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THE ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS
BY MEANS OF CRIMINAL SANCTIONS:
AN ASSESSMENT

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* The views expressed in the Study are those of the author and not necessarily those of the Secretariat or of the Member States of WIPO.

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PART 1

INTRODUCTION

1.1 OBJECT

1. The purpose of this paper is to consider the rationale and effectiveness of the enforcement of IP rights by means of criminal sanctions. This will be done with particular reference to a few common-law jurisdictions, including from the Pacific Rim and the Caribbean and also South Africa.

2. The emphasis is on developing countries. The reference to developed countries is principally for comparative purposes and to provide benchmarks. Occasional reference will be made to civil law jurisdictions including directives of the European Union (while appreciating that the system is, in a sense, a mixed one).

1.2 THE SOURCE OF THE OBLIGATION TO CRIMINALIZE

3. The international obligation to provide for criminal sanctions derives from the TRIPS Agreement and applies, consequently, only to those countries that are bound by the TRIPS agreement.¹

4. Criminal enforcement of IP rights usually concerns cases of counterfeiting (infringing trademark rights) and piracy (infringing copyright).² (For ease of reference this report uses the term “counterfeiting” generically to include piracy unless it is necessary to distinguish between the two concepts.) This is in part due to the minimum requirements of TRIPS but there may also be policy considerations for the limitation, some of which are discussed later.

5. The criminalization of counterfeiting and piracy did not originate with TRIPS. Counterfeiting is a species of fraud:³

¹ Article 61:

“ Members shall provide for criminal procedures and penalties to be applied at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale. Remedies available shall include imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity. In appropriate cases, remedies available shall also include the seizure, forfeiture and destruction of the infringing goods and of any materials and implements the predominant use of which has been in the commission of the offence. Members may provide for criminal procedures and penalties to be applied in other cases of infringement of intellectual property rights, in particular where they are committed willfully and on a commercial scale.”

² TRIPS footnote 14:

“For the purposes of this Agreement:

- (a) ‘counterfeit trademark goods’ shall mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation;
- (b) ‘pirated copyright goods’ shall mean any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation.

³ *R v Priestly* [1996] 2 Cr App Rep (S) 144.

“Counterfeiting is a form of deceit. A counterfeit product is something that has been forged, copied or illegally imitated for the purpose of extracting money from credulous or consenting clients to the detriment of the legal manufacturer.”⁴

6. And piracy is often referred to as a species of theft (albeit of intangible property).

7. Apart from these generalizations, trademark counterfeiting has been criminalized since, at least, the end of the 19th Century. For example, the USA Act of August 14, 1876 already punished counterfeiting of trademark goods and dealing in counterfeit trademark goods. Most, if not all, countries that fell under the British Crown had laws with a similar effect. These were statutes that dealt with merchandise marks and false trade description.⁵ (These statutes are still common and in their present form are much the same as they were originally.)⁶ Copyright infringement, likewise, was criminalized, in this instance at least since the beginning of the 20th century in all British dependencies.⁷

8. Although the classic conventions on IPR, namely that of Paris⁸ and of Berne,⁹ did not and do not provide in express terms for criminal sanctions in the event of counterfeiting or piracy, the type of provision just mentioned can be traced to those conventions.¹⁰ Article 10*ter* of the Paris Convention provides that the countries undertake to assure to nationals of the other countries appropriate legal remedies effectively to repress certain infringing acts.

9. For instance, all goods bearing a trademark or trade name unlawfully must be seized on importation into a country where the mark or trade name is entitled to legal protection. Likewise, goods must be seized in the country where a trademark is unlawfully affixed or in a country into which such goods are imported (Art. 9). Seizure is also required in cases of direct or indirect use of a false indication of the source of goods or the identity of the producer, manufacturer, or merchant (Art. 10). The Berne Convention has similar provisions.¹¹

⁴ Dr. Donal P. O'Mathuna and Dr. Adam McAuley “Counterfeit Drugs: Towards and Irish Response to a Global Crisis” (2005) at http://www.buysafedrugs.info/uploadedfiles/IrishPatientsAssoc_counterfeit.pdf.

Another view is that it is akin to the theft of goodwill: *R v Bhad* [1999] S Cr App Rep (S) 139.

⁵ In South Africa, for instance: The Merchandise Marks Act 12 of 1888 (Cape); Merchandise Marks Law 22 of 1888 (Natal); Merchandise Marks Ordinance 47 of 1903 (Transvaal). These were replaced by the Merchandise Marks Act 17 of 1941, which is still in force.

⁶ See, for instance, the Trade Description Act 1972 (Malaysia), which is discussed in Part B of this report.

⁷ By virtue of s 11 of the 1911 British Act which provided (inter alia) in s 11 that any person who knowingly (i) makes for sale or for hire; (ii) trades in; (iii) distributes; (iv) by way of trade exhibits; or (v) imports for sale or hire infringing works, is guilty of an offence. The Patents, Designs, Trade Marks and Copyright Act 9 of 1916 (South Africa) adopted these provisions in an annexure. They are still in, for example, the Trade Description Act 1972 (Malaysia) s 8.

⁸ Paris Convention for the Protection of Industrial Property (1883) as revised. TRIPS requires compliance with the 1967 text (Article 2.1).

⁹ Berne Convention for the Protection of Literary and Artistic Works (1886) as revised. TRIPS requires compliance with the 1971 text (Article 2.1).

¹⁰ Michael R Ryan “Gray Markets, Intellectual Property Rights, and Trade Agreements in the International Marketplace” discusses the enforcement provisions of IP conventions in the context of grey goods. At www.cherry.gatech.edu/t2s2006/papers/ryan-3003-2-T.pdf.

¹¹ Article 16: “(1) Infringing copies of a work shall be liable to seizure in any country of the Union where the work enjoys legal protection. (2) The provisions of the preceding paragraph shall also apply to reproductions coming from a country where the work is not protected, or has ceased to be protected. (3) The seizure shall take place in accordance with the legislation of each country.”

10. A cursory consideration of the terms of these old statutes (and their progeny)¹² shows that apart from the fact that the concept of criminalization did not originate with TRIPS, TRIPS also did not introduce any revolutionary principles nor did it impose obligations substantially more onerous than what was generally the law in most common-law countries.

11. The fact of the matter is that enforcement issues have in the era of globalization and international competition and technological developments and challenges become more significant while, in the past, they had peripheral relevance only.

1.3 REASONS FOR CRIMINAL SANCTIONS FOR IPR INFRINGEMENT

12. Intellectual property rights are private rights and it is legitimate to ask whether these rights should be enforced by means of criminal sanctions and why civil remedies do not suffice.¹³ The short answer is this:¹⁴

“Civil remedies are not effective because counterfeiters are criminals. They do not respect the law, and they strategically and tactically carry out their criminal activities in ways explicitly designed to avoid the justice system, both civil and criminal.”

13. The USA Department of Justice justifies criminal sanctions in order

“to punish and deter the most egregious violators: repeat and large-scale offenders, organized crime groups, and those whose criminal conduct threatens public health and safety.”¹⁵

14. Civil remedies make sense if the infringer can be identified readily, will comply with injunctions or interdicts, and is able to pay damages and (where applicable) legal costs. Honest trade competitors may infringe IP rights but they do not counterfeit. Counterfeiters tend to fall in a different class. They are not “honest” competitors and civil remedies are, in their case, in the ordinary course of events ineffective. The authors Pierre-Jean Benghozi and Walter Santagata said in this regard:¹⁶

“As stated, the design-based industry is divided into one legal market and two ‘counter-markets’: the illegal market and the market occupied by criminal organization. The illegal market is an attempt to evade the formal constraints of the law (copyright, labor regulation, and fiscal charges), but in its essential nature it is oriented to the market rules of pure competition. The criminal organization, on the

¹² For instance the UK Trade Descriptions Act 1968 (c 29) provides that any person who, in the course of a trade or business, applies a false trade description to any goods is guilty of an offence. A “trade description” is defined as an indication, direct or indirect, and by whatever means given, of a number of matters with respect to any goods or parts of goods including the “person by whom manufactured, produced, processed or reconditioned” and “other history, including previous ownership or use”, which would on the face of it include the use of false trademarks.

¹³ Andreas Rahmatian “Trade Mark Infringement as a Criminal Offence” *Modern Law Review* 67 (4), 670–683.

¹⁴ Canadian Anti-Counterfeiting Network “Report on Counterfeiting and Piracy in Canada: A Road Map for Change” (2007) p 17. http://www.cacn.ca/PDF/CACN%20Releases/Roadmap_for_Change.pdf.

¹⁵ “Intellectual Property—An Introduction” published by the Computer Crime & Intellectual Property Section on the Internet. www.justice.gov/criminal/cybercrime/ipmanual/01ipma.html.

¹⁶ Pierre-Jean Benghozi and Walter Santagata “Market Piracy in the Design-based Industry: Economics and Policy Regulation”. crg.polytechnique.fr/fichiers/crg/publications/pdf/2004-05-05-354.pdf.

contrary, is a command economy, oriented to the coercive [exploitation] of subordinate agents and to the shunting of legal and social norms generating costs. These organizations are typical in drugs and cigarettes, but their [activities] in design-based industry are not at all marginal because they can exploit the same distribution and retail networks bypassing customs and police controls. In such cases, delivery channels, market places, street peddlers are frequently the same and are all strictly controlled by coercion.”

15. This does not imply that criminal law is necessarily effective, as will be shown in due course. The reasons for this and possible solutions are discussed later the course of this paper.

16. Criminal law, in general, protects private rights against infringement if there is a public policy element involved. A typical example is theft. Likewise, wider public interests than the mere protection of private rights are at stake in the case of counterfeiting. These include the protection of –

- local and regional industries,
- foreign investment and investor confidence,
- price levels,
- jobs,
- international trade relations,
- tax and customs income,
- public health and safety, and
- the prevention of corruption and organized crime.

17. Although there is a measure of disagreement between member states about the scope of IP rights (particularly in the field of pharmaceuticals), this disagreement does not impact on the present issue. On the contrary, developing countries played a major role in developing this aspect of TRIPS.¹⁷

“Thus, in May 1990 a ‘Group of 14’ developing countries submitted detailed proposals on TRIPs, comprising not only draft rules on counterfeit goods and border measures, but also standards and principles concerning the availability, scope and use of intellectual property rights. [Argentina, Brazil, Chile, China, Colombia, Cuba, Egypt, India, Nigeria, Pakistan, Peru, Tanzania, Uruguay and Zimbabwe.] The submission of these proposals, which constituted a major breakthrough in the TRIPs negotiations, heralded the acceptance by the developing countries of a GATT-based standard-setting approach in IPRs. They also set out these countries’ conceptions and views on the scope and contents of such standards.

The proposals consisted of two parts. Part I, entitled ‘Intellectual Property and International Trade’, dealt mainly with the norms and principles to be applied to trade in counterfeit and pirated goods and provided for the establishment of certain procedures and remedies to discourage such trade, while trying to ensure an unimpeded flow of trade in legitimate goods. . . .

¹⁷ Carlos M Correa and Abdulqawi A Yusuf *Intellectual Property and International Trade: The TRIPs Agreement* (Kluwer Law International 1998) p 9-10.

By separating the proposed text of a TRIPs agreement into two parts, the developing countries wanted, in the first instance, to signal their determination to emphasize the part dealing with trade in counterfeit goods while minimizing the part relating to substantive standards on IPRs. . . .”

In addition, the participants at the WHO International Conference on “Combating Counterfeit Drugs: Building Effective International Collaboration”, declared that:¹⁸

- Counterfeiting medicines, including the entire range of activities from manufacturing to providing them to patients, is a vile and serious criminal offence that puts human lives at risk and undermines the credibility of health systems.

And

- Because of its direct impact on health, counterfeiting medicines should be combated and punished accordingly.

18. The value of criminalization to the rights owner lies in the deterring function of criminal law and the fact that the state bears the cost of litigation. Against that must be weighted the fact that the rights owner has no control over the case, has to submit to the slow pace of criminal cases, and does not as a rule receive any compensation.

