

# Review

## Intellectual Property & Technology



### TURNING TO CRIME - THE BEST WAY TO STOP COUNTERFEITERS?

Imitation maybe the sincerest form of flattery but it's a compliment that many businesses could well do without. It has been estimated that counterfeiting costs legitimate business in the UK more than £3.5 bn annually.

But the big question, which has vexed big brand owners for many years, remains how best to deal with such infringers. Most owners of well-known brands rely on a combination of measures to tackle counterfeiters:-

- technical anti-counterfeiting measures, which make their products harder to copy and fakes easier to distinguish;
- self-funded civil enforcement against the most obvious targets;
- recourse to HMRC to stop imports and local Weights and Measures Authorities (Trading Standards) to stop sales in this country of counterfeit goods.

### CIVIL ENFORCEMENT

There are two main problems with civil enforcement of intellectual property rights against counterfeiters: cost and effectiveness.

In many cases private civil enforcement simply costs too much to make it an economic option: to obtain even a basic interim injunction, pending a full trial of a claim, will require the preparation of witness statements, pleadings as well as a court hearing with barristers etc. Costs of £30 – 75k to obtain such an injunction would be by no means unusual, even for a straight forward case. The costs of obtaining an interim injunction can be very much higher where it is heavily contested – for example on the basis that the goods are genuine grey goods rather than counterfeits or do not otherwise infringe valid intellectual property rights. A full blown trial of a counterfeiting case, with witnesses and cross-examination, can easily cost a rights holder in excess of £300,000.

The prospects of recovering such fees from counterfeiters are often remote. Many corporate defendants simply cease trading and go into liquidation rather than pay the rights holder substantial sums by way of legal costs or damages. Individual defendants, with no assets, know that there is little point in a successful claimant attempting to recover an award of costs or damages against them.

A further problem is that even obtaining an injunction will often not deter a determined counterfeiter: family, friends or a new company will often be used to carry on the counterfeiting business and circumvent an expensively obtained injunction.

### ENFORCEMENT BY CUSTOMS & EXCISE & TRADING STANDARDS

As an alternative to the private enforcement of civil rights, many rights holders turn to Customs & Excise (now part of HMRC) and local Trading Standards (Weights & Measures Authorities) to deal with infringers. HMRC are empowered by Article 9 of EU Council Regulation No. 1383/2003 to detain goods at borders.

In the UK, prior to 6 July 2010, HMRC used to detain goods on the basis of a witness statement from the rights holder: the owner of the goods then had to challenge the seizure and detention of their goods by bringing a civil action. In essence the onus of proof was on the importer to show that the detained goods were not infringing.

HMRC will however no longer detain goods for longer than 20 working days unless the rights holder has started a civil infringement action relating to the detained goods. In essence the onus is now on the rights holder to demonstrate that the goods really do infringe his valid intellectual property rights.

This change means that often the main advantage of Customs & Excise procedures – detention of goods on the basis of a witness statement alone – has been lost and that civil enforcement proceedings – with all the disadvantages that go with them – will have to be started in all cases where the detained goods are not abandoned by the importer.

It should also be noted that Customs & Excise can do little once goods have actually entered into circulation within the UK. Once counterfeit goods have entered into circulation within the UK then the bodies charged with dealing with them are local Weights and Measures Authorities. Local Weights and Measures Authorities (Trading Standards) have a statutory obligation to enforce, within their areas, the criminal sanctions of the copyright, Designs and Patents Act 1988 in relation to copyright and under the Trade Marks Act 1994 in relation to trade marks. Some trading standards departments are better and more experienced than others. Some of them are seriously overworked and have the resources only to deal with what they regard as being the most serious cases. There are often also significant delays in between approaching Trading Standards and getting them to do anything. In practice much seems to depend on whether or not there is anyone within a particular Weights and Measures Authority IP Crime team who is really interested in IP enforcement. Where there is not then little progress is likely to be made in trying to interest that particular Weights and Measures Authority in a particular instance of counterfeiting.

## PRIVATE PROSECUTIONS

As an alternative to bringing a private civil action or relying on enforcement by often patchy Local Weights and Measures Authorities a rights holder can bring a private criminal prosecution against a suspected copyright or trade mark infringer. The right to bring a private prosecution is a long established and important constitutional legal right, which protects private citizens and companies against the failure of state prosecution authorities to properly pursue a case.

Bringing private criminal prosecutions against counterfeiters and those who deal in pirated goods has several advantages for the rights holder.

### More Of A Deterrent

Firstly such prosecutions are much more of a deterrent than a private civil action. The defendant can lose his freedom, be fined, have his assets confiscated and will end up with a criminal record. Serious copyright offences (making for sale or hire, importing and distribution) and trade mark offences are triable either way and on indictment carry a maximum sentence of 10 years and/or an unlimited fine.

Obtaining a conviction via a private prosecution and sending an infringer to prison is much more likely to attract media coverage than a private civil enforcement action.

### Costs Paid Out Of Central Funds - Win Or Lose

For a claimant to recover their costs of a civil case, they must both be awarded their costs by the Court and the defendant must be able to pay them. To be awarded their costs the claimant must generally win the action or alternatively win on more of the cost intensive issues than their opponent. To actually recover their costs the losing defendant must have the money to meet its obligations under the Court order and they must actually pay the money over.

