

Enforcement by Customs and Excise and Trading Standards

As an alternative to the private enforcement of civil rights, some 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 17 of EU Council Regulation No. 608/2013 to detain goods at borders (“the Counterfeiting Regulation”).

The biggest single problem with using Customs & Excise is that often the rights holder will not have sufficient information to enable Customs & Excise to actually identify the goods from the information (SSN's and ECSI's) that accompany containers. With more than 11million containers coming into the UK each year and more than 2 million containers coming into the busiest ports such as Felixstowe, without such information Customs & Excise is like a sieve with very big holes in it. Oftentimes the first thing a rights holder will know about infringing goods coming into the UK is when they start appearing on Amazon, eBay, the local market stall or in discount stores up and down the land.

Even when Customs & Excise can identify counterfeit goods and seize them then that is by no means the end of the matter. Goods which have been seized by HMRC will be released by HMRC unless, within 10 days of being notified of their detention, either (a) both the owner of the infringed IP rights and the owner of the detained goods have consented to their destruction or (b) the IP rights owner has started an infringement action¹. HMRC will not 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 on the rights holder to demonstrate that the detained goods really do infringe his valid intellectual property rights. Detention by HMRC remains a very useful remedy in cases of clear infringement, which often quickly settle once the goods are detained. For less clear cut cases, it frequently becomes just the opening shot in civil litigation.

Once goods have actually entered into circulation within the UK, there is little that Customs & Excise can do about them. The baton then passes to local Weights and Measures Authorities (Trading Standards) who have a statutory obligation to enforce, within their areas, the criminal sanctions of:



- (i) The Copyright, Designs and Patents Act 1988 in relation to copyright;
- (ii) The Trade Marks Act 1994 in relation to trade marks; and
- (iii) The Registered Designs Act 1949 in relation to UK registered designs².

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 significant delays between approaching Trading Standards and getting them to take action against the infringer. 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 such a person, then little progress is often made in trying to interest that particular Weights and Measures Authority in a particular instance of counterfeiting.

There is Another Way... Private Criminal Prosecutions

As an alternative to bringing a private civil action or relying on enforcement by often disinterested 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 (but relatively rarely used) 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, as detailed below.

More of a Deterrent

Firstly, such prosecutions are much more of a deterrent than a private civil action. If found guilty, a defendant could lose his freedom, be fined, have his assets confiscated and 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 in a civil case, they must 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 be able to recover their costs the losing defendant must then actually have the money to meet its obligations under the Court order and they must pay the money over. As many claimants have found to their cost, enforcing a judgement debt often costs a lot of money and leads to little actual recovery being made: the defendant is either a man of straw and/or goes into some form of insolvency process which can (and is often intended to) make recovery either impossible or uneconomic.

¹ Article 23 of the Counterfeiting Regulation. The ten day period within which to start an action can be extended once by HMRC upon application by the rights holder for a further period of 10 days.

² This was introduced in 2014 by the Intellectual Property Act 2014.

In stark contrast, win or lose, the claimant's costs of bringing a private prosecution in respect of an indictable offence³ 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*).

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.

The Position of Directors and 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 from 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.

³ i.e. an offence which is sufficiently serious as to be capable of being dealt with in front of the Crown Court.

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 had 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.

UK Registered Designs

In relation to UK registered designs, a person commits an offence if, in the course of business, he intentionally copies, without the consent of the rights owner, a registered design to make a product that is exactly or very similar to that design, knowing or having reason to believe that the design is registered. An offence may also be committed by a person who in the course of business offers, puts on the market, imports, exports or uses or stocks such a product, without the consent of the right owner, knowing or having reason to believe that the design has been intentionally copied and is registered.

Why Are There Not More Private Prosecutions?

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.

The biggest hurdle to bringing private prosecutions is the fact that most intellectual property lawyers in the United Kingdom are civil lawyers, who deal with the enforcement and exploitation of private legal rights in the civil courts. As many intellectual property lawyers don't understand criminal procedure, these valuable remedies are underused by them. In contrast, the vast majority of criminal lawyers do not possess the specialist intellectual property law knowledge which is required to take a private prosecution for intellectual property offences.

Why Choose Us

We have a team of intellectual property lawyers who have extensive experience of both civil and criminal intellectual property related proceedings. This experience enables us to present the best possible range of options for our client.

Case Study

Our client, R H Smith & Sons ("Smiffys"), the UK's leading designer and manufacturer of high quality costumes, wigs and novelty goods under its "Smiffys" and "Fever" brands, discovered in the late autumn of 2014, that one of its customers, Party Pit Stop, a Stoke-on-Trent business operated by Joshua Shemirani, was importing



from China and selling in the UK inferior quality “knock-off” fancy dress costumes, which were copies of the original garment designs produced by Smiffys’ UK-based design team and which were being sold under the “Smiffys” brand and packaging artwork.

Smiffys contacted our firm and our dedicated anti-counterfeiting team immediately swung into action. A private investigator was quickly dispatched to Party Pit Stop’s shop in Stoke to buy some samples of the “knock-off” products and further samples of the “knock-off” products were also obtained anonymously from Party Pit Stop via their eBay and Amazon accounts.

The first that Party Pit Stop knew about Smiffys’ complaint was when the owners and managers of the business received a claim form through the post, just before Christmas.

Party Pit Stop, knowing that they had no defence, quickly admitted their guilt and conceded liability on all three counts – design, trade mark and image copyright infringement – rather than face an expensive trial that could have cost them hundreds of thousands of pounds to contest. Joshua Shemirani admitted liability and gave written undertakings to the High Court that he would not deal in the illegal copies of Smiffys’ products again and also agreed to pay Smiffys tens of thousands of pounds in respect of its legal costs and damages. He also had to send the thousands of pieces of remaining counterfeit stock to Smiffys to be destroyed. He was further obliged to provide Smiffys with copy invoices, which gave Smiffys valuable evidence against the Chinese supplier – the ultimate culprit.

On our recommendation, and for maximum deterrent effect, Smiffys then initiated a private criminal prosecution against Joshua Shemirani. That case was concluded in Leeds Magistrates Court on 29th June 2015, when Mr Shemirani admitted guilt and was convicted of all three counts against him. He now has a criminal record and was sentenced to 80 hours unpaid Community Service with costs awarded to Smiffys. He would have received a higher penalty (either imprisonment and/or a fine), but for the substantial damages already paid in the civil action. If he is found to have engaged in this activity in the future, he will almost certainly receive a prison sentence.

Contacts

Francesca A. Fellowes

Senior Associate

T +1 44 113 284 7459

E francesca.fellowes@squirepb.com

Andrew Clay

Consultant

T +1 44 113 284 7655

E andrew.clay@squirepb.com

The contents of this update are not intended to serve as legal advice related to individual situations or as legal opinions concerning such situations nor should they be considered a substitute for taking legal advice.