

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

(Part II)

Intellectual property rights owners are increasingly feeling the pressure from the counterfeit goods that are invading the global market. Societies worldwide also suffer, as countless people are either slaves to these criminal black marketers or victims of their faulty products. In this second of a two-part feature, Edward J Kelly takes a look at some of the economic and social problems posed by counterfeiting and other IP rights violations.



By Edward J Kelly
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police the market to eliminate and/or suppress counterfeit goods.

In a 2001 California Superior Court case, *Lynn v. Serono, Inc.*, Serono, a Swiss biotechnology company, was forced to settle with two American consumers after they sued the company for damages arising from ingestion of counterfeit Serostim®, a drug prescribed to ameliorate cachexia, a symptom of HIV/AIDS that involves weight loss, muscle atrophy and fatigue, and is commonly referred to as “wasting”. We believe this represents a new strategy for plaintiffs’ lawyers in product liability tort actions. In their claim, the plaintiffs stated that Serono was or should have been aware of the presence of counterfeits in its distribution chain and should have taken more aggressive steps to investigate the source of the counterfeits and eliminate the fakes from the market. One can intuitively see why Serono was targeted by the plaintiffs’ lawyer. Faced with clients who had suffered genuine harm as a result of ingesting the fakes, who could the lawyer have sued? Since the counterfeiter would probably never have been identified with any certainty, and is most likely operating out of some concealed laboratory in Asia, it was only logical for the lawyer to train his or

her sights on Serono in the absence of another viable defendant.

Thailand, a smaller country than China in both size and population, nevertheless represents a disproportionately large challenge to IP rights owners because of its role as a manufacturing and export hub for fakes. Thai law enforcement and customs have responded to calls for more effective action against the trade in fake goods, particularly in the automotive sector. For example, in October of

Counterfeit products, particularly in the automotive sector, pose serious risks to consumers, owing to the lack of quality assurance. When a consumer sees a branded good in the market, the consumer expects that the branded product is backed by the brand owner’s reputation for consistency, quality and safety. Counterfeiting tends to destroy consumers’ trust in brands because the notion of guaranteed quality and safety is destroyed. In the case of the automotive market, the failure of fake replacement parts that are passed off as legitimate parts affects the reputation of the manufacturers, dealers and service centres. Counterfeits truly present a lose-lose proposition: the customer is ultimately dissatisfied and possibly faces threats to his or her personal safety, while the brand owner’s goodwill suffers and resources that could be directed toward research and development are instead consumed in prosecuting counterfeiters.

With the coming introduction in Thailand of a new Product Liability Law, rights holders face the new threat of potential product liability (which allows for punitive damages and class actions) in the event that the rights holder is found to have been negligent in failing to

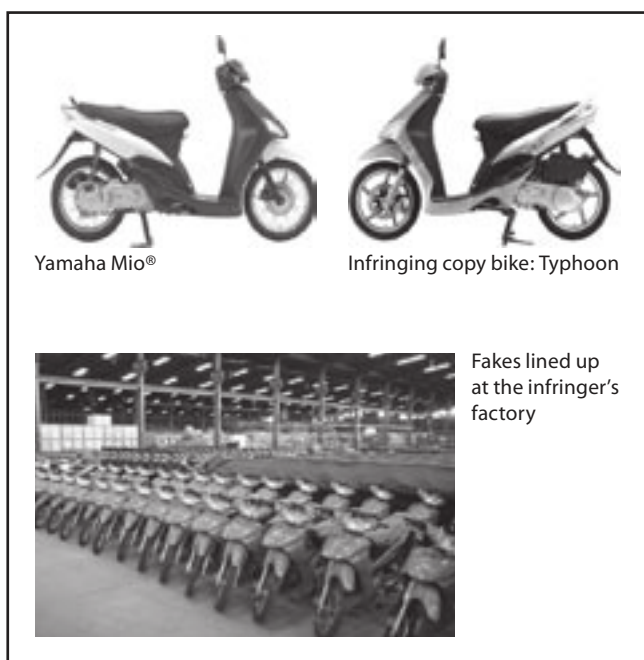




Mercedes Benz, BMW accessories seized by DSI.

2005, an elite Thai law enforcement unit, the Department of Special Investigation (DSI), seized some 50,000 counterfeit automotive parts and accessories bearing the unauthorized trademarks of Mercedes Benz, Chevrolet, Honda, Saturn and BMW. DSI officials estimated that the seizure of parts and equipment was valued at more than Bt1 billion (more than US\$25 million). The raid was one of the largest of its kind in Thailand's history of intellectual property enforcement (for more information, see "Fake Car-Parts Raid Highlights IP Issue" in *The Bangkok Post* October 28 2005).

The October 2005 raid also uncovered more than 50 operations using signage and trademarks of DaimlerChrysler so as to have customers believe that they were among the network of authorized dealers and service centres when, in fact, the operations had no commercial relationship with the company. This unauthorized use of trademarks presents just as much risk to the consumer as the trade in counterfeit parts, because, again, there is no guarantee of quality in the provision of services by unauthorized dealers.



