably less than the retail price.

"The sentencer should consider how professional the enterprise was"

Defendants trading out of a high street store and dealing with the counterfeit goods as part of a business enterprise can show quite a degree of sophistication. The prosecution will often produce evidence of shipments from overseas and documentation to support how organized the illegal venture is.

As mentioned, eBay and similar internet sites have been used to undertake the sale of counterfeit goods. In reality, the fact that sales are made overseas does not necessarily increase the sophistication of the **endeavour but rather** simply reflects the medium used to sell the goods.

In the case of internet sales, where the prosecution has traced the defendant through the use of their internet accounts, it is arguable to suggest that as a criminal enterprise it is of somewhat limited sophistication as the defendant has not attempted to cover his tracks from detection.

The volume of sales is often pointed to by the prosecution

as an example of the degree of sophistication. One must examine the set up of the operation. A one-man band operating on the internet out of a bedroom can still achieve high volume sales. The **defence advocate must** be alive to preventing appearances from clouding the reality.

"The sentencer should consider the likely or actual profit made from the enterprise."

In cases of selling counterfeit goods, the documents retained by the prosecution at the time of search and seizure often form part of the prosecution case with respect to the profit made.

When the charges are of possessing with a view to gain, the picture is not always quite as straightforward. The prosecution often examine past sales to predict likely future profit.

In the case of offences involving internet auctions sites, there is often no sale price set and therefore determining the sale price can often involve somewhat of a moveable feast. In such cases, it is important to make efforts to agree the total sale price reflected in the charges which a defendant has admitted.

This should be done in advance of the sentencing hearing and a **Defence advocate may often ask the judge to** order the prosecution to produce a schedule of the likely sale prices. Additionally, a description as to how the prosecution arrived at those figures is vital. The **defence** can then respond.

It is not especially ideal to rely on the defendant's previous sales when predicting future sales as this will clearly draw the sentencing judge's attention to the scale of past activity. When defending, it is preferable to produce 3 sample sales from other internet sellers in auctions that have previously concluded.

This has the benefit of providing a degree of independence to the defence figures and does not concentrate on the defendant's criminality (especially if he has not been charged with offences of past selling).

As with any other type of sentence, a Newton hearing should be avoided if at all possible!

When one approaches the sentencing exercise for these class of offences, being alive to the general considerations stated in Ansari will assist in preparing a solid mitigation.

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The next issue of the newsletter will contain the continuation of this article with an emphasis on the type and length of sentences the courts impose for such offences.

# The year for Treating Customers Fairly

Chris Harvey, Joint Managing Director TCF Index

The financial services industry's regulator, the Financial Services Authority (FSA), has moved away from prescriptive regulation to a principles-based approach, as exemplified by the 'Treating Customers Fairly' (TCF) requirement. With its TCF initiative FSA aims to deliver six improved outcomes for retail consumers. Product providers are being encouraged to focus on these hard this year and make TCF an integral part of their business culture.

The six improved outcomes are:

- Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture
- Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly
- Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale
- Where consumers receive advice, the advice is suitable and takes account of their circumstances
- Consumers are provided with products that perform as firms have led them to expect, and the associated service is both of an acceptable standard and as they have been led to expect
- Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

The FSA is now looking for evidence that firms are implementing TCF principles and demonstrating measurable change in outcomes for consumers. So TCF is not something where firms can 'tick the box' when they achieve a certain target; it is a dynamic requirement demanding ongoing commitment and resources.

The big issue for firms is that the FSA will not give a detailed definition of what TCF means. Most firms now have some basic TCF principles but in many cases they are not clearly defined or documented. This clarity is also a vital component in demonstrating the continuous improvement and development process FSA is looking for.

We are working with a number of firms in helping them understand where they sit within the TCF principles with where they need to be and we have developed a unique series of tools specifically to do this.



**Corporate Health and Safety Performance Index**

Jeremy Barnett

Corporate Health and Safety Performance Index (ChaSPI) is a tool designed for use by all large organisations (public and private) that operate in the UK with 250+ employees. It offers a reporting and benchmarking framework for occupational health and safety. It is run by the Health and Safety Executive and use is voluntary and free.