19. That does, however, not mean that over-criminalization may not be an issue in this field. Judge Jumpol Pinyosinway of the Central Intellectual Property and International Trade Court of Thailand argues the point.¹⁹ This is his reasoning:

- IPR enforcement, in principle, should be civil.
- This is the preferred method of protecting IPRs in developed countries.
- IPR criminalization, with severe penalties, has grown rapidly in developing countries.
- This coincides with the broadening of IPRs under pressure of developed countries.
- “All expected and unexpected infringements” are now criminalized even if the particular act is not perceived to be morally reprehensible within a particular community or is criminalized to the same extent in developed countries.
- Although there is scope for criminalization, the new crimes ignore the differences between the different types of infringers.

20. Rights owners argue differently. They accept that the civil route is the appropriate one, but say that civil enforcement is not necessarily effective in all countries. Absent proper civil recourse they have to rely on criminal measures. Some countries, significantly the USA, have developed a civil enforcement system with inbuilt punitive provisions. Courts have under the Copyright Act (s 504(c)) a discretion to award a plaintiff statutory damages up to \$30,000 with respect to one copyrighted work and \$150,000 if the infringement was wilful. Similar remedies are available under the Anti-Counterfeiting Consumer Protection Act of 1996: a court may award to a prevailing plaintiff between \$500 and \$100,000 per counterfeit trademark for each type of goods or services sold. Where the court finds that the use of the counterfeit mark is willful, a court can award up to \$1,000,000 per counterfeit trademark per type of goods or services sold. At such a high level they provide a significant deterrent at a lower level of proof (on the balance of evidence or probability as against beyond reasonable doubt in the case of criminal enforcement). Punitive damages are also available in some other

¹⁸ Rome, February 18, 2006. <http://www.who.int/medicines/services/counterfeit/RomeDeclaration.pdf>.

¹⁹ “Criminal Enforcement of IPR: The Problem of ‘Over-Criminalization’” which appeared in the Sixth Anniversary Special Issue 2003 of the Intellectual Property and International Forum, Thailand.

common-law jurisdictions common against a deliberate infringer who has behaved in a particularly appalling manner.

1.4 THE CULTURE OF COPYING AND SOCIO-ECONOMIC FACTORS

21. The ethical acceptability of copying remains a difficult issue.²⁰ A study relating to members of the European Union suggests that there is a correlation between culture and the level of copying.²¹

“The literature identifies three issues in this respect

1. *Attitudes to intellectual property* vary between cultures because ‘cultures differ in terms of the entity to which they assign a right of ownership’. Thus in much of the West there is an acceptance of individualism which is not found in some other parts of the world, for example, in the collectivist cultures. To illustrate this, in societies where Confucian influences are or have been strong there is the concept that replication is not a dishonorable act. Although a different view prevails in societies where Islam is the major influence the effect is very much the same. This is that without God man is unable to create knowledge – a view that diminishes the role of the inventor.

2. *Attitudes to ‘big business’*. The findings of Tom et al. indicate that American consumers who had purchased counterfeit material hold a negative attitude to ‘big business’. Such attitudes can feed upon the activities of some large corporations whose actions in defending their intellectual property verges, in the eyes of some consumers, on the ridiculous.

3. Even in the West *attitudes to the supply and purchase of counterfeit software* are very mixed with, as was indicated above, many people being prepared to knowingly purchase such items. There is though also a body of opinion that seriously questions the concept of intellectual property being applied to software.”²²

22. To this may be added a negative view in some developing countries about what is perceived to be Western economic imperialism and the ancient philosophy of Lao Tzu:²³

²⁰ Christopher Stewart “Global Consumer Awareness, Attitudes, and Opinions on Counterfeiting and Piracy” Third Global Congress Combating Counterfeiting and Piracy. (www.ccapcongress.net.) For an unpublished study of perceptions in South Africa: Johan Martins and Helgard van Wyk *Investigation Into the Use of and Trade in Counterfeit Goods in South Africa* (2006). It was reported during July 2007 that almost two-thirds of UK consumers say that they are proud to wear fake luxury clothing, footwear, watches or jewelry.

²¹ J. Freitas Santos and J. Cadima Ribeiro “An investigation of the relationship between counterfeiting and culture: evidence from the European Union”, EURAM 2006 Conference. (econpapers.repec.org/paper/nipnipewp/4_2F2006.htm.) References have been omitted from the quotation. But see Peter K Yu “Four Common Misconceptions About Copyright Piracy” Loyola Los Angeles International and Comparative Law Review, Vol. 26, 2003. (papers.ssrn.com/sol3/papers.)

²² Rujirutana Mandhachitara and Tasman Smith “Thailand’s Counterfeit Dilemma”, ANZMAC 2000 Visionary Marketing for the 21st Century: Facing the Challenge. smib.vuw.ac.nz:8081/www/ANZMAC2000/CDsite/papers/m/Mandhac1.PDF.

²³ Translation by Jorn K. Bramann assisted by Jonathan Kress. faculty.frostburg.edu/phil/forum/Laotzu.htm.

“To give birth, to nourish,
To bring forth without taking possession,
To produce without appropriation,
To create without controlling –
That is the hidden virtue.”

23. Nevertheless, according to a Saudi Legal Opinion, it is not permissible to trade in counterfeit goods under the pretence that they are genuine or to sell or distribute counterfeit goods to retail shops as such an act constitutes fraud and deception.²⁴

A study on copyright piracy sponsored by the Indian government considered the socio-economical factors that might impact on the prevalence of piracy in India.²⁵ The study concluded that –

“though social factors like illiteracy, unemployment etc. influence piracy, the phenomenon occurs more because of economic reasons than anything else. For pirates it is an easy way of making quick bucks. For the end users it is a gainful arrangement for buying/using a variety of info-entertainment products which otherwise remain unaffordable at least to a vast majority. Basically, this ‘win-win’ situation for pirates and end users keeps the piracy alive and active in the society. Other socio-economic variables like poverty and high prices etc. only add to the degree of the problem.”

1.5 THE POLITICAL WILL TO COMBAT COUNTERFEITING

24. Many statistics are available about the scope of counterfeiting.²⁶ The figures are largely unverifiable.²⁷ This is because “to date, no rigorous quantitative analysis has been carried out to measure the overall magnitude of counterfeiting and piracy.” This 2007 OECD report “The Economic Impact of Counterfeiting and Piracy” further states:²⁸

“An analysis of international trade data (landed customs value basis) . . . suggests that up to USD 200 billion of internationally traded products could have been counterfeit or pirated in 2005. This amount is larger than the national GDPs of about 150 economies. The figure does not, however, include counterfeit and pirated products that are produced and consumed domestically, nor does it include non-tangible pirated digital products being distributed via the Internet. If these items were added, the total magnitude of counterfeiting and piracy worldwide could well be several hundred billion dollars more.”

25. It is unnecessary to determine the exact scope of the problem because it is generally recognized that the problem is serious, something evinced by the reaction of governments

²⁴ Research and Advisory Commission: Fatwa No. 21661 quoted at www.wipo.int/edocs/mdocs/sme/en/wipo_wasme_ipr_ge_03/wipo_wasme_ipr_ge_03_18.pdf.

²⁵ <http://copyright.gov.in/mainpract9.asp>.

²⁶ E.g. Yves Reboul, Emmanuel PY et Stéphane Thomas “Impacts de la contrefaçon et de la piraterie en Europe” (a CEIPI report at www.irpi.cci.fr/fichiers/Irpi_actu_pdf/irpi_actu_189_8985.pdf.) Also “Economic Impact Study of Counterfeiting Indonesia and Dialogue on Regulatory Remedies”, a project co-financed by the European Union Institute for Economic and Social Research, the Faculty of Economics University of Indonesia (LPEM FEUI) and Masyarakat Indonesia Anti Pemalsuan (MIAP). www.delidn.ec.europa.eu/spf/spf_3counterfeit-reportimpact.pdf.

²⁷ John Dryden “Counting the Cost: The Economic Impacts of Counterfeiting and Piracy”, Third Global Congress on Combating Counterfeiting and Piracy. (www.ccapcongress.net.)

²⁸ <http://www.oecd.org/dataoecd/11/38/38704571.pdf>.

from all parts of the world.²⁹ In other words, the issue is not an obsession of some but is one of general concern. Here are some random examples –

- Third Global Congress on Combating Counterfeiting and Piracy, Geneva, January 30-31, 2007: Over 1,000 delegates from 105 countries gathered at the Third Global Congress on Combating Counterfeiting and Piracy convened by WIPO, the International Criminal Police Organization (Interpol) and the World Customs Organization (WCO).
- Australia: A recent press release contained the following statement:³⁰
 “The Australian Government is committed to tackling copyright piracy. The Government regards this activity as stealing. The Government introduced significant laws in 2000 and 2005 targeting copyright piracy. Recent court cases have shown these to be effective. However, the Government is concerned piracy rates in Australia and overseas appear to be on the rise and causing substantial damage to copyright industries. As technological advances have made it easier to commit copyright piracy and on even larger scales than ever before, copyright owners and law enforcement agencies need stronger, up-to-date and user-friendly measures to combat this problem.”
- Brazil: The “Public Policies for Combating Piracy in Brazil” was presented at the Third Session of this Committee during May 15 to 17, 2006.³¹ To that may be added this quotation.³²

“According to the Union of Brazilian IRS Auditors, Brazil was plagued by a 28 billion dollar black market at the turn of the 21st century. To combat this rising tide of counterfeit goods, the Brazilian government created the National Anti-Piracy Council (CNCP), housed in the Federal Ministry of Justice. CNCP gave equal weight to public and private sector representatives . . . The CNCP established a National Plan for Combating Piracy, culminating in a 99 point plan with short, medium and long term objectives.”

- China: The No 3 Civil Tribunal Supreme People's Court of the People Republic of China was formed and special divisions in high courts introduced to deal with IP matters. On December 30 2006, the Supreme People's Court adopted the “Explanation on Several Issues on the Application of Law in Adjudicating Civil Unfair Competition Cases”. It contains important interpretations of various terms used in China's Anti-Unfair Competition Law. The Explanations came into effect on February 1 2007. The Court lowered the threshold³³ to prosecute people who manufacture or sell counterfeit products: anyone who manufactures 500 or more counterfeit copies (discs)

²⁹ Project SILK “Strengthening EU-Thai fight against counterfeiting” Intermediate Research Report, June 2007. www.deltha.cec.eu.int/spf/project%20fiche%2028_ITCC.htm.

³⁰ Media Release 088/2006 from the Office of the Attorney-General. www.ag.gov.au/agd/WWW/MinisterRuddockHome.nsf/.

³¹ Document WIPO/ACE/3/14 prepared by Márcio Costa de Menezes e Gonçalves, Executive Secretary Alex Canuto, Deputy Executive Secretary National Council against Piracy, Brazil. www.wipo.int/meetings/en/doc_details.jsp?doc_id=60875.

³² Canadian Anti-Counterfeiting Network “Report on Counterfeiting and Piracy in Canada: A Road Map for Change” (2007). http://www.cacn.ca/PDF/CACN%20Releases/Roadmap_for_Change.pdf.

