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A Global Guide



# Industry insight

### Fashion

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Recent estimates have shown that counterfeiting in Italy generates a turnover of around €7.5 billion. The phenomenon is in continuous evolution and the categories of goods counterfeited expand constantly. Indeed, in recent years there has been an exponential increase in the counterfeiting of widely used consumer goods such as:

- food products;
- toys;
- alcoholic beverages; and
- pharmaceutical products.

#### Impact on the fashion industry

Despite this diversification in the type of goods targeted, the fashion sector still contributes the largest portion of the counterfeiting industry's vast turnover. Italy, renowned for its designers and fashion industry, is among the countries most affected.

The damage caused by counterfeiting is significant. While counterfeiting results in a decrease in mark owners' profits and devalues their IP portfolios, it also affects national economies. This in turn breeds criminality, if only in the form of undeclared labour and tax evasion.

In the specific case of the fashion industry, the presence on the market of fake products affects not just the rights holders themselves, but also smaller companies in that sector. This is because counterfeits are available at prices that lead large numbers of customers to purchase fake luxury items rather than genuine products from smaller manufacturers at a similar price. Consumers unable to afford well-known luxury brands find a substitute for them in counterfeit products. These consumers may have purchased a genuine product (similar to the luxury product but at a lower price) from a smaller manufacturer had counterfeits not been available.

Counterfeiting also has negative repercussions on the value of industrial property rights. A peculiarity of the luxury industry is its use of sophisticated distribution channels which – together with specific marketing strategies – creates brand desirability in the collective imagination. The image of luxury brands is unquestionably damaged when consumers can find counterfeit products through popular channels such as markets or internet auction sites. The damage to image translates into a decrease in brand value.

Besides causing direct damage to luxury brand owners' profits, counterfeiting also generates additional costs. These are sustained while protecting IP rights – both through prosecution and litigation.

Unfortunately, counterfeiting also has a social cost. It feeds the undeclared labour market and exploits child labour. Moreover, counterfeiting represents a danger to public order. Notorious criminal organizations are often behind trade in counterfeits as it represents a good source of income for their illicit activities but at relatively low risk.

#### **Global strategy**

To combat counterfeiting within the fashion industry, brand owners must establish a global strategy that covers countries in which manufacturers and importers of counterfeit products are concentrated. Therefore, it is vital for brand owners to put in place a network of representatives capable of guaranteeing good relationships and communication with the local authorities. Such a network guarantees more effective collaboration between rights holders and police forces, which is an essential element of a brand protection strategy.

Local representatives can take direct action on the ground through seizures and legal actions. The objective of such actions is:

- to disrupt counterfeiters; and
- to discourage further infringement by showing that brand owners and/or their representatives are actively engaged in the fight against counterfeiting.

Raising awareness is key to any global anti-counterfeiting strategy. Local information campaigns on the threats posed by counterfeiting can help rights holders to achieve satisfactory results at a limited cost. Increasing numbers of rights holders conduct advertising campaigns in developing countries publicizing the damage caused by counterfeiting. Rights holders combine such preventive action with legal actions and seizures.

Fashion brand owners must also take into account the evolution in the distribution channels used by counterfeiters. The use of the Internet and of numerous online auction sites has increased counterfeiters' reach. In recent years a considerable portion of the counterfeiting market has moved to these new channels. It is thus essential to monitor the Internet using the most recent technologies to combat the marketing of counterfeit goods on unauthorized websites and online auction sites. Some of the latter have set up programmes to collaborate with rights holders. These consist of notification mechanisms through which trademark owners can report the presence of counterfeit products on the website and obtain the removal of the infringing listings. Where a particular seller repeatedly puts counterfeit goods up for sale, the website provider will usually

lock the seller's account and prevent further access to the site.

#### Attack is the best defence

A recent survey commissioned by the Italian Intellectual Property Office's IP Crime Group shows that despite an increase in awareness, just under 50% of rights holders do nothing to protect their intellectual property. Many directors and managers are unaware of the consequences that counterfeiting can have on their companies.

Adopting a strong approach to the problem, especially in the fashion industry, is key to limiting:

- the volume of counterfeit products on the market; and
- the revenues generated by counterfeiters.

Fashion companies can take three specific steps to protect both their businesses and their clients.

