

## “ Counterfeiting tends to increase in times of economic hardship as consumers seek a ‘bargain’. Therefore, education is more important than ever ”

network, a service that the person knows or should have known is designed primarily to enable acts of copyright infringement if an actual infringement of copyright occurs by means of the Internet or another digital network as a result of the use of that service”.

- Caching would be exempt from liability.
- A ‘notice to notice’ system would be implemented, whereby if a provider received proper notice regarding a third party’s infringement of copyright, the provider would be required to forward the notice to the third party and retain certain records of identification.
- The penalty for non-compliance would be limited to statutory damages of between C\$5,000 and C\$10,000.
- The circumvention of digital locks would be prohibited, as would the manufacture, import of sale of devices that can circumvent technological prevention measures.

**CT:** In Europe, disputes about domain names are being superseded by disputes about the use of trademarks in metatags and keyword advertising. The German courts tend to hold that the unauthorised use of trademarks as metatags constitutes trademark infringement, whereas the legal situation with respect to keyword advertising is still unclear. On March 23 2010 the Court of Justice of the European Union (ECJ) decided that the unauthorised use of trademarks as keywords can, under certain circumstances, constitute a violation of trademark rights. Even if the decision still leaves many questions unanswered, it has become clear that brand owners may also have rights against the unauthorised advertiser. Whether the brand owner should target the site operator or individual advertisers depends on the circumstances of



**Paul-Alexander Wacker**  
Partner, Kuhnen & Wacker  
Paul-Alex.Wacker@patentfirm.de

Paul-Alexander Wacker is a founding partner of Kuhnen & Wacker, which is well known for landmark cases (ie, the famous *EPILADY* case) and one of Germany’s leading IP firms. Mr Wacker has studied heavy current technology, computer-integrated manufacturing, telecommunications and computer technology. He graduated from the Technical University of Munich with a master’s in electrical engineering in 1970 and was awarded a further master’s in economics in 1972. He qualified as a patent attorney in 1975. For many years Mr Wacker has lectured at universities, international conferences and IP seminars in Germany and abroad. He has gained a reputation for counselling clients on German, European and worldwide IP strategy and valuation.

the case, as well as the brand owner’s intention, but the decision shows that it will be difficult to obtain damages from the site operator directly.

**JLRZ:** Although the Mexican courts are yet to issue definitive criteria on the liability of online auction sites, it is generally accepted that the main responsibility for posting a counterfeit item for sale rests with the individual who is advertising/selling such item, and thus the auction site can put forward several arguments in its defence. However, in view of the significant increase in website auctions involving counterfeit goods, major internet sites in Mexico do have IP protection programmes where you can have the advertisement taken down within 24 hours after you notify the site administrator of the infringement, as long as you were previously credited to be the legitimate trademark/copyright owner or legitimate representative. This is independent of the sanctions that can be exerted or derived from a formal legal action brought against the advertiser/seller if enough evidence is gathered.

**Back in the physical world, what are the ‘must-have’ clauses to be included in manufacturing, distribution and other supply chain contracts to prevent counterfeiting and grey marketing?**

**LL:** I would suggest a number of elements. There should be no right to sell ‘seconds’ and you need to include the right to conduct audits of factories. Additionally, ensure that there is no right to sell to anyone other than the brand owner and utilise effective security features on labels, packaging and/or products, typically including overt/covert/forensic markers. Finally, include a system to control security labels or the number of times that a security feature is implemented.

**CT:** All efforts to fight counterfeits should start as early as possible, which means that

manufacturing and supply chain contracts should contain clauses and strategies regarding potential counterfeiting. One of the most important things that a company can do is to carry out due diligence on manufacturers and suppliers and monitor their operations with vigilance.

It should be made clear to the manufacturer that irregulars should be destroyed and that additional production lines (eg, during night shifts) will not be tolerated. More often than not, counterfeits are made by the same factories that manufacture the original goods. In addition, the goal should be distribution through a central location – if you consistently ship your product from one address, customs agents will have an easier time identifying a fake if it comes from a different address. The same holds true for shipments you receive – especially if you are receiving shipments from Asia.