³³ The legality of a threshold is at present a WTO issue between China and the USA.

of computer software, music, movies, TV series and other audio-video products faces a prison term of up to three years and anyone who produces more than 2,500 counterfeit copies can be jailed for up to seven years. Fines can range from one to 15 times the illegal gains, or from 50 to 200 percent of the business turnover. The new rules also tighten the rules on the granting of probation. The Court also instructed IPR criminal courts to accept cases filed by individual complainants, in addition to those filed by procurators.³⁴

- European Parliament: The Parliament adopted during April 2007 a draft directive on criminal measures aimed at ensuring the enforcement of intellectual property rights. It deals in particular with sentencing levels. (2005/0127(COD)). The text is now the subject of review by the Council of the European Union and does not have any legal force at this stage. The reaction to the directive was mixed because of a difference of opinion about the legal basis for harmonizing criminal law at Community level, the scope of the draft directive, the definition of offenses, and the level of penalties
- Italy: The Italian government has established a dedicated anti-counterfeiting unit and appointed a high commissioner to coordinate anti-counterfeiting activities in Italy. The first report identified Italy as a major consumer of counterfeit goods, but also stated that the police and customs bodies are responding with a significant number of arrests, seizures and fines.³⁵
- India: An Inter-ministerial Coordination Committee was recently formed comprised of joint secretary-level officers of 10 ministries and departments. According to a report in *The Economic Times* of April 27 2007, it is expected to publish a concerted plan to combat piracy and counterfeiting shortly.³⁶
- Malaysia: The latest in a series of steps taken by the Government is the introduction of courts dedicated to IP enforcement during July 2007. Its IPR enforcement division, formed during 1972, has at present some 2 174 officers with 72 branches in 14 states. Between April 1999 and October 2005 a total of 150 293 inspections were conducted against night markets, stalls, shops, enclosed premises and computer stores. During 2006, 8,7m items with a market value of MR 120m were seized.
- United Kingdom: The recent “Counter Offensive” was launched by the Patent Office as part of its anti-counterfeiting strategy. The power of Trading Standards officers to tackle the UK's fight against counterfeiting and piracy crime was increased as from April 2007.
- USA: The US Attorney General submitted the Intellectual Property Act of 2007 to Congress. This legislation is meant to strengthen current copyright laws and provide harsher penalties for counterfeiters. The new measure would increase the maximum penalty for willful counterfeiting infringement to up to 20 years.³⁷

³⁴ http://english.peopledaily.com.cn/200704/06/eng20070406_364218.html.

³⁵ International Law Office Newsletter contributed by Trevisan & Cuonzo Avvocati.

³⁶ Information from Manisha Singh at Lex Orbis in International Law Office Newsletter.

³⁷ http://www.usdoj.gov/opa/pr/2007/May/07_ag_353.html.

26. It is another issue, to which will be reverted, whether the expressed political will always translates into real and effective action or results on the ground.

1.6 THE SUCCESS OF CRIMINAL SANCTIONS

27. The available statistics indicate that criminal sanctions have not always or everywhere had a real impact on IP crimes. Here are some figures:

- China: “According to judicial sources, courts around China settled 17,769 IPR protection cases in 2006. But most of these cases were handled by civil courts. There were only 2,277 criminal prosecutions, with 3,508 people convicted.”³⁸
- Italy: “On the basis of estimates provided by industry, the report states that illegal operators produce around €3.5 billion in counterfeit goods a year. The report indicates that there were 817 arrests, 7,702 criminal complaints, 11,728 administrative fines, 10,779 criminal seizures and 12,283 administrative seizures in the Italian territory in the first half of 2006.”³⁹
- South Africa: The Annual Report of the South African Police Services reports, for the last year, two convictions under the Counterfeit Goods Act. Other information indicates that this information is incorrect but the extent to which it is not known.
- The USA: Title 18, United States Code, s 2320(g) requires a report of the Department of Justice of prosecutions of IPR crimes brought under a number of sections of Title 18 of the United States Code.⁴⁰ For present purposes the 2006 statistics of two of these will be given namely (a) willful infringement of a copyright for purposes of commercial advantage or private financial gain, or through large-scale, unlawful reproduction or distribution of a copyrighted work, regardless of whether there was a profit motive and (b) intentionally trafficking or attempting to traffic in goods or services and knowingly using a counterfeit mark on or in connection with such goods or services:
 - Matters received for investigation: (a) 162; (b) 150.
 - Cases filed: (a) 98; (b) 80.
 - Defendants guilty: (a) 80;⁴¹ (b) 68.
 - No imprisonment: (a) 45; (b) 34.
 - Imprisonment + 13 months: (a) 19; (b) 26.

It is not without interest to note that there were no prosecutions in the whole of the USA during the particular year in respect of some of these reportable IP crimes. (One explanation may be the availability and effectiveness of civil remedies as discussed above.)

A news report⁴² of August 4, 2007, gives a different perspective about the success rate, stating that during 2006, U.S. Customs and Border Protection (CBP) and ICE effected

³⁸ http://english.peopledaily.com.cn/200704/06/eng20070406_364218.html.

³⁹ International Law Office Newsletter contributed by Trevisan & Cuonzo Avvocati.

⁴⁰ http://www.usdoj.gov/ag/annualreports/pr2006/Appd/appd_f.pdf.

⁴¹ Jamaica had in about the same period 42 convictions for piracy.

⁴² www.linuselectrons.com/news/general/11052/feds-crackdown-gaming-piracy.

14,675 seizures of counterfeit goods worth more than \$155 million. ICE investigations resulted in 219 arrests, 134 indictments and 170 convictions.

Between fiscal years 2002 and 2006, ICE agents arrested more than 700 individuals for IPR violations resulting in 449 criminal indictments and 425 convictions. Together, ICE and CBP seized more than \$750 million worth of counterfeit goods from fiscal year 1998 through fiscal year 2006.

28. These figures justify one of the theses of Judge Jumpol Pinyosinway, namely that criminal enforcement is not the preferred method of enforcing IPRs in developed countries.⁴³ In contrast, criminal enforcement is now the main tool of enforcement in developing countries. For instance, in 2002 criminal IP cases were 93 per cent of the total of all IP cases in Thailand: 3,896 criminal and 292 civil. In Malaysia, for 2006, there were 4,268 counterfeiting charges and 1,472 of piracy.⁴⁴ There is, however, a huge difference in completion and conviction rates between these two countries.

1.7 INTELLECTUAL PROPERTY RIGHTS

29. This list of IP rights indicates that more than copyright and registered trademarks are involved:

- rights related to copyright including moral rights ;⁴⁵
- the sui generis right of a database maker;
- rights of the creator of the topographies of a semiconductor product,
- design rights;
- geographical indications;
- trade names and unregistered trademarks;
- patents;
- utility models and supplementary protection certificates; and
- confidential information.

30. Plant breeders' rights in respect of new plant varieties fall in the same general category but TRIPS does not deal with them. However, apart from patents and designs that need special mention, these rights are not without interest in the present context because they are also enforceable by means of criminal sanctions.

⁴³ There are no figures available for civil copyright and trademark cases but the patent litigation figures (considering that there is much less patent litigation) are these: During 1999–2000 there were 4254 patent cases which involved 6876 patents. This includes every case that was resolved by any means (settlement, trial, summary judgment, etc.) during this two-year period. (From a study "Empirical Statistics on Willful Patent Infringement" by Prof Kimberly A Moore, George Mason University School of Law.) Another comparison is with customs seizures in the USA. For fiscal year 2002, both cigarettes and media represented 67% of total seizures of over \$98 million. In 2001, apparel, media, watches, batteries, and cigarettes accounted for 54% of the value of the goods they seized [\$57 million]: Peggy Chaudhry et al "Modeling Anti-Counterfeiting Strategies in Response to Protecting Intellectual Property Rights in a Global Environment". (www.villanova.edu/business/newsmedia/facguide.htm.)

⁴⁴ Karen Abraham "Zero tolerance for infringement" [2007] *Managing Intellectual Property* (2nd ed).

⁴⁵ Canada criminalizes the infringement of certain moral rights in relation to drama since the 1910s. A related matter is the protection of personality rights. Their infringement may in civil law countries be criminal and in New York State, for instance, the use of a person's name or portrait can be a misdemeanor.

1.8 PATENTS

31. As mentioned, TRIPS does not require criminal sanctions for patent infringement but provides optionally for them to be criminalized in the case of willful infringement on a commercial scale. Although countries such as Japan,⁴⁶ Thailand and Brazil⁴⁷ do criminalize patent infringement, this is not something found in common-law jurisdictions. (In the USA, willful infringement is “penalized” in civil proceedings by means of double or treble damages and orders for attorneys’ costs but not by means of criminal sanctions.)⁴⁸ The European Parliament (in the criminal directive, which is not yet in force) was not prepared to accept the idea of criminalizing patent infringement.⁴⁹

32. There may be a number of policy reasons for not criminalizing patent infringement. These could include the following:

- Criminal courts are generally speaking not qualified to deal with patent issues;
- any given patent may cover many “inventions”;
- the invalidity of the patent is the typical defense to infringement;⁵⁰
- the patentee’s product may not be made in accordance with the patent;
- the infringer’s product may not be a copy of the patentee’s product as marketed;
- it is virtually impossible for law enforcement officers and border officials to determine whether any particular product is an infringing product;
- patent litigation is expensive; and
- a significant percentage of patents is revoked in the course of patent litigation.⁵¹

⁴⁶ 1999 Patent Law s 196:

“Any person who has infringed a patent right or an exclusive licence shall be liable to imprisonment with labour not exceeding five years or to a fine not exceeding 5 000 000 Yen.”

⁴⁷ Article 183 - A crime is committed against a patent of invention or a utility model patent by he who:

I - manufactures a product that is the subject matter of a patent of invention or a utility model patent, without authorisation of the patentee; or

II - uses a means or process that is the subject matter of a patent of invention, without authorisation of the patentee.

Penalty - detention of 3 (three) months to 1 (one) year, or a fine.

Article 184 - A crime is committed against a patent of invention or a utility model patent by he who:

I - exports, sells, exhibits or offers for sale, maintains in stock, hides or receives, with a view to use for economic purposes, a product manufactured in violation of a patent of invention or of a utility model patent, or that is obtained by a patented means or process; or

II - imports a product that is the subject matter of a patent of invention or of a utility model patent or is obtained by a means or process patented in this country, for the purposes mentioned in the previous item, and that has not been placed on the external market directly by the proprietor or with his consent.

Penalty - detention of 1 (one) to 3 (three) months, or a fine.

Article 185 - Supplying a component of a patented product, or material or equipment for carrying out a patented process, provided that the final application of the component, material or equipment necessarily leads to the exploitation of the subject matter of the patent.

Penalty - detention of 1 (one) to 3 (three) months or a fine.

Articles 186- The crimes of this Chapter are committed even if the violation does not affect all the claims of the patent or if it is restricted to the use of means equivalent to the subject matter of the patent.

⁴⁸ *Dowling v. United States*, 473 U.S. 207, 227 (1985).

⁴⁹ “In particular, this Directive does not apply to any infringement of an intellectual property right related to: - patents, utility models and supplementary protection certificates”.

⁵⁰ Project SILK “Strengthening EU-Thai fight against counterfeiting” Intermediate Research Report, June 2007: “For patent infringement cases, many defendants file a counter suit to cancel the registered patent for lack of novelty or inventive step.” www.deltha.cec.eu.int/spf/project%20fiche%2028_ITCC.htm.

33. A complicating factor at the international level is that matter patentable in one jurisdiction is not necessarily patentable in another jurisdiction. Some jurisdictions, for instance, permit the patenting of computer programs and business methods while others do not. Further, the test for validity may differ as do examining standards (while some countries do not even have patent examinations). Last, there is the ongoing dispute about the scope of protection for pharmaceutical patents that stands in the way of any attempted harmonization of the subject.

1.9 INDUSTRIAL DESIGNS

34. “Market piracy in the design-based industry is an expanding worldwide phenomenon. It deserves a great deal of attention both because of its impressive international dimension and its intrinsic illegality, ambiguity and powerful potential links with criminal organizations.”⁵²

35. Industrial design registrations do not only protect luxury goods but also spare parts and the like. They may also be protected by criminal sanctions but, once again, this is (except in those countries that criminalize patent infringement) not done as a rule. The European Parliament, however, includes it in its list of IP rights that have to be protected by means of criminal law under the criminal directive (which does yet not have the force of law). The main problem with these rights is the lack of an acceptable international definition of what an “industrial design” is. On the other hand, the infringement of an industrial design is relatively easily established because infringing designs are usually carbon copies of the registered design. Fortunately, there is often an overlap (in many countries) between copyright protection and the protection of industrial designs: most designs are automatically protected by copyright. Furthermore, some designs may have trademark significance and can be protected as such.

1.10 COUNTERFEITING AND FAKE PHARMACEUTICALS

36. Counterfeiting in the broader sense does not necessarily amount to the infringement of an IP right although it usually does. For purposes of counterfeit drugs the WHO proposed this definition of counterfeiting:

“a counterfeit drug is one which is deliberately and fraudulently mislabeled with respect to identity and or source. Counterfeiting can apply to both branded and generic products and counterfeit products may include products with the correct ingredients or the wrong ingredients without active ingredients with insufficient active ingredients or with fake packaging.”⁵³

[Footnote continued from previous page]

⁵¹ These USA statistics, published on the internet by Pearl Patent Enforcement and Royalties Ltd (www.pearlltd.com) speak for themselves: Patent owner's likelihood of success if the trial is heard before a judge alone: 51%. If the trial is heard before a judge and jury: 68%. Overall chances of success for the patent owner if the trial is held in Massachusetts and northern California, respectively: 30%, 68%.