This tool allows organisations to compare their performance with others, guide their own internal targets and track performance over time. After completion of an index, users are encouraged to sign off overall results which are then released into the CHaSPI results section, so that investors, pension fund managers, employees, trade unions and others can see the results.

The process is carried out online, using a secure website with high level encryption processes and technical assistance available. The tool can be viewed at

[www.chaspi.info-exchange.com](http://www.chaspi.info-exchange.com). Information on five issues are combined to produce an overall CHaSPI score. They are Health and Safety Management Rating, Occupational Health Rating, Injury Rating, Serious Incidents Rating and Employee Sickness Absence Rating.

# The Global menace of Product Counterfeiting

Jeremy Barnett

The counterfeiting of products is a growing problem throughout the world. When asked about counterfeiting most people think of fake Rolex watches on sale in the streets of Thailand and China, cheap imitation Gucci handbags and T-shirts or music or film DVDs on sale in many market stalls around Europe. There is however a more dangerous and growing problem of widespread counterfeiting of aircraft and motor vehicle spare parts, pharmaceuticals, software and luxury goods.

In 'Counterfeiting Exposed' by Hopkins, Kontnik and Turnage examples given of serious consequences of counterfeiting include.

- The 1989 Convair crash which killed 55 people on board, caused by substandard counterfeit bolts and bushings
- In 1990, 89 children in Haiti died after taking fake pharmaceuticals containing antifreeze
- Counterfeit car parts are estimated at \$3 billion in the USA, and in some countries, they account for 30 per cent of the entire market.

The Peoples Republic of China is generally considered to be the main source of counterfeit goods. ABC news recently estimated that losses suffered in China by foreign firms at \$20 billion annually. In some product categories, fakes have now taken over from the original as market leaders – for example more than half the motorcycles sold in China are copies of Honda and Yamaha bikes.

The problem in China is particularly serious in certain market areas: estimates of market penetration for fake digital products routinely exceed 90%, with software at 94% and video games at 97%. Some commentators point to the fact that sales of pirate Windows software in China undercut the genuine products by 95%, but often include later upgrades than those available in authentic versions.

This epidemic is not limited to the Far East. Sophisticated sales networks are financed through tax havens such as Panama, with distribution in Africa, Russia, and Latin America. India has a thriving pharmaceutical industry, that specialises in producing generic equivalents of some of the most popular drugs in the world, including Viagra, which are often sold for as little as 1/50 of the US sales price.

China is now taking steps to deal with the problem by the establishment of IPR courts and amendments to the Copyright Law which signal an intent to implement WTO commitments. UK manufacturers however often paint a bleak picture of enforcement action being slow and difficult to obtain, with a frequent complaint that as soon as a factory is closed down, a new company starts up from the same premises making identical products almost immediately.

As enforcement or regulation is seen by many to be an ineffective remedy, manufacturers are increasingly turning to technology to remedy the problem. A whole industry is growing up developing solutions which can deter, detect and control counterfeiting, for example by providing a feature or chip into each genuine product. Other technologies allow companies to track their products through the distribution channels, either visible to the naked eye, or those that require a reading device.

As international litigation becomes expensive and often unproductive, many manufacturers are turning to ADR to resolve their difficulties. For example, the Internet Corporation for Assigned Names and Numbers (ICANN) policy is now enforced at the WIPO Arbitration and Mediation Centre based in Geneva which hears approximately 175 cases per month. [The web site at <http://www.wipo.int/amc/en/index.html> gives a great deal of information about pending cases, decisions and statistics]



St Pauls Chambers Regulatory Breach Team were recently successful in a tender to cover all work in the North of England prosecuting on behalf of FACT in relation to BSkyB contracts. This work incorporates prosecuting under Copyright legislation all pubs, clubs etc that show BSkyB without the correct contracts and all other areas of counterfeiting of their product. Instructing Solicitors are Russell-Cooke in London.