**VB:** While it is worth noting that no ‘must-have’ contractual clauses can safeguard against counterfeiting, when concluding a contract the trademark owner should investigate potential partners and conclude contracts only with reliable partners. There are cases where partners in trade sell counterfeit goods alongside the originals. In such cases, occasional checks can rectify the situation if the partner does not stick to its goodwill obligations.

Grey marketing is a separate issue and the Russian courts have no definite legal position on grey imports. The initiation of a number of civil cases on the subject would help to solve this problem, but unfortunately brand owners seldom take such action. With regard to copyright, Russian law unequivocally forbids parallel imports and Customs will initiate administrative cases against copyright infringers.

**JLRZ:** Besides keeping a close eye on inventories and trademark/copyright use through precise accounting and trade controls, we would also recommend that commercial agreements include clauses that recognise the ownership of the IP rights involved and restrict the use of these rights, allowing such use only for the specific and exclusive activities for which the agreement/commercial arrangement was drafted. Additionally, create an obligation that allows the brand owner to conduct periodic audit/supervision procedures and provide for economic sanctions or penalties in case of breach of the agreement. Finally, establish a mechanism both to identify and to



**Christian Thomas**  
Associate attorney, Kuhnen & Wacker  
[Christian.Thomas@patentfirm.de](mailto:Christian.Thomas@patentfirm.de)

Christian Thomas is an associate attorney with IP law firm Kuhnen & Wacker in Germany. He specialises in IP-related litigation and prosecution (in particular, trademark, internet, unfair competition, design and product piracy). Mr Thomas studied law at Ludwig-Maximilians-University in Munich and joined the Munich Bar Association in 2005. He was awarded his PhD from the University of Salzburg. Before joining Kuhnen & Wacker he worked for a law firm in Australia, and he frequently lectures and writes on IP-related matters.

quantify the original items that are to be produced, distributed or sold in such a way that surplus or ‘extra’ items can be legally deemed as counterfeits.

Mexican law follows the ‘exhaustion of rights’ theory. This is important as the law foresees this as a specific exclusion of liability from trademark infringement and/or counterfeiting. As a consequence, parallel imports or grey market goods are not regarded by law as illegal *per se* and thus, from an IP perspective, there are no legal remedies to counter them.

**JE:** There is still some cultural reluctance to entering into detailed agreements of this kind in the Middle East. A number of principles should be incorporated into any such agreement, but more importantly, relationships with suppliers need to be actively managed to ensure that the terms of the agreement are understood and respected.

One principle to include is that the brand owner alone is responsible for protecting its intellectual property, as local companies occasionally apply to register trademarks in their own name.

Consideration should also be given to developing and protecting Arabic branding and who will be responsible for this.

In addition, ask the supplier to provide assistance in relation to the recordal of any licence – recording the trademark licence (which is mandatory in most countries in the Middle East) against the registration will ensure that the licensee’s use constitutes ‘genuine use’ of the mark, and that the registration does not become vulnerable to cancellation for non-use.

Other clauses should include the consequences of termination (eg, the delivery of materials and machinery when the licence ends, as some suppliers continue to manufacture goods under the brand owner’s mark and sell these in the territory after the agreement has ended), and effective rights to audit suppliers’ work practices and records. Specify how infringement issues will be tackled and consider commercial agency registration – a registered commercial agent has the right to request that law enforcement authorities detain genuine products that are being imported into the territory or offered for sale in the territory by third parties without the agent’s consent. However, this is the right of the agent, not the brand owner, and there are commercial risks that should be considered (eg, it is hard to end the relationship and compensation may be due to the agent upon termination).

**All the activities we have discussed require financial investment. What arguments can in-house counsel make to secure additional budget, or to demonstrate the need for additional resources, to fight anti-counterfeiting in these difficult economic times?**

**JE:** Unfortunately, counterfeiting tends to increase in times of economic hardship as consumers seek a ‘bargain’, so an economic downturn is not the time to reduce anti-counterfeiting activity. Anti-counterfeiting campaigns should rather be seen as supporting the business in difficult economic times by removing cheaper counterfeit products from the market and encouraging consumers to purchase legitimate products. Therefore, education is more important than ever. Many countries still present challenging environments in which to take action against counterfeiters, which run large and complex businesses and are skilled at hiding their activities from the authorities. It is important that the business understands that not every case will succeed, and that in order to stay one