⁵² Pierre-Jean Benghozi and Walter Santagata “Market Piracy in the Design-based Industry: Economics and Policy Regulation”. References have been omitted. crg.polytechnique.fr/fichiers/crg/publications/pdf/2004-05-05-354.pdf.

⁵³ This definition requires some revision because the counterfeit issue is not only concerned with drugs but extends to other products used in medical procedures or for medical purposes.

37. The reason for this definition is that the WHO found in a study that “counterfeit” drugs consisted of the following:

- Products without active ingredients, 32.1%;
- products with incorrect quantities of active ingredients, 20.2%;
- products with wrong ingredients, 21.4%;
- products with correct quantities of active ingredients but fake packaging, 15.6%;
- copies of an original product, 1%; and
- products with high levels of impurities and contaminants, 8.5%.

38. The reasons for the proliferation of counterfeit drugs in developed and developing countries and the involvement of organized crime include these considerations:

- counterfeit drugs are high value items in relation to their bulk/size;
- production does not require an expensive infrastructure;
- licensed distributors, pharmacists or patients may be unable to detect or differentiate between counterfeit and genuine drugs;
- counterfeit drugs are relatively easy to hide and transport;
- the Internet facilitates direct marketing of counterfeit drugs to “consumers”; and
- the need and demand for pharmaceuticals.⁵⁴

39. The problem is not limited to drugs but also applies to more “traditional” medicines such as herbal remedies and dietary supplements. A significant percentage of these are of sub-standard quality; contain toxic contaminants such as heavy metals; and even contain pharmaceutical active ingredients such as Viagra and Valium.⁵⁵

40. The seriousness of fake drugs and the necessity to combat this evil by means of criminal sanctions have been mentioned earlier. The problems and efforts of Dr. Dora Akunyili, the head of Nigeria’s National Agency for Food, Drug Administration and Control are too well documented to require repetition. IPR anti-counterfeiting laws are of special value in this field; and they shift much of the burden of policing onto the shoulders of rights holders.

1.11 GRAY MARKET PRODUCTS

41. Gray-market goods are not counterfeit goods and do not concern this study but it remains necessary to explain the concept. This will be done by means of quotations. The European Parliament used the following definition to exclude gray goods from the operation of its “directive” on criminalizing counterfeiting:

“parallel importation of original goods, which have been marketed with the agreement of the right-holder in a third country.”

⁵⁴ Dr. Donal P. O’Mathuna and Dr. Adam McAuley “Counterfeit Drugs: Towards and Irish Response to a Global Crisis” (2005). http://www.buysafedrugs.info/uploadedfiles/IrishPatientsAssoc_counterfeit.pdf.

⁵⁵ Ibid.

42. Michael R. Ryan writes:⁵⁶

“The gray market represents a major source of contention in the international marketplace. Products available through the gray market are licensed and consequently do not infringe or misappropriate the intellectual property rights (IPRS) of the trademark, copyright, or patent holder: States adhere to one of three policies in protecting IPRS; National, International, or Community exhaustion. Each of these policies balances the rights of the IPRS and the governed consumer in different and significant ways.”

43. The same author explains:

“The products in the gray market are genuine and display a genuine trademark used with the permission of the trademark owner. The essence of the problem is that these goods are diverted from the trademark holder's authorized distribution channel and are distributed through unauthorized entities.

“Parallel importing exists when an unauthorized distributor competing directly with an authorized importer imports the products. This case represents the situation when the IPRS reside offshore. Alternatively, an unauthorized distributor imports goods and competes with the domestic producer of those goods (Inman 1993). This situation exists when either the IPRS are domestically based or a domestic party has secured a license to produce the goods.”

44. The author also mentions that members of the WTO have diverse opinions about the gray market system. The properties of this system may, depending on the point of view, be either beneficial or harmful because gray market goods may –

- provide greater value to the consumer;
- provide more choices to the consumer;
- increase intra-brand competition;
- restrict inter-brand competition;
- affect brand image (due to reduced support from gray market distributors); or
- tarnish the image (the product becomes recognized as a "bargain" brand).

⁵⁶ Michael R Ryan “Gray Markets, Intellectual Property Rights, and Trade Agreements in the International Marketplace”. www.cherry.gatech.edu/t2s2006/papers/ryan-3003-2-T.pdf.

PART 2

COUNTERFEIT TRADEMARK GOODS⁵⁷

2.1 THE TRIPS PROVISIONS

45. Art. 61 of TRIPS contains the primary obligation to criminalize trademark counterfeiting:

“Members shall provide for criminal procedures and penalties to be applied at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale.”

46. As mentioned, TRIPS, in a footnote, provides this relevant definition:

“‘counterfeit trademark goods’ shall mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation.”

47. The requirements of art 61 are open to the interpretation that all willful counterfeiting on a commercial scale must be criminalized. However, the footnote adds some complications and they will also be discussed.

48. These provisions state *minimum requirements*. The following is to be noted:

- Goods marks and packaging.
- In order to be entitled to protection the mark must be a “registered” trademark.
- The registration must be valid.
- The counterfeiting must be without authorization.
- The counterfeiting must be willful.
- The counterfeiting must be on a commercial scale.
- “Identical to” or indistinguishable “in its essential aspects” from the registered trademark.

49. The last phrase of the definition (“and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation”) which implies, if read on its own, that counterfeiting applies only to goods imported into the jurisdiction where the trademark is registered, may be an indication that the footnote is not intended to be a limitation on Art. 61. All it means in context is that in the event of importation the rights of the owner in the importing jurisdiction are the relevant rights. It does not matter that the goods may have been marked legitimately in the country of origin.

50. In the sections that follow the different aspects of the TRIPS definition highlighted will be discussed as applied in different countries.

⁵⁷ Andreas Rahmatian “Trade Mark Infringement as a Criminal Offence” *Modern Law Review* 67 (4), 670–683; Paul R Paradise *Trademark Counterfeiting, Product Piracy, and the billion dollar threat to the U.S. Economy* (1999) Quorum Books.

2.2 GOODS OR SERVICES

51. There is no obligation under the Paris Convention to protect service marks but TRIPS requires the protection of service marks in addition to goods marks. However, if the footnote is considered to be definitive of the obligation to criminalize there would be no TRIPS obligation to criminalize the counterfeiting of service marks.

52. This does not mean that counterfeit service marks cannot or should not be criminalized. Singapore, for one does so by way of its definition of a counterfeit trade mark, which includes a registered trade mark as applied to services.⁵⁸ On the other hand, it would appear that a country such as the United Kingdom does not criminalize counterfeit service marks, at least not in terms of the Trade Marks Act.⁵⁹ A third example is that of New Zealand: it does not appear to distinguish between the two types of marks for present purposes and, accordingly, by implication includes service marks.⁶⁰ South Africa, in spite of its extensive Counterfeit Goods Act⁶¹ does also not protect service marks against counterfeiting.

53. Some countries that rely on Trade Description Acts for dealing with counterfeiting, such as Malta⁶² and Malaysia, criminalize the use of false trade descriptions in relation to services in

⁵⁸ Section 3 (6) “A sign is a ‘counterfeit trade mark’, in relation to a registered trade mark, if the sign —
 (a) is identical with or so nearly resembling the registered trade mark as to be calculated to deceive; and
 (b) is applied to goods or services —
 (i) without the express or implied consent (conditional or otherwise) of the proprietor of the registered trade mark; and
 (ii) to falsely represent the goods or services to be the genuine goods or actual services of the proprietor or a licensee of the registered trade mark.”

⁵⁹ Section 92(1): “A person commits an offence who with a view to gain for himself or another, or with intent to cause loss to another, and without the consent of the proprietor—
 (a) applies to goods or their packaging a sign identical to, or likely to be mistaken for, a registered trade mark, or
 (b) sells or lets for hire, offers or exposes for sale or hire or distributes goods which bear, or the packaging of which bears, such a sign, or
 (c) has in his possession, custody or control in the course of a business any such goods with a view to the doing of anything, by himself or another, which would be an offence under paragraph (b).”

⁶⁰ Section 120: “(1) Every person commits an offence who, with the intention of obtaining a gain for himself or herself or any other person or of causing loss to any person, counterfeits a registered trade mark.
 (2) For the purposes of subsection (1), a person counterfeits a registered trade mark if, without the consent of the owner of the registered trade mark, the person knowingly—
 (a) makes a sign that is identical to, or similar to, the registered trade mark so as to be likely to deceive;
 or
 (b) falsifies a genuine registered trade mark, whether by alteration, addition, effacement, partial removal, or otherwise.”

⁶¹ Act 37 of 1997.

⁶² Trade Description Act (Chapter 313) s 3:

“(1) Any person who, in the course of a trade or business -
 (a) applies a false trade description to any goods; or
 (b) supplies or offers to supply any goods to which a false trade description is applied,
 shall, subject to the provisions of this Act, be guilty of an offence.
 (2) Articles 4 to 8 of this Act shall have effect for the purposes of this article and for the interpretation of expressions used in this article, wherever they occur in this Act.”

This includes by virtue of s 26 a trademark:

“The fact that a trade description is a trade mark, or part of a trade mark, does not prevent it from being a false trade description when applied to any goods.”

addition to those relating to goods. They do not have independent counterfeiting provisions in its trademark laws.⁶³ On the other hand, the Australian Act, which goes back to 1905, for one, deals with false trade descriptions in relation to goods only.⁶⁴ However, it deals extensively in its Trade Marks Act 1995 with counterfeiting, including the counterfeiting of service marks.⁶⁵

54. Although the likelihood of the counterfeiting of service marks is less than that of goods marks there does not appear to be any logical reason for the distinction.

2.3 REGISTERED TRADEMARK

55. The second requirement of the TRIPS definition of “counterfeiting” in the footnote concerns the requirement that the counterfeited trademark must have been “registered”. (In context Art. 61 must have the same requirement.) For imported goods it means registered in the jurisdiction into which the goods are imported. Otherwise it refers to the jurisdiction where the prohibited dealing takes place.

56. Typically, as in Singapore, “any person who counterfeits a registered trade mark” is guilty of an offence (s 46(1)).

[Footnote continued from previous page]

Malta has a separate Intellectual Property (Cross-Border Measures) Act VIII of 2000.

⁶³ Trade Descriptions Act 1972 s 3:

“(1) Any person who, in the course of a trade or business -
 (a) applies a false trade description to any goods; or
 (b) supplies or offers to supply any goods to which a false trade description is applied,
 shall be guilty of an offence.”

The Act further provides in s 9 that a the use of a registered trademark “may” amount to a false trade description: “A trade description which is or is contained in a trade mark within the meaning of any written law relating to trade marks or part of such a trade mark may be a false trade description when applied to any goods . . .”

⁶⁴ (Commonwealth) Commerce (Trade Descriptions) Act 1905 s 3:

"Trade description", in relation to any goods, means any description, statement, indication, or suggestion, direct or indirect:

- (a) as to the nature, number, quantity, quality, purity, class, grade, measure, gauge, size, or weight of the goods; or
- (b) as to the country or place in or at which the goods were made or produced; or
- (c) as to the manufacturer or producer of the goods or the person by whom they were selected, packed, or in any way prepared for the market; or
- (d) as to the mode of manufacturing, producing, selecting, packing, or otherwise preparing the goods; or
- (e) as to the material or ingredients of which the goods are composed, or from which they are derived; or
- (f) as to the goods being the subject of an existing patent, privilege, or copyright;

and includes a Customs entry relating to goods; and any mark which according to the custom of the trade or common repute is commonly taken to be an indication of any of the above matters shall be deemed to be a trade description within the meaning of this Act.

"False trade description" means a trade description which, by reason of anything contained therein or omitted therefrom, is false or likely to mislead in a material respect as regards the goods to which it is applied, and includes every alteration of a trade description, whether by way of addition, effacement, or otherwise, which makes the description false or likely to mislead in a material respect.