In stark contrast, the claimant's costs – win or lose – of bringing a private prosecution in respect of an indictable offence<sup>1</sup> are recoverable from Central Funds, pursuant to section 17 of The Prosecution of Offences Act 1985. The test for recovery of the prosecution's costs is not whether the claimant has won or lost on the majority of the issues in dispute but the much lower standard of whether the prosecution was properly brought or not. In practice a private prosecutor should recover its costs, incurred in relation to a private prosecution, unless the Court forms the view that the case was brought/proceeded without good cause – i.e. was malicious, (*Practice Direction on Costs in Criminal Proceedings* [2004] 2 All E.R. 1070, para 111.1.1).

<sup>1</sup> i.e. an offence which is sufficiently serious as to be capable of being dealt with in front of the Crown Court.

In the event of the prosecution being unsuccessful there is a theoretical risk of costs being awarded against a private prosecutor. However this is unlikely to happen where a case is conducted carefully and diligently and where it can be shown that the defendant did have a case to answer. In such circumstances the defendant (assuming he is not legally aided) would be likely to recover his costs from central funds and not from the private prosecutor. A legally aided acquitted defendant's costs will generally be paid pursuant to the Representation Order, granting him legal aid.

### **The Position of Directors & Senior Managers**

Where an offence is committed by a company but with the consent or connivance of a director, manager, secretary or other similar officer that person can be punished for the same offences as the company.

A director consents to the commission of an offence where "he is well aware of what is going on and agrees with it" while he connives in the commission of an offence where "he is equally well aware of what is going on but his agreement is tacit, not actively encouraging what happens but letting it continue and saying nothing about it", *Huckberry v Elliott [1970] 1 All ER 189 at 194*.

This is a much lower threshold for liability than that required to make a director or senior manager personally liable for the civil wrongs of the company he works for.

### **Confiscation Orders**

Under the Proceeds of Crime Act 2002 it is possible to seek a confiscation order. The effect of the making of a confiscation order by a Crown Court is that the defendant's assets, which were acquired with the proceeds of crime, are confiscated. If a confiscation order is made the onus is on the convicted defendant to prove that all his assets, acquired in the six years leading up to conviction, were acquired lawfully. If he can't then such assets become liable to confiscation.

Under section 13(5) of the Proceeds of Crime Act 2002, those who have been financially disadvantaged by a criminal enterprise (such as a brand owner in a counterfeiting case) can apply to Court for compensation out of confiscated assets. The Police and the Courts also have rights to such funds.

### **Search Warrants**

Search warrants can be obtained in relation to both suspected copyright and trade mark offences.

## **THE OFFENCES**

### **Copyright**

For copyright the offences include making, importing into the UK, possessing with a view to committing an infringing act and dealing, in the course of a business, with infringing copies. The defendant must know or have reason to believe that the articles, the subject of his acts, are infringing copies of a copyright work. The acts complained of must be carried out without the right holder's consent.

### **Trade Marks**

In relation to trade marks the offences relate to the application of the trade mark (or a mark likely to be mistaken for it) to goods or their packaging and also the possession, sale, letting for hire, offer or exposure for sale of goods, which bear such a trade mark. The defendant must carry out such acts with a view to gain for himself or with intent to cause harm to another: this is a very low threshold and is satisfied if, for example, the defendant merely had the disposal of the goods in his contemplation. The acts complained of must have been carried out without the right holder's consent.

## **WHY AREN'T THERE MORE PRIVATE PROSECUTIONS?**

Some of the IP collecting and enforcement bodies have brought such prosecutions on behalf of their members and generally they have been successful. Private prosecutions for IP offences remain however relatively rare. Given the advantages available to the private prosecutor, it might well be asked why this is the case.

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The biggest hurdle to bringing private prosecutions is the fact that most intellectual property lawyers in the United Kingdom are civil law lawyers who deal with the enforcement and exploitation of private legal rights, rather than criminal lawyers who deal with the prosecution or defence of criminal offences.

Such lawyers are clearly right to be cautious as criminal procedure is complex, very different from civil procedure and imposes extra disclosure obligations on the prosecution as compared to civil procedure. Also in criminal cases the key facts have to be proved beyond all reasonable doubt rather than on the lower civil standard of on the balance of probabilities. The rules relating to the admissibility of evidence are also different in criminal cases.

For all these reasons intellectual property litigators with a civil law background have historically been reluctant to bring private prosecutions.

## **SQUIRE SANDERS HAMMONDS**

Squire Sanders Hammonds are fortunate enough to have a team of both highly recognised civil intellectual property rights lawyers as well as a team of lawyers with significant exposure to criminal law procedures who regularly conduct and defend prosecutions of criminal law offences.

These lawyers work together in our Intellectual Property Crime special interest group. They are, for example, currently working together on a high profile case brought to our firm from the Metropolitan police, which involves the large scale production of pirated DVDS and their sale in London through retail premises.

We work with the leading criminal law barristers in this area. They have significant experience of working on some of the leading IP criminal cases. We also work with a specialist firm of private investigators, who have more than 45 years experience of criminal prosecutions.

Carefully applied to the right case, private prosecution of intellectual property rights can send a powerful deterrent signal to the counterfeiting community. Such remedies can, in very many cases, be obtained far more cheaply than conventional civil remedies. Squire Sanders Hammonds has the experience and expertise to help you with your private prosecutions of these rights.

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## **FURTHER INFORMATION**

If you would like any further information about anything set out in this alert please contact:

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