

Getting the Black Market to Knock It Off: Enforcing Trademark Rights in Thailand

(Part I of II)

Intellectual property rights owners are increasingly feeling the pressure and seeing revenue losses due to competition from the counterfeit goods that are invading the global market. The global society also suffers from the physical and emotional pain of the countless people – many of them children – who are either slaves to these criminal black marketers or victims of their faulty products. The problem is both economic and social.



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The common notion that the modern black market economy consists solely of knock-off products such as clothing, electronics and pharmaceuticals seems justified by the proliferation of these illegal items flooding markets around the world – whether they be informal street markets, black market brick-and-mortar shopping malls, or through web-based retailers peddling knock-off products. The matter is further complicated by the vast number of hybrid situations, when the offender may not be a black marketer unrelated to the brand owner, but may be the brand owner's own manufacturer or distributor (for this reason, Thailand does not distinguish black markets from gray markets and other types of illegally produced goods). There is no single battlefield, either by country or by the type of target. Battles are routinely fought on multiple fronts at any one time and may include the following all-too-common problems:

- (i) investigating, identifying and enforcing trademark rights against the manufacture and distribution of an unknown source of knock-off goods (sometimes the workmanship represented in the knock-off good is insultingly poor and sometimes exceptionally good);

- (ii) enforcing trademark and contractual rights against a renegade authorized distributor who has been helpful to the trademark owner by registering the owner's marks in the local country and has begun to import knock-off products at lower margins while owning the trademark registrations in the local country and hijacking the mark from the rightful owner; and
- (iii) enforcing trademark and contractual rights against the client's own manufacturer, who keeps the manufacturing line rolling 24 hours a day, seven days a week and 365 days a year – despite the fact that the trademark owner's requested production quantities are met by the 20th of each month – and ships the additional product out to black market buyers.

Traffic in black market counterfeit goods is a serious and growing threat to the economies of many countries around the world, including the United States, the world's largest producer, consumer and exporter of intellectual property.

Counterfeiting is not a victimless crime

When self-esteem is linked to branding, it seems harsh to judge the person who cannot afford a US\$400 watch when he or she buys a US\$35 copy in an attempt to feel good. However, if consumers were more aware of the macroeconomic effect of their fake watch or handbag purchases, they might have second thoughts. If consumers were made aware that the dollars spent on a knock-off may be supporting organized crime, child and/or slave labour and possibly even terrorism, they might realize that there is more to counterfeiting than simply ripping off rich companies like Nike or Gucci. In this sense, much like the problem of demand in the war on drugs, increasing public awareness and education of the consequences of purchasing counterfeits seems to be the only viable strategy to reduce the demand for fakes.

While the losses caused by counterfeiting in monetary terms alone are daunting, it is not merely an economic crime. Counterfeiting presents a social problem as well, because the organizations behind counterfeiting operations pay no taxes, obey no laws, support organized crime, contribute to official corruption, often employ child and illegal immigrant (and in some cases, slave) labour and generally have no social conscience (or fear of liability) when it comes to the dangers posed to consumers by the low-quality, even

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dangerous, fake goods they inject into global trade.

In some cases, the threat posed by counterfeiting manifests itself in horrific public health hazards (pharmaceuticals, foodstuffs, spirits, cosmetics, automotive parts and other components where consumer safety is put at risk by substandard counterfeits). In other cases, threats to national security have been investigated, given suspicions that the proceeds of the trade in counterfeit goods fund organized crime and terrorism.

Trafficking in fakes in the era of globalization

Trafficking in illicit goods is not limited to counterfeits. Many criminal organizations consciously manage risk by diversifying their portfolios of illegal activities, spreading investments and resources across a range of high-risk activities, such as the narcotics and arms trades, to lower-risk enterprises such as human trafficking, and trade in counterfeit and pirated goods. China is overwhelmingly the leading manufacturing source for many of the counterfeit goods encountered on the market. Less conspicuous, but disproportionately influential, is the role of Thailand, which also has historically been identified as a leading source of fakes sold around the world.

The Kingdom of Thailand, with its population of approximately 66 million people, represents a different type of challenge to intellectual property rights (IPR) owners. While there has been and remains a large, skilled, low-cost labour force and manufacturing capacity (and equally large demand) for low-tech, labour-intensive soft goods such as apparel and footwear, Thailand's role in the global counterfeiting trade is evolving. Despite the popular image of carnival-like street markets and vendor stalls overflowing with cheap knock-offs ranging from shirts and sneakers to sunglasses and handbags, the real problem is much more sophisticated than the so-called victimless crime generally tolerated by the average Thai, who views the sale of counterfeit goods as an entrepreneurial, mom-and-pop activity.

Thailand has become more of a specialist producer in several highly developed industries that are supported by domestic economic

policy and foreign direct investment. In the automotive sector, for example, Thailand has earned the title of the "Detroit of Asia", a reference to the former centre of US automotive manufacturing in the city of Detroit. Moreover, Thailand has developed a particular knack for logistics and has become a regional hub for the trans-shipment and export of fakes.

Although Thailand's IP laws are TRIPS-compliant, lingering questions remain about whether Thai law enforcement and policy officials have enough political will to enforce the laws against counterfeiting and piracy. As such, Thailand has recently been downgraded to the Special 301 Priority Watch List by the Office of the US Trade Representative. Clearly, there is some tolerance for counterfeiting at the retail level in Thailand, as anyone who has ever visited high-volume shopping areas such as Patpong, Pratunam, Pantip Plaza or MBK shopping centre can attest. The domestic problem arising from a tolerance of counterfeits in the market is dwarfed, however, by Thailand's role in the trans-national trafficking in counterfeit products.