⁶⁵ Section 146 (1):

“A person is guilty of an offence if the person:

- (a) falsely applies a registered trade mark to goods that are being, or are to be, dealt with or provided in the course of trade; or
- (b) falsely applies a registered trade mark in relation to goods *or services* that are being, or are to be, dealt with or provided in the course of trade; knowing that the trade mark is registered or reckless of whether or not the trade mark is registered.”

57. Unregistered trademarks are often protected by means of Trade Description Acts. In Malaysia, for example, a false trade description need not relate to a registered trademark because “a trade description is an indication, direct or indirect, and by whatever means given,” of the place or date of manufacture, production, processing or reconditioning; the person by whom manufactured, produced, processed or reconditioned or the other history, including previous ownership or use (s 4).⁶⁶ On the other hand, and as mentioned before, the Act provides that:

“A trade description which is or is contained in a trade mark within the meaning of any written law⁶⁷ relating to trade marks or part of such a trade mark may be a false trade description when applied to any goods . . .”

58. In terms of an amendment to the South African Merchandise Marks Act, which followed on the introduction of the Counterfeit Goods Act, registered trade-marked goods are specifically excluded from protection against false trade descriptions.⁶⁸ The same applies to goods under a well-known trademark that is entitled to protection under the provisions of Article *6bis* of the Paris Convention.

59. The reason for this apparent anomaly is because the South African Counterfeit Goods Act⁶⁹ does not apply only to registered trademarks but also to well-known trademarks entitled to Article *6bis* protection. The effect of Article *6bis* (which must be read with Article 16(2) of TRIPS) is to give effective trademark recognition –

- to the owner
- with a real and effective industrial or commercial establishment in another country
- of an unregistered trademark (i.e. not registered within the local jurisdiction)
- which is well known within the local jurisdiction as a trademark belonging to an enterprise with a base in another country.

60. It is arguable that the criminalization of counterfeiting of trademarks that are entitled to Article *6bis* protection is implicitly required by TRIPS and that a failure to do so is contrary to the spirit of the provision. Establishing in criminal proceedings that a trademark is entitled to Article *6bis* protection may however prove to be a major obstacle.

61. The United Kingdom, again, has a somewhat different approach. Apart from protecting registered trademarks it also protects trademarks with a reputation in the UK provided the use of the sign takes unfair advantage of, or is detrimental to, the distinctive character or repute of the trademark.

⁶⁶ See also s 16(1):

“Where any person being a proprietor or registered user of a registered trade mark within the meaning of any written law relating to trade marks or being otherwise entitled at law to the protection of a trade or other mark or a get-up for any goods or services established . . .”

⁶⁷ Probably in contra-distinction to common law rules.

⁶⁸ Merchandise Marks Act 17 of 1941 s 1:

“‘trade description’ means any description, statement or other indication, direct or indirect . . . as to the name of the manufacturer or producer . . . and includes any figure, word or mark which, according to the custom of the trade, is commonly taken to be an indication of any of the aforementioned matters, but does not include a trade mark.”

⁶⁹ Act 37 of 1997 s 1 s. v. “intellectual property right”.

2.4 VALID REGISTRATION

62. Because of a general presumption that a trademark registration is valid the effect of this requirement for counterfeiting would, generally, mean that the accused must be able to attack the validity of the registration of the mark as a defence to the charge of counterfeiting.

63. Many laws considered in this paper do not require a “valid” registration. They define counterfeiting with reference to “registered” trademarks, thereby implying that as long as a mark is on the register it is impermissible to counterfeit it. There may be some merit in the approach because it would be wrong to permit the copying of a registered mark because if on the register, any counterfeit copy is due to mislead the public. On the other hand, the registration of a trademark may be “invalid” on a number of grounds, some of which may go to the heart of the mark or affect the ownership of the mark. For instance, the accused may have been the true and first owner of the mark but by having failed to apply for registration in good time may have permitted the complainant to register first.

64. Indian law offers a solution.⁷⁰ If, in relation to a registered trade mark the accused pleads that the registration of the trade mark is invalid, the following procedure applies:

- If the court is satisfied that such defence is prima facie tenable, it does not proceed with the charge but adjourns the proceeding to enable the accused to file an application before the Appellate Board for the rectification of the register on the ground that the registration is invalid.
- If the accused proves that he has made such application within the prescribed time, the further proceedings in the prosecution are stayed till the disposal of the application for rectification.
- If the accused fails to apply for rectification of the register, the court proceeds with the case as if the registration were valid.

65. Where before the institution of a complaint an application for the rectification of the register is pending before the tribunal, the further proceedings in the prosecution are also stayed pending the disposal of the rectification application.

2.5 COUNTERFEITING MUST BE WITHOUT AUTHORIZATION

66. The requirement that the use of the trademark must have been “without the consent of the proprietor” of the registered mark is generally found in all anti-counterfeiting laws. It speaks for itself and is logical because there cannot be infringement of a right if what was done was with the consent of the rights owner.

67. Implicit in this requirement is that the prosecution must prove that the goods are not original goods meaning that they did not originate from the trademark owner or his licensee. The effect of this is that the better the counterfeiting the more difficult it is to prove the crime. As INTA points out, detection is becoming increasingly difficult because.⁷¹

⁷⁰ Trade Marks Act 1999 s 113.

⁷¹ “Improvements in the International Legal Framework for Criminal Sanctions against the Offense of Trademark Counterfeiting” June 20, 2007. www.inta.org/index.

- it is committed in more than one country;
- it is committed in one country, but a substantial part of its preparation, planning, direction or control takes place in another country;
- it is committed in one country but may involve an organized criminal group that engages in criminal activities in more than one country; or
- it is committed in one country but has substantial effects in another country.”

68. In this regard the prosecution is entirely dependent on the evidence of the trademark owner. This may involve expensive laboratory testing and the evidence of experts. The required expertise may not be available locally, which means that travel and more time are involved. It is known, and is the reason for a valid complaint by customs and other law enforcement agencies, that rights holders sometimes fail to assist especially in smaller countries or in countries where the rights holder has no presence. Such failure acts as a disincentive for ex officio action by law enforcement agencies.

69. In Singapore the burden of proving the consent of the proprietor lies on the accused (s 46(2)), presumably on a balance of probability. A similar shift of onus is not generally found. Some legal systems do not accept that an accused may have to bear an onus in a criminal case. Although the shift may be useful it ought, generally, not be difficult for the prosecution to establish this element of the crime.

70. Another implication of this requirement is that the counterfeit mark must at least have been used in connection with the type of goods and services for which the protected mark was registered on or in connection with the defendant's goods or services. In other words, there cannot be counterfeiting unless there is also primary trademark infringement.

71. The use of a counterfeit mark on related goods is a serious economic issue. But whether the TRIPS requirement also covers the use of a counterfeit mark “in relation to goods or services which are so similar to the goods or services in respect of which the trademark is registered, that in such use there exists the likelihood of deception or confusion” is open to question.⁷² It depends on whether Art. 61 is definitive of whether the definition of “counterfeit goods” prevails.

72. Another serious issue is the use of a counterfeit mark on unrelated goods. In ordinary parlance this would be considered as a case of trademark dilution. That TRIPS does not cover trademark dilution under the definition of “counterfeit goods” is clear but that does not mean that it is not an issue may be covered by Art. 61 or that national laws should ignore. The issue is now being addressed by certain European countries by means of national legislation.

⁷² Using the definition of infringement in the South African statute (s 34) which is based on the TRIPS requirement in Art. 16.1:

“The owner of a registered trademark shall have the exclusive right to prevent all third parties not having the owner’s consent from using in the course of trade identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion.”

2.6 COUNTERFEITING MUST BE WILLFUL

73. The minimum requirement for counterfeiting is willfulness. Legislatures have, however, chosen to deal with the requirement of “mens rea” (guilty consciousness) in different ways.

74. The definition adopted by the European Parliament is as follows:⁷³

“‘intentional infringements of an intellectual property right’ means deliberate and conscious infringement of the right concerned for the purpose of obtaining an economic advantage on a commercial scale”.

75. In the United Kingdom (and countries such as Jamaica and Barbados) a person commits an offence “who with a view to gain for himself or another, or with intent to cause loss to another” counterfeits. However, it is a defence that the accused believed on reasonable grounds that the use of the sign in the manner in which it was used, or was to be used, was not an infringement of the registered trademark. From this it follows that the intention to profit or to cause loss must be established by the prosecution but that the accused must prove reasonable grounds for an innocent mindset.⁷⁴ However, a lack of intention to infringe is not a defence.

76. The position in New Zealand differs depending on the nature of the act of counterfeiting. In the case of ‘actual’ counterfeiting, the intention of obtaining a gain or of causing loss must be established by the prosecution.⁷⁵ In addition, the accused must knowingly have made the identical or confusing sign. For the case of the false application of a trademark to goods or the importation of counterfeit goods the prosecution has to establish actual guilty knowledge. There is, significantly, no onus on the accused or presumption to assist in the prosecution. The same provisions are applicable to the importation, sale or possession of counterfeit goods: the accused must have known that the “registered” trade mark was falsely applied.

77. The position in New Zealand stands in stark contrast to that in Singapore. The comparable section in Singapore is s 49 and it bears quoting:

“Any person who —

(a) imports into Singapore for the purpose of trade or manufacture;

(b) sells or offers or exposes for sale; or

(c) has in his possession for the purpose of trade or manufacture,
any goods to which a registered trade mark is falsely applied shall, unless he proves that —

(i) having taken all reasonable precautions against committing an offence under this section, he had, at the time of the commission of the alleged offence, no reason to suspect the genuineness of the mark and on demand made by or on behalf of the prosecution, he gave all the information in his power with respect to the persons from whom he obtained the goods; or

⁷³ Directive of the European Parliament and of the Council on criminal measures aimed at ensuring the enforcement of intellectual property rights April 2007.

⁷⁴ *R v Johnstone* [2003] FSR 230 (HL) par. 46.

⁷⁵ Trade Marks Act 2002 s 120(1).

(ii) he had acted innocently,
be guilty of an offence . . .”

78. This, in simple terms, means that the importation of counterfeit goods is a punishable unless the accused can prove his innocent mindset.

79. Malaysian law is not dissimilar but it is not as strict. It provides as follows:⁷⁶

“In any proceedings for an offence under this Act it shall, subject to subsection (2), be a defence for the person charged to prove -

(a) that the commission of the offence was due to a mistake on his part or to reliance on information supplied to him or to the act or default of another person, an accident or some other cause beyond his control; and

(b) that he took all reasonable precautions and exercised all due diligence to avoid the commission of such an offence by himself or any person under his control . . .”

80. This defence is not available to bodies corporate⁷⁷ and, in any event, an accused may not rely on this defence without giving prior notice of his intention to do so.

81. In Barbados any trademark infringement is criminal provided it is done knowingly.⁷⁸ At the same time counterfeiting is criminalized in another provision and with different penalties.⁷⁹

82. South African law takes somewhat of a middle position. After defining counterfeiting acts, the Counterfeit Goods Act provides that (s 2(2)) –

“A person who performs or engages in any act or conduct prohibited . . ., will be guilty of an offence if—

(a) at the time of the act or conduct, the person knew or had reason to suspect that the goods to which the act or conduct relates, were counterfeit goods; or

⁷⁶ Trade Descriptions Act 1972 s 24.

⁷⁷ India has a special provision about bodies corporate (s 114):

“(1) If the person committing an offence under this Act is a company, the company as well as every person in charge of, and responsible to, the company for the conduct of its business at the time of the commission of the offence shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly: Provided that nothing contained in this sub-section shall render any such person liable to any punishment if he proves that the offence was committed without his knowledge or that he exercised all due diligence to prevent the commission of such offence.

(2) Notwithstanding anything contained in sub-section (1), where an offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or that the commission of the offence is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

For the purposes of this section- (a) "company" means any body corporate and includes a firm or other association of individuals; and (b) "director", in relation to a firm, means a partner in the firm.”

⁷⁸ Trade Marks Act 56 of 1981 s 49:

“No person shall knowingly infringe any right vested in any other person under this Act.”

⁷⁹ Section 50A.