#### Protecting intellectual property

IP protection is the key tool for defending fashion brands. Counterfeiters are becoming more and more sophisticated. They monitor the market carefully and will quickly take advantage of any fashion company failing adequately to protect its brands. Broad protection for all trademarks and design features encompassed by a fashion brand is as important as the brand's marketing strategy itself. There are certain shortcomings in the enforcement regimes of certain jurisdictions. Infringers are often well aware of such deficiencies and will make life as difficult as possible for fashion companies. A global strategy of IP protection, even if expensive at first, can save vast amounts in settlement agreements and future litigation.

#### Increasing customer awareness

Customers, both retailers and endconsumers, should be made aware of:

- all the features of the original product;
- the product packaging, including authentication devices, high-quality boxes and branded shopping bags;
- the types of approved location for buying the branded products (purchasing a fashion product at a brand owner's boutique or authorized website should be promoted, other channels should be viewed as questionable);
- the word mark's spelling as counterfeiters often accidentally or deliberately misspell fashion trademarks;
- the fact that the logo should be present on all the details of the garments, including latches, snaps and zippers; and

the price range for an original fashion brand – any product priced outside that range should be considered suspicious.

Fashion companies should also consider publicizing their efforts to stem the tide of counterfeit goods.

#### Global customs surveillance

Any company wishing to do business on a global basis should submit an application to the relevant customs authorities to benefit from the monitoring service they usually provide. Indeed, most customs authorities have sophisticated techniques in place to monitor the importation, exportation and transit of goods. These monitoring services are crucial for tracking the movements of counterfeit products. Depending on the country in which goods are seized, there are usually several courses of action mark owners can follow. In any case, rights holders are advised to cooperate with Customs to use the latest technologies available on the market. In addition, fashion brand owners should frequently update their lists of authorized distributors to avoid the detention of original goods.

#### At EU level

The EU institutions are committed to fighting counterfeiting. The latest evidence of that commitment was the publication of a resolution on a comprehensive European anti-counterfeiting and anti-piracy plan designed by the EU Competitiveness Council at a meeting on September 25 2008. The resolution was published in the EU *Official Journal* of October 4 2008 (Issue 253/1).

The council sent a formal invitation to the EU Commission and the member states to use all appropriate means to combat counterfeiting effectively.

In particular, the council highlighted the need to submit an anti-counterfeiting customs plan for the years 2009 to 2012 which gives priority to greater cooperation with regard to sharing information using electronic systems.

- The resolution's objectives also include:
  the promotion of coordination between institutions involved in combating counterfeiting and piracy;
- the creation of a network for the rapid exchange of information;
- a recommendation to carry out a survey of customs laws; and
- an evaluation of the improvements to be made to the current legal framework.

Moreover, the EU Parliament recently invited the commission once again to

guarantee compliance with international regulations on intellectual property so that all EU member states have a minimum standard of protection. It also called for an increase in coordination between the customs authorities and national legal bodies.

The Parliament's commitment to the anti-counterfeiting cause is also evident in its repeated requests for harmonization of national laws, so that the definition and perception of the crime of counterfeiting are the same in all EU member states.

#### Italy at the forefront

The Italian customs authorities introduced a state-of-the-art multimedia interactive database in 2004 to help them gather information on counterfeit and pirated items. The database, called FALSTAFF, is integrated to the IT system (called AIDA) and updated directly by IP rights holders that request protection for their goods.

Rights holders must accompany their requests for action with:

- their company details;
  - information on the products to be protected (including technical features); and
- any reports of suspected cases of counterfeiting.

This information is then stored in the database. The customs authorities consult the database and compare the information with the declarations accompanying shipments of goods passing through Customs, as acquired by the AIDA system in real time. At this point a technical process is activated to compare the information on file with new data. This helps in assessing the risk that the shipment of goods is indeed counterfeit.

FALSTAFF has improved the efficiency of Italian Customs as regular updating by rights holders provides customs agents with all the information required to identify counterfeit goods. Moreover, the system allows for the notification of rights holders via text message or email whenever suspicious goods are held.

The FALSTAFF project's success was recognized in 2005 at the Europe Awards for eGovernment.

The system is testimony to the commitment of the Italian customs authorities to fighting counterfeiting through the use of innovative technologies and ongoing collaboration with IP rights holders. Another aspect of this commitment is the increase in the number of campaigns conducted to raise public awareness as to the social danger posed by counterfeiting.

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Mr Bresner has extensive experience of anti-counterfeiting work – in particular, customs surveillance and border seizures. He also assists clients in court litigation and extra-judicial procedures, dispute resolution and legal consulting on IP matters.

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