A regional trans-shipment hub

Thailand's geography makes it the ideal trans-shipment hub in the region. Components or finished products are shipped from one country (usually China, Malaysia or India) to Thailand, where finishing, labelling, repackaging, additional assembly or warehousing takes place before the completed product is shipped to its final destination. The link between China and Thailand in the global trade in fakes is no accident. Although the Kingdom is distinguished from its Southeast Asian neighbours because it has never been colonized by a foreign power, much of Thailand's commerce is controlled by Thais with Chinese heritage and ancestors. Second- and third-generation Chinese Thais (known locally as Teo Chiew) are highly influential in the business and public sectors. Many have family still living in the Hokkien territories of mainland China in the south, and there has always been a vigorous trade in all manner of goods between Thailand and Southern China. Thailand controls the only land route from China to Singapore on the north-south axis, which has always ensured Thailand's strategic position in many contexts.

Likewise, the link to India arises from family migration (many Thai-Sikh families are dominant in the property and retail markets in Thailand) and geography, as the Kingdom is also centrally located between India and China on the east-west axis (hence the regional reference to "Indochina"). The Kingdom has thousands of miles of open and porous land borders with four neighbouring countries, Myanmar (formerly Burma), Cambodia, Laos and Malaysia. Thailand also has three major international airports, including Asia's largest to date (the new Suvarnabhumi Airport in Bangkok) and a number

of busy deep-sea ports. The Mekong River delta system and other large rivers winding through its territory make for a smuggler's paradise that has been exploited by criminals and smugglers for centuries.

The goal of trans-shipment through Thailand is to take advantage of its extensive framework of bilateral and multilateral trade agreements to obtain a lower duty in trans-national trade and disguise the origin of goods to avoid consequences that could include dumping assessments, customs interdiction, harsh penalties for false or misleading declarations of origin, higher duties, detection of infringing goods, etc. Moreover, Thailand's economy is highly dependent on exports, so government policy has generally been lenient with respect to intercepting outbound shipments of goods. Worse, low-paid customs officials are too often offered payments from corrupt forwarding agents and export operations.

Chasing ghosts: Thailand's front companies

The ease of establishing corporate entities in the Kingdom is also a contributing factor. Many foreign – particularly Chinese, Russian,



Source: The CIA World Factbook



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- Lead counsel in defense of Carlsberg A/S in UNCITRAL International Commercial Arbitration involving a US\$500 million claim for alleged wrongful termination of license agreements.
- Lead external counsel for PReMA, the Pharmaceutical Research and Manufacturers Association in Thailand, advising PReMA on pharmaceutical and free trade legal issues, including recent developments with pharmaceutical compulsory licenses and related patent, data exclusivity and market access issues.
- T&G's specialized high-tech enforcement team continues to be in the forefront of representing software developers, protecting their copyrighted software code through vigorous enforcement actions. To date, settlements in compensation and purchases of licensed software exceeding US\$3.3 million have been obtained from copyright infringers.

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Indian, German and British – nationals with dubious business objectives (and links to criminal organizations) establish trading companies in Thailand to facilitate the trade in fake goods. These operations require minimal capitalization, no insurance or bonding, and often employ Thai scapegoats or aliases as nominee directors or shareholders to be liable in the unlikely event that Thai law enforcement officials investigate the bona fides of these exporters. If there is ever an inquiry from law enforcement about a suspect shipment, it is quite straightforward to fold up the company, liquidate the few assets on hand and disappear, only to reappear in another guise a few weeks later. Front companies like this are virtual ghosts, and are usually untraceable. Even if traced, the civil justice system in Thailand presents obstacles in terms of cost-effectively collecting judgment assets from a company found to have been engaged in the international trade in fake goods. The net effect has been to establish Thailand as a global logistics and trans-shipment hub in the trade of fake goods.

Strategies to suppress counterfeiting

The challenges confronting law enforcement and IPR owners in detecting and interdicting shipments of counterfeit goods in the era of globalization are daunting. The sheer volume of international trade historically made it physically impossible for law enforcement officials to inspect, let alone seize, any significant percentage of the overall volume of trade in fakes. Moreover, priorities and resources are focused more on what is justifiably seen as the more important problems at the border: security, weapons trafficking, illegal immigration, narcotics smuggling, etc. Technology, particularly the internet, has facilitated the trade in fakes by quickly and inexpensively matching up willing sellers and buyers, who take the calculated risk (and who take care to minimize the risk) of detection by law enforcement.

Fighting fire with fire

The syndicates and traffickers cooperate and network with each other. They ensure the protection of their activities through

bribery payments, and employ the latest high-tech gadgetry to facilitate trade. Languages, borders, laws, regulations, technology and logistics – none of these factors are seen by traffickers as show-stoppers. Instead, the traffickers view such obstacles as opportunities, a means to add value, for by circumventing such obstacles quickly, the syndicates may gain a competitive advantage and charge higher prices for the goods.

Moreover, the traffickers do not copy only one brand, they generally copy all of the dominant brands in each industry sector. It is not unusual to find a counterfeiting operation trading in fake Levi Strauss, Calvin Klein, Dickies, Wrangler or Ecko branded jeans all at the same time, or trading in mixed batches of fake Viagra®, Cialis® and Levitra®, the three leading erectile dysfunction drugs.

It would seem unthinkable for pharmaceutical giants and natural competitors such as Pfizer, Eli Lilly and Glaxo Smithkline to cooperate on matters of commercial importance – and in many jurisdictions, anti-collusion or competition laws create additional tensions that hinder any efforts by these competitors to cooperate in solving an industry-wide problem. But to fight fire with fire, industry cooperation is needed. Cooperation allows for the better use of shared resources, technology, networks and intelligence, and more effective support from law enforcement.

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Suggestions? Comments? Questions?

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