(b) the person failed to take all reasonable steps in order to avoid any act or conduct of the nature contemplated in subsection (1) from being performed or engaged in with reference to the counterfeit goods.”

83. The reason why the Act places no onus on the accused and why there are no presumptions is due to the fact that the SA Constitution generally does not permit a shift of onus in criminal cases although a provision such as the following would be consistent with the Constitution:

“In the absence of evidence to the contrary, which raises a reasonable doubt, proof of such act shall be sufficient evidence of the absence of reasonable cause.”

84. Australia requires knowledge or recklessness.

2.7 COUNTERFEITING MUST BE ON A COMMERCIAL SCALE

85. Private acts of counterfeiting need not be criminalized. In any event, private acts of counterfeiting are highly unlikely because there could not be any sensible reason to counterfeit a trademark without intending any commercial gain or advantage. In this respect there is a real practical difference between counterfeiting and piracy.

86. This requirement is reflected in the definition of the prohibited acts of counterfeiting. The directive adopted by the European Parliament uses this definition:⁸⁰

“‘infringements on a commercial scale’ means any infringement of an intellectual property right committed to obtain a commercial advantage; this would exclude acts carried out by private users for personal and not for profit purposes”.

87. A few countries criminalize the importation or possession of counterfeit goods for private purposes. This trend (if it is a trend) has not been observed in the common-law jurisdictions investigated. South African law (like others) provides an example of the other extreme: it permits counterfeiting and the importation and export of counterfeit goods for private and domestic use.

88. On the other hand, South African law does not require counterfeiting on a commercial scale. It lists a number of acts, mostly defined in relation to having been done in the course of business. This is the list (which also applies to piracy):

- possessor control in the course of business for the purpose of dealing in counterfeit goods;
- manufacture, produce or make “except for the private and domestic use”;
- sell, hire out, barter or exchange, or offer or expose for these purposes;
- exhibit in public for purposes of trade;
- distribute for purposes of trade;
- distribute to such an extent that the owner of the IP right in respect of suffers prejudice;
- imports into or through the country;

⁸⁰ Directive of the European Parliament and of the Council on criminal measures aimed at ensuring the enforcement of intellectual property rights April 2007.

- exports from or through the country except if so imported or exported for the “private and domestic use” of the importer or exporter;
- in any other manner disposes of in the course of trade.

89. This is a fairly comprehensive list. Other common-law countries typically also prohibit –

- the application of counterfeit marks;
- the dealing in the course of trade (“sells or lets for hire, offers or exposes for sale or hire or distributes”) counterfeit goods;
- the possession, custody or control in the course of a business of any such goods;
- the production or possession of advertising or packaging material;
- the importation and export.

2.8 THE COUNTERFEIT MARK OR PACKAGING MUST EITHER BE “IDENTICAL TO” OR INDISTINGUISHABLE IN “ESSENTIAL ASPECTS” FROM THE REGISTERED TRADEMARK.

90. This requirement contained in the definition of counterfeit goods distinguishes counterfeiting from trademark infringement *simpliciter*, something clearly borne out by the formulation of the Trade Marks Act of Singapore. Trademark infringement may amount to counterfeiting but not necessarily so. Conversely, counterfeiting is by its very nature trademark infringement.

“Counterfeit cases involve an infringer attempting to reproduce—and substitute for—the goods (not just the trade mark) of the trade mark owner. . . . The striking feature about counterfeit cases is that they are legally very simple: they do not involve serious disputes over the boundaries of the trade mark owner’s rights. In mimicking the goods and the trade marks, the conduct of counterfeiters clearly falls within the ambit of conduct that a trade mark owner is entitled to prevent.”⁸¹

91. Someone once stated that “ordinary” trademark infringers try to be close enough to the original trademark in order to confuse the consumer but they try simultaneously to introduce enough differences in order to confuse the court. Counterfeiters, on the other hand, have no compunction of confusing the court and the consumer.

92. A mark will, accordingly, be counterfeit if it is either –

- identical to, or
- indistinguishable in its essential aspects from the registered trademark.

93. The UK statute, for one, follows this wording closely when it speaks of a “sign identical to, or likely to be mistaken for, a registered trade mark”. The Singapore Act is similar but is wider when it speaks of “a sign identical to or so nearly resembling a registered trade mark as to be calculated to deceive” or the falsification of a genuine registered trademark. (The term “calculated to deceive” has a fixed meaning in common-law jurisdictions. It means “likely to deceive”, the wording used by the New Zealand legislation.)

⁸¹ Jason Bosland, Kimberlee Weatherall and Paul Jensen “Trade mark and counterfeit litigation in Australia”. www.law.unimelb.edu.au/ipria/publications/workingpapers.html.

94. The South African Act has a test that is, at least formally, different. It speaks of the subject matter of the IPR (which would mean actual identity), or a colourable imitation calculated to confuse with or to be taken as being the protected goods of the rights holder.

95. Malaysian law considers only the use of a trademark per se as counterfeiting. This is because counterfeiting is defined in terms of false trade description. Interestingly, it is possible to obtain a trade description order in the case of trademark infringement. Under s 16 the high court may on the application of a proprietor or registered user of a registered trade for any goods or services declare, if his rights in respect of such trade mark are being infringed in the course of trade, that this amounts to a false trade description. This order is in later proceedings conclusive proof of a false trade description. The order expires after five years.⁸²

96. From the fact that counterfeiting is by its very nature trademark infringement, it follows that the accused must have used the counterfeit mark as a badge of origin, i.e., to indicate a connection in the course of trade between the goods (or, if applicable, services) and the trademark owner. Descriptive use is not infringing use, at least in the UK,⁸³ South Africa⁸⁴ and, probably, under EU principles.

2.9 COMPARATIVE LEGISLATION

97. It is of value for comparative purposes to consider the elements of counterfeiting according to US law.⁸⁵ To establish a criminal offense under 18 USC §2320, the government must prove the following elements (presented here with sub-elements for clarity):

- The defendant intentionally trafficked or attempted to traffic in goods or services or labels, documentation or packaging for goods or services;
- The defendant used a counterfeit mark on or in connection with those goods or services or a counterfeit mark was applied to labels, documentation, or packaging for those goods or services;
 - The counterfeit mark was not genuine or authentic;
 - The counterfeit mark was identical to or indistinguishable from a genuine mark owned by another;
 - The genuine mark was registered;
 - The genuine mark had been in use by the mark-holder or its licensee;

⁸² *Johnson & Johnson* ([1993] 3 MLJ 122) held that a TDO is not required when it involves a trade mark that is identical to the registered trade mark. So the Ministry could and must enforce the Act in cases that involve identical trade marks, in cases of imitation goods, without the proprietor of the trade mark having to obtain a TDO.

⁸³ *R v Johnstone* [2003] FSR 230 (HL).

⁸⁴ *Verimark (Pty) Ltd v BMW AG* [2007] SCA 53 (RSA).

⁸⁵ What follows has been taken from the US Department of Justice's "Trafficking In Counterfeit Trademarks, Service Marks, and Certification Marks—18 U.S.C. § 2320" prepared by the Computer Crime & Intellectual Property Section and published on the Internet: www.cybersafe.gov/criminal/cybercrime/ipmanual/03ipma.pdf.

- The counterfeit mark was "applied to or used in connection with" the goods or services or was "applied to or consist[ed] of" labels, documentation, or packaging "of any type or nature";
 - The counterfeit mark was used "in connection with" the type of goods and services for which the protected mark was registered or the counterfeit labels, documentation, or packaging were "designed, marketed, or otherwise intended to be used on or in connection with the goods or services for which the mark [was] registered";
 - The counterfeit mark was used in a manner "likely to cause confusion, to cause mistake, or to deceive"; and
- The defendant knowingly used the mark and knew that the mark was counterfeit.

PART 3

PIRATED COPYRIGHT GOODS

3.1 THE TRIPS OBLIGATIONS

98. Art. 61 of TRIPS requires that –

“Members shall provide for criminal procedures and penalties to be applied at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale.”

As mentioned before, TRIPS contains a definition of “pirated copyright goods”. It means –

“any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation.”

Whether or not “copyright piracy” under Art. 61 is limited to acts involving “pirated copyright goods” as defined in the aforementioned definition of “pirated copyright goods” (hence limiting criminal liability to acts of reproduction in the sense of the latter provision) is the subject of some controversy. This paper, however, does not aim to interpret TRIPS. The discussion that follows will accordingly focus on the explicit requirements of Art. 61, namely willfulness and commercial scale, but will also deal with those requirements that are implicit therein

The *minimum requirements* of Art. 61 are accordingly the following:

- There must be an act of copyright piracy.
- The act of copyright piracy must be willful.
- The act of copyright piracy must be on a commercial scale.

3.2 THE RELATIONSHIP BETWEEN COPYRIGHT INFRINGEMENT AND PIRACY.

99. Copyright infringement is essentially a civil wrong.⁸⁶ All copyright infringement is not criminalized and copyright infringement is not per se piracy. On the other hand, there cannot be piracy without copyright infringement. The effect of this is that before there can be copyright piracy there must be copyright infringement. For this reason brief reference is made to the requirements for copyright infringement.

3.3 WHAT DOES COPYRIGHT PROTECT?

100. This paper is not concerned with substantive copyright law and does not address the scope of copyright protection. That is a matter for national laws which are, under treaty obligations, obliged to comply with the provisions of the Berne Convention and, in the case of members of the WTO, who must comply with the provisions of TRIPS.⁸⁷ Some works are, because of technology, more prone to piracy and they are (to use non-technical language) works printed or published on the Internet (photocopying or electronic dissemination), sound recordings (CDs), cinematograph films (DVDs), computer programs, compilations of data and broadcastings.⁸⁸

3.4 DEFINING COPYRIGHT IN COPYRIGHT STATUTES

101. The term “copyright” is a misnomer because the right involved is in truth an author’s right, a fact recognized in the terminology used by systems other than those based on the common law. Apart from this difference in terminology there is also a tendency to define the right differently.

102. Within the common-law tradition these rights are all defined in basically the same terms following broadly the provisions of the Berne Convention and TRIPS. A setting-out of these provisions would accordingly be of little value for present purposes especially where the impact of piracy is primarily felt in commonly protected areas.

3.5 SUBSISTENCE OF COPYRIGHT

103. Part and parcel of any copyright infringement case, whether civil or criminal, is that the subsistence of copyright has to be established. Copyright is a technical subject and this means that special attention must be given to these elements.

104. In the ordinary course of events and in the typical piracy case subsistence is not a contentious issue and it is unlikely that an accused will place the issue in dispute. It has, however, been found that accused persons in some jurisdictions do place the matter in issue either for tactical reasons or because of the severity of sentences in the case of a conviction. They hope that by adopting that approach rights owners and the prosecution will lose interest and the case will then go away or that the prosecution may not be able to prove all the

⁸⁶ Historically, the Statute of Anne had a provision which entitled an informant to recover a penny a sheet for infringing copies, half to go to the Crown.

⁸⁷ Issues concerning TRIPS Plus obligations also fall outside the scope of the study. Trade Note by Carsten Fink, Senior Economist at the World Bank Institute and Patrick Reichenmiller, Consultant to the World Bank February 7, 2005. siteresources.worldbank.org/INTRANETTRADE/Resources/TradeNote5.pdf.

⁸⁸ The protection of broadcaster, together with that of performers and producers of phonograms, is already set out in the Rome Convention.

elements of the crime. This defence tactic has been advanced as the reason for the slow disposal and low conviction rates in some jurisdictions.

105. If these difficulties arise it may be more practical to prosecute an infringer under counterfeiting (at least as an alternative) because in the ordinary course of events copyright goods are sold under a trademark and the pirated goods will consequently be accompanied by a counterfeit trademark.

106. The subsistence provisions in copyright laws in common-law countries are very similar, if not identical. Where they differ is in relation to the proof of subsistence.

107. The subsistence requirements are these: the work must be a protected work; it must be original; it must be reduced to material form; the copyright must have been conferred because the author was a qualified person or by virtue of first publication in the local jurisdiction or a convention country.⁸⁹

3.6 PROOF OF SUBSISTENCE OF COPYRIGHT

108. Because proof of subsistence of copyright can be bothersome, most legislatures have sought to alleviate the problem. There are three models but they are not self-excluding: registration (notification), affidavit evidence, and presumptions.