Yamaha Mio®

Infringing copy bike: Typhoon

Fakes lined up at the infringer's factory

Another recent series of raids by DSI resulted in the seizure of nearly 1,100 fully assembled motorcycles worth more than US\$1.2 million from a Malaysian-owned factory in southern Thailand. The motorcycles were seized under the authority of the *Thai Patent Act* because they were slavish copies of patented Yamaha designs and inventions. In fact, the motorcycles were virtually indistinguishable and many of the parts were completely interchangeable between them.

Copying and infringement on the scale of the DaimlerChrysler and Yamaha cases discussed above tends to adversely impact Thailand's ability to attract research and development operations and foreign direct investment. What investors seek, and what high-tech ventures need, is a level of security and confidence that the resources devoted to innovation and creativity will be protected so that an adequate return on the investments is possible.

MOU Between Royal Thai Customs and the Private Sector: A Successful Model

As an example of how a strategy based on cooperation can significantly change the dynamics of the counterfeit trade, in September 2003 Royal Thai Customs signed a Memorandum of Understanding (MOU) with private-sector IP rights owners and several local legal representatives. The purpose of the MOU was to spell out the needs and expectations of the private sector and the customs department, and to pledge mutual support and cooperation. As a result, IP rights owners have seen more customs seizures in Thailand in the last three years than in the last 30 years combined.

The MOU had as its centrepiece a pledge of round-the-clock support from the legal representatives of IP rights owners to provide intelligence, profiling of known or suspected traders involved in counterfeiting, testimony, product training, product identification and documentary support to allow Royal Thai Customs to interdict suspect shipments. In exchange, cumbersome and impractical procedures as codified in the formal regulations were relaxed and streamlined so that IP rights owners would not be required *ab initio* to post a bond every time a seizure was made.

The net effect is that seizures of finished and unfinished goods entering into the Thai kingdom, mostly sourced from China, have rapidly escalated. The benefits have been four-fold.

First, IP rights owners are enthusiastic about the efforts of customs because they are at last seeing a better return on investment of their limited anti-counterfeiting resources. Instead of spending thousands of dollars to seize hundreds of products in one-off police raids, the IP owners are now seeing thousands of products seized

for the price of a few hundred dollars in a more systematic program, a turnabout that has been very well received.

Second, there is a higher level of systemic deterrence arising from the actions of Thai customs because fines imposed against the importers of fakes (up to four times the value of the genuine branded items) are generally much more substantial than the criminal fines imposed by Thailand’s specialized Intellectual Property & International Trade Court, capped by legislation at Bt400,000 (approximately US\$10,000) per conviction.


Third, the domestic market in Thailand is seeing the positive effects of these seizures, and this has created a certain level of comfort for some high-end brand owners to move commercial operations into Thailand’s retail and industrial sectors, allowing Thailand to move toward its stated goals of becoming the “Fashion Capital of Asia” and/or the “Detroit of Asia” for car manufacturing – aspirations that are actually well within reach.

Lastly, because many of the goods seized were ultimately designated for re-export to other markets such as Dubai, South

The plaintiffs claimed that Serono should have been aware of counterfeits in its distribution chain and should have taken more aggressive steps.

Africa, Mexico, Australia and Eastern Europe via Thailand as a hub for trans-shipment, these seizures of Chinese-produced fakes have disrupted the flow of counterfeits into other downstream markets.

Better still, customs seizures have allowed IP rights owners to develop a better idea of where the goods are coming from, who is making them and who is importing them. In other words, the quantity and quality of intelligence about the global distribution of fakes are improving significantly. New ventures, such as Factory Watch (www.factorywatch.net) in southern California, which has the potential to be the Central Intelligence Agency of IP rights



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- has been voted by its peers and clients all over the world as the Number One IP firm in Thailand in separate surveys conducted by Managing Intellectual Property magazine and AsiaLaw magazine.
- prides itself on being a responsive, pro-active one-stop shop for any client’s needs for IP services, including registration, litigation, enforcement, government relations and licensing.
- has an internationally recognized special expertise in anti-counterfeiting, anti-piracy, and enforcement work.


OUR RECENT ACHIEVEMENTS

- 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 PRMA, the Pharmaceutical Research and Manufacturers Association in Thailand, advising PRMA 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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Thai customs destroying fake goods

Source: Tilleke & Gibbins International Ltd. 2005

protection, have attempted to fill the intelligence void by managing data and creating communities for law enforcement personnel, private investigators, IP rights owners and legal representatives to exchange and analyze intelligence. Finally, law enforcement officials are getting the support, resources and better data to improve the analysis of the big picture.

Many analysts agree that future progress is best assured by following the private sector-public sector industry cooperation model. The old adage of "Think globally, act locally" has no better application than to the problem of trade in counterfeits. International flows of fakes must be carefully monitored on a macroeconomic scale so that the role of key points like Thailand are identified and addressed. Raw intelligence and an analysis of trends will continue to improve as dominant industry players cooperate and as the network collaborates to keep abreast of, and adapt to, new techniques employed by the counterfeiters. Thailand, as a key point in the flow of fake goods around the world, represents a terrific opportunity

for IP rights owners to get more mileage out of a limited budget. The bottom line is that, even if Thailand is not considered a major commercial market for some products, there is a good chance that fakes that are found in major markets downstream have had some connection to Thailand further upstream. If resources are dedicated to knock out the upstream distribution now, IP rights owners will see dividends in their markets for years to come.

About the author

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Suggestions? Comments? Questions?

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