109. The most effective way is to provide for registration of copyright. Registration is not – and may not be – a requirement for subsistence of copyright but it may provide *prima facie* evidence of subsistence. The USA, which formerly required registration for subsistence, permits registration and it serves the mentioned purpose because a certificate of registration –

"made before or within five years after first publication of the work shall constitute *prima facie* evidence of the validity of the copyright."⁹⁰

110. South African law also provides in separate legislation⁹¹ for the registration of copyright but only in relation to cinematographic films (as defined in the Copyright Act).⁹² The purpose of registration is to facilitate proof in both civil and criminal case of the subsistence of copyright:

“In all civil and criminal proceedings relating to copyright in cinematograph films . . . , the fact that a person is registered as the owner or licensee of the copyright in a cinematograph film shall be *prima facie* evidence of the validity of the original registration of that copyright and of all subsequent assignments and transmissions thereof.”

⁸⁹ See Annex 2.

⁹⁰ US Department of Justice’s “Trafficking In Counterfeit Trademarks, Service Marks, and Certification Marks—18 U.S.C. § 2320” prepared by the Computer Crime & Intellectual Property Section and published on the Internet at www.cybercrime.gov/18usc2320.htm:

“Once the certificate of registration is introduced by the government and accepted as authentic by the court, the burden shifts to the defendant to prove that the copyright is not valid or that the registration was obtained fraudulently, . . . after which the prosecutor may rebut with evidence showing that the certificate is genuine, the registration was properly obtained, or otherwise that the copyright is valid. If the work was registered more than five years after its first publication, the certificate's probative value is left to the court's discretion.”

⁹¹ Registration of Copyright in Cinematograph Films Act, 1977.

⁹² The definition has already been given.

111. Apart from bureaucratic considerations there does not appear any reason for limiting registration to films and not extending the scope of the provision to all copyright works, more particularly the more vulnerable cases such as sound recordings and computer programs. Importantly, the Act provides for a transparent process for registration: the application has to be advertised and may be opposed. The registration may also be revoked on application.⁹³

112. Other systems generally allow for the use of affidavit evidence. The New Zealand statute simply provides that the court may receive an affidavit as evidence of the existence and ownership of copyright. However, a party to the proceedings may apply to the court to require a person whose evidence has been given by affidavit to attend the proceedings for the purposes of cross-examination.

113. According to Australian law⁹⁴ the affidavit evidence may establish that –

- at a particular time, copyright subsisted in the work or other subject-matter to which the proceeding relates; or
- at a particular time, copyright in that work or subject-matter was owned by, or exclusively licensed to, a particular person; or
- at a particular time, copyright in that work or subject-matter was not owned by, or exclusively licensed to, a particular person; or
- a particular act was done without the licence of the owner of the copyright, or of the exclusive licensee of the copyright, in that work or subject-matter.

114. The accused is entitled to apply “in good faith” (a requirement not expressed in the New Zealand legislation) for the cross-examination of the deponent to the affidavit. If leave is granted, the affidavit may not be used unless the deponent appears for cross-examination or the court, in its discretion, permits the affidavit to be used without the deponent appearing.

115. The legislation applicable in Hong Kong SAR is probably the most detailed and specific. It permits an affidavit which purports to have been made by or on behalf of the owner of a copyright work and which states –

- the date and place that the work was made or first published;
- the name, domicile, residence or right of abode of the author of the work;
- the name of the owner of the work;
- that copyright subsists in the work; and
- that a copy of the work exhibited to the affidavit is a true copy of the work.

116. In the absence of evidence to the contrary it is presumed that the statements made in the affidavit are true; and that the affidavit was properly made and authenticated. The affidavit must be provided before the hearing to the accused who may, also before the hearing, serve a notice requiring the attendance of the deponent to the affidavit in court. The

⁹³ Hong Kong SAR law allows for a copyright register to be provided by means of regulation but it is not clear to the author whether or not registration disposes of an affidavit although the affidavit need not be as expansive as otherwise. See the discussion below.

⁹⁴ So, too, Singapore s 131.

deponent must testify orally if the court is satisfied that the subsistence or ownership of the copyright is “genuinely” in issue.⁹⁵

117. Lastly, there are some relevant presumptions. The Berne Convention (Art. 15) already has a number of these. Authorship is established if the author’s name appears on the work in the usual manner, even this name is a pseudonym (where the pseudonym adopted by the author leaves no doubt as to his identity). The person or body corporate whose name appears on a cinematographic work in the usual manner is presumed to be the maker of the said work. And in the case of anonymous and pseudonymous works, the publisher whose name appears on the work be deemed to represent the author, and is in this capacity entitled to protect and enforce the author's rights.

118. National laws (like the Australian Copyright Act s 132A) typically go further. This provision applies to criminal proceedings and provides for instance that if a copy of the work or the packaging or container in which the copy is packaged or contained, bears a label or mark stating

- the year and place of the first publication, or of the making, of the work, then that year and place are presumed to be as stated on the label or mark,
- that a person was the owner of copyright in the work at a particular time, then the person is presumed to have been the owner of the copyright at the time,

unless the contrary is established.

119. There are other presumptions of a like nature but it ought to suffice to refer to those applicable to computer programs to get a feel of their nature. If articles embodying a program have been supplied (by sale or otherwise) to the public; and at the time they, or their containers, bore a label or other mark consisting of © accompanied by a specified year and the name of a person, it is presumed that the computer program is an original work, was first published in that year; and the person was the owner of copyright in the program when and where the articles, things or containers were labeled or marked.

120. Not all copyright presumptions apply necessarily to criminal cases.

3.7 THE ACT OF PIRACY MUST CONSTITUTE AN INFRINGEMENT OF A COPYRIGHT

121. Anyone who violates any of the exclusive rights of the copyright owner infringes copyright.⁹⁶ There are typically two types of infringing acts that give rise to civil liability.⁹⁷

122. The first is what is called direct infringement. Copyright in a work is infringed by a person who, not being the owner of the copyright, and without the licence of the owner of the copyright, does in the jurisdiction, or authorizes the doing within the jurisdiction of, any act comprised in the copyright. Liability is absolute and does not depend on guilty knowledge.

123. The second is indirect infringement and requires for civil liability either knowledge or deemed knowledge that the making of the article was carried out without the consent of the

⁹⁵ The further detailed provisions are not relevant for purposes of this paper.

⁹⁶ Title 17 of the United States Code para 501.

⁹⁷ Cf South African Copyright Act 98 of 1978 s 23.

owner of the copyright. This is the case of importation of pirated goods for commercial purposes⁹⁸ or the commercial dealing with pirated goods.⁹⁹

124. The position in relation to criminal infringement is generally different. Fairly typical in this regard is that only certain circumscribed acts – and not all infringing acts – are criminalized. The acts as defined in the UK legislation are representative:¹⁰⁰

- to make for sale or hire, or
- to import otherwise than for private and domestic use, or
- to possess in the course of a business with a view to committing any act infringing the copyright, or
- in the course of a business —
 - selling or letting for hire, or
 - offering or exposing for sale or hire, or
 - exhibiting in public, or
 - distributing, or
- to distribute otherwise than in the course of a business to such an extent as to affect prejudicially the owner of the copyright, an article which is, an infringing copy of a copyright work.

125. A few jurisdictions have a more generalized approach to the matter. They criminalize any willful (civil) infringement subject only to the requirement that the infringement must have been extensive or if the accused did the act in order to obtain a commercial advantage as is required by Art. 61 of TRIPS. This is the position in the USA and in countries that have accepted TRIPS-plus obligations in bilateral trade treaties. In this regard the definition of civil infringement is important. For instance, as in Singapore, it may include an infringement of the communication right as envisaged by Art. 8 of the WIPO Copyright Treaty of 1996 and Arts 10 and 14 of the WIPO Performances and Phonograms Treaty of 1996, meaning the right to transmit the work by electronic means and the making available of a work on a network in such a way that it may be accessed by others.

⁹⁸ E.g. Singapore s 32(1):

“The copyright in a literary, dramatic, musical or artistic work is infringed by a person who, without the licence of the owner of the copyright, imports an article into Singapore for the purpose of —

(a) selling, letting for hire, or by way of trade offering or exposing for sale or hire, the article;

(b) distributing the article —

(i) for the purpose of trade; or

(ii) for any other purpose to an extent that will affect prejudicially the owner of the copyright; or

(c) by way of trade exhibiting the article in public,

where he knows, or ought reasonably to know, that the making of the article was carried out without the consent of the owner of the copyright.”

See also Australia s 102.

⁹⁹ E.g. Singapore s 33(1):

“The copyright in a literary, dramatic, musical or artistic work is infringed by a person who, in Singapore, and without the licence of the owner of the copyright —

(a) sells, lets for hire, or by way of trade offers or exposes for sale or hire, an article; or

(b) by way of trade exhibits an article in public,

where he knows, or ought reasonably to know, that the making of the article constituted an infringement of the copyright or, in the case of an imported article, the making of the article was carried out without the consent of the owner of the copyright.”

¹⁰⁰ Copyright, Design and Patents Act 1988 (C. 48) s 107. There is a similar provision in relation to illicit recordings.

3.8 THE ACT OF PIRACY MUST BE WILLFUL

126. Willfulness is a minimum requirement. Ironically, it is the requirement in many developed countries whereas countries with often less educated people tend to have a higher threshold.

127. The New Zealand Copyright Act 1994 is typical of those that require willfulness (s 131):

“Every person commits an offence against this section who, other than pursuant to a copyright licence . . . an object that is, and that the person knows is, an infringing copy of a copyright work.”

128. The law in the USA is similar. There are three basic copyright crimes:¹⁰¹

- Willful infringement “for purposes of commercial advantage or private financial gain”;
- Willful infringement not for profit, but with “the reproduction or distribution, including by electronic means, during any 180-day period, of one or more copies or phonographic records of one or more copyrighted works, which have a total retail value of more than \$1,000”; and
- Pre-release piracy, *i.e.*, willful infringement “by the distribution of a work being prepared for commercial distribution, by making it available on a computer network accessible to members of the public, if such person knew or should have known that the work was intended for commercial distribution,”

129. The position in the UK is somewhat more stringent and requires “knowledge” or “reason to believe” that the act amounts to an infringement of copyright¹⁰² but the criminal liability for making, dealing with or using illicit recording appears to be absolute and not dependent on willfulness.

130. Australia draws a distinction between an indictable and a summary offence.¹⁰³ The first appears to require willfulness for all its elements while the second appears to require willfulness in relation to the infringing act but, in respect of the requirements that the infringement must have a substantially prejudicial effect on the copyright owner and be on a commercial scale the accused must have been at least negligent in relation to those facts.

131. South African law is bedeviled by the fact that piracy is dealt with in two statutes, namely the Copyright Act and the Counterfeit Goods Act. The two Acts approach the issue differently. The Copyright Act requires knowledge of the wrong for criminal liability.¹⁰⁴ The

¹⁰¹ Taken from the US Department of Justice’s “Trafficking In Counterfeit Trademarks, Service Marks, and Certification Marks—18 U.S.C. § 2320” prepared by the Computer Crime & Intellectual Property Section and published on the Internet at www.cybercrime.gov/18usc2320.htm.

¹⁰² Copyright, Design And Patents Act 1988 (C. 48) s 107.

¹⁰³ Copyright Act 1968 s 132AC.

¹⁰⁴ Section 27(1):

“Any person who at a time when copyright subsists in a work, without the authority of the owner of the copyright—

primary infringing acts are similar to those contained in the UK legislation although there are some additional ones. The Counterfeit Goods Act does not require criminal knowledge. It suffices if –

- at the time of the act or conduct, the accused knew or had reason to suspect that the goods to which the act or conduct relates, were counterfeit goods; or
- the accused failed to take all reasonable steps in order to avoid any act or conduct of the nature contemplated from being performed or engaged in with reference to the counterfeit goods.

132. The prosecuting authorities, however, prefer to prosecute under the Copyright Act because they then have at their disposal all the powers under the Criminal Procedure code and they are not restricted by some limiting procedures prescribed by the Counterfeit Goods Act. This indicates that the requirement of willfulness does not inhibit prosecutions.

133. Hong Kong SAR also does not require willfulness. Instead it creates a defence:

“It is a defence for the person charged with an offence under subsection (1), to prove that he did not know and had no reason to believe that the copy in question was an infringing copy of the copyright work.”¹⁰⁵

134. In the case of the importation of pirated goods, the accused in Hong Kong SAR has to prove in connection with “no reason to believe” that –

- he had made reasonable enquiries sufficient to satisfy himself that the copy in question was not an infringing copy of the work;
- he had reasonable grounds to be satisfied in the circumstances of the case that the copy was not an infringing copy; and
- there were no other circumstances which would have led him reasonably to suspect that the copy was an infringing copy.

135. The court has to decide the issue with reference to the following factors –

- whether the accused had made enquiries with a relevant trade body in respect of that category of work;
- whether he had given any notice drawing attention of the copyright owner or exclusive licensee to his interest to import and to sell the copy of the work;
- whether he had complied with any code of practice that may exist in respect of the supply of that category of work;

[Footnote continued from previous page]

- (a) makes for sale or hire;
- (b) sells or lets for hire or by way of trade offers or exposes for sale or hire;
- (c) by way of trade exhibits in public;
- (d) imports into the Republic otherwise than for his private or domestic use;
- (e) distributes for purposes of trade; or
- (f) distributes for any other purposes to such an extent that the owner of the copyright is prejudicially affected,

articles which he knows to be infringing copies of the work, shall be guilty of an offence.”

¹⁰⁵ Copyright Ordinance chapter 528 s 118(3).

- whether the response, if any, to those enquiries made by the defendant was reasonable and timely;
- whether he was provided with the name, address and contact details of the copyright owner or exclusive licensee;
- whether he was provided with the date of first day of publication of the work; and
- whether he was provided with proof of any relevant exclusive licence.

136. The position in Singapore is again different. For primary infringement it is required that the accused “knows, or ought reasonably to know” that he is dealing with an infringing copy.¹⁰⁶ The same is required in relation to the importation of infringing goods and the other prohibited acts.

3.9 THE ACT OF PIRACY MUST BE ON A COMMERCIAL SCALE

137. The law of the USA does not in terms require copying on a commercial scale but requires infringement “for purposes of commercial advantage or private financial gain”.¹⁰⁷ It draws a distinction between for-profit and non-profit infringement, both of which can be criminal depending on the presence of other factors.

For-profit infringement is a five-year felony if:¹⁰⁸

- the defendant infringed by means of the reproduction or distribution, including by electronic means; and
- during any 180-day period, of at least ten copies or phonographic records, of one or more copyrighted works, which have a total retail value of more than \$2,500.

138. Otherwise, if the offence violated rights other than reproduction or distribution or the offence did not satisfy the monetary or numerical thresholds, it is a misdemeanor. Non-profit infringement is a three-year felony if the defendant infringed by means of the reproduction or distribution of ten or more copies or phonographic records of one or more copyrighted works, which have a total retail value of \$2,500 or more. If the offence does not satisfy the monetary and numerical thresholds, it is a misdemeanor.

139. Pre-release infringement over a publicly-accessible computer network, is always a felony, but the penalties increase if it is done for commercial advantage or private financial gain. The 1997 No Electronic Theft Act criminalizes music file sharing even where there is no profit element.

140. A person who engages in Australia in conduct that results in one or more infringements of the copyright in a work or other subject-matter commits an indictable offence if

¹⁰⁶ Section 136.

¹⁰⁷ Title 17 para 506.

¹⁰⁸ Taken from the US Department of Justice’s “Trafficking In Counterfeit Trademarks, Service Marks, and Certification Marks—18 U.S.C. § 2320” prepared by the Computer Crime & Intellectual Property Section and published on the Internet at www.cybercrime.gov/18usc2320.htm.

- the infringement has a substantial prejudicial impact on the owner of the copyright and
- the infringement occurred on a commercial scale.

141. In determining whether one or more infringements occur on a commercial scale the volume and value of any articles that are infringing copies that constitute the infringement or infringements and “any other relevant matter” must be taken into account.

142. Importantly, the burden of proving that any advantage, benefit or gain does not result from, or is not associated with, any private or domestic use of any copyright protection is on the prosecution.¹⁰⁹

143. Many countries (including Singapore and Hong Kong SAR) follow the example of the UK which, generally, requires copying for commercial purposes (and not necessarily on a commercial scale) save with two exceptions: importation otherwise than for private and domestic use and distribution (in the sense discussed above) otherwise than in the course of a business to such an extent as to affect prejudicially the owner of the copyright, an article which is, an infringing copy of a copyright work.¹¹⁰

3.10 COPYING MUST BE WITHOUT THE AUTHORIZATION OF THE RIGHT HOLDER

144. This requirement speaks for itself. Copying with consent cannot be wrongful. Most Acts regard this requirement as axiomatic and do not even mention it as a separate requirement.¹¹¹

3.11 DIRECT OR INDIRECT COPYING

145. Copyright infringement requires a causal connection between the original work and the copy, which means that the fact that one work is the same as the other does not mean that it is copied because both could have been original creations. Infringing copying may either be done directly or indirectly.

146. In the criminal law context this could hardly ever be an issue of any practical significance. The copy of a film or sound recording or the photocopy of a book could never have been made independently. It is thus unnecessary to consider this matter any further.

3.12 EXTRA-TERRITORIAL INFRINGEMENT

147. Hong Kong SAR law makes it an offence to make outside Hong Kong SAR, for export to Hong Kong SAR otherwise than for private and domestic use, any article that the person knows would, if it were made in Hong Kong SAR, constitute an infringing copy of a copyright work.¹¹² And someone who, in Hong Kong SAR or elsewhere, aids, abets, counsels or procures the commission by another person of this offence, commits that offence as a principal.

¹⁰⁹ Section 132AD.

¹¹⁰ The provisions have already been quoted in another context.

¹¹¹ Onus is important here, as for other possible defences. On this, a Canadian decision is instructive – it requires the prosecution to prove lack of consent and ALSO lack of fair dealing: *R. v. Laurier Office Mart Inc.* (1994), 58 C.P.R. (3d) 403, aff'd (1995), 63 C.P.R. (3d) 229 (Ont.).

¹¹² The Act goes wider.

PART 4

CRIMINAL LAW POLICY CONSIDERATIONS

4.1 SYSTEMIC PROBLEMS

148. Most countries have systemic – indeed, sometimes, endemic – problems in relation to criminal enforcement. The problem concerning the enforcement of IP rights is not exceptional. These systemic problems flow from the administration of justice in general and are not necessarily peculiar to IP crimes. This paper cannot by the very nature of things address these issues in any particularity since they are matters for general law or administrative reform. It will suffice if some of these issues are identified without comment and without identifying the countries where the problem occurs:

Ambivalent attitude towards IP: The governments of some countries express, depending on the forum or the ministry involved, ambivalent or conflicting views about the value and protection of some or all IPRs. This attitude (or lack of it) filters down to those responsible for enforcement, including the judiciary. Some role players believe that certain countries are not committed to IPR enforcement and that others do not take their treaty obligations seriously.

Qualification of the judiciary: The judiciary is not necessarily qualified to deal with “technical” matters. In some common-law countries the judiciary is averse to training (particularly post-appointment) that may affect its independence. There is also a difference of opinion about the judiciary’s general ability to deal with such matters: the legal profession (represented by the International Bar Association) believes that judiciaries are not necessarily qualified and promotes the idea of specialist IP courts while judiciaries believe otherwise. However, issues concerning counterfeiting or piracy do not require any special skills. The issues are usually within the competence of any judicial officer.

Ability of the investigating and prosecuting authorities: These authorities may not have the necessary expertise or resources to investigate and prosecute technical issues.

Outdated criminal procedures and rules of evidence: Some common-law countries believe that these procedures and rules should be modernized while others have done little or nothing in this regard. The common-law system is known for its over-reliance on oral evidence and its reluctance to permit written evidence, even if the accused has no grounds for doubting its veracity.¹¹³

Over-burdened courts: In many countries criminal courts are over-burdened and suffer from serious backlogs. The period between arrest and trial may be unacceptably long. Witnesses may disappear, complainants may lose interest, exhibits may disappear and the prosecution may regard the matter as stale. The Business Software Alliance informed the author orally that in a particular South-East Asian country only one out of about a hundred criminal cases involving large scale software infringement by businesses has been concluded.

¹¹³ The IP court in Thailand has two rules that are of interest to common-law jurisdictions. Knowledgeable persons or expert may submit their opinion evidence in writing and depositions instead of oral evidence on the issues not directly proving the guilt of the accused are permitted. Trials are also conducted by video-conferencing.

Court management: Because of the adversary legal system in common-law countries, their judiciaries tend to leave the management of litigation in the hands of the parties. This leads to unnecessary postponements and lengthy delays in concluding litigation.¹¹⁴

General level of criminality: Legislatures, the prosecution and courts have to prioritize their work. IP crimes do not, as a rule, rate high especially in high-crime communities.

Poor discretionary decisions: The decision to prosecute or not to prosecute is occasionally is sometimes based on insufficient information.

Bad judgments: A wrong judgment or ruling by a court – in the absence of a correction on appeal (something difficult in common-law jurisdictions) – affects future enforcement and the morale of enforcement agencies. Two cases from different jurisdictions may be mentioned. In the one case the court ruled that affidavit evidence is not admissible in establishing subsistence of copyright in spite of legislation to the contrary. In another case the court held that the police are not entitled to enter premises and seize goods on a reasonable suspicion because IP crimes do not fall to be dealt with under the general criminal procedure provisions. These palpably wrong decisions emasculate enforcement agencies.

Dealing with exhibits: Exhibits have to be tagged, stored and eventually produced in court. Ultimately, they have to be turned over the rights owner or be destroyed. Some countries experience problems in this regard also in view of the time limits imposed by TRIPS.

Inappropriate sentences: There is often a difference of opinion between members of the judiciary and the Legislature on questions relating to sentencing. The judiciary wants to exercise a free discretion while legislatures tend to be prescriptive and wish to bind the judiciaries' sentencing discretion.

Lack of published material: These cases are heard as a rule in lower courts. Their decisions are not reported and often not even recorded. Other courts do therefore not have any source material to determine how other courts have dealt with similar matters, especially when it comes to sentencing. This adds to the problem of disparate sentencing levels within the same court system.

4.2 SPECIFIC IP ISSUES

149. In the section the following issues will be addressed:

- The accused, i.e., who to prosecute: producer/dealer; retail outlet; consumer; someone who aids or abets (mall owner).
- The complainant: role of; settlement.
- The investigator: the role of the police and other officials. Problems with duality. Powers.
- The prosecutor: private prosecutions.
- The charge: the decision to prosecute; alternative charges.

¹¹⁴ Thailand has this rule:

“The court shall proceed with the hearing without adjournment until the hearing is over, save in case of unavoidable necessity.”

- The plea: plea bargaining; effect of plea of guilty on sentence.
- The court.
- The procedure.
- The onus.
- Conviction and sentence: minimum sentence; maximum sentence.

4.3 THE ACCUSED

150. Anyone who transgresses is obviously a potential defendant in a criminal prosecution. In the present context the question is who, on a practical level, should be then target of criminal investigation and prosecution.¹¹⁵

151. It ought to be common cause that the producer, exporter, importer and wholesaler should be the focus of any criminal process. The problem, however, is that the producer and exporter are often beyond the jurisdiction of the court and that the importer – especially when goods are seized at the border – is not always identifiable.

152. The retailer – whether the corner store, the street hawker or the trader at an occasional market – is, on the other hand, the visible link in the chain. He is also the final link between the infringers and the public. Without the retailer the disposal of counterfeit goods is impossible. It is accordingly arguable that a zero tolerance approach towards retailers could have a significant effect on the prevalence of counterfeiting. The judiciary unfortunately tends to deal with the retailer with velvet gloves. The same applies to some public authorities. This is said about Canada:¹¹⁶

“The copyright enforcement policy draws a distinction between a ‘retailer’ and a ‘commercial’ pirate, and notes, ‘infringement at the retail level is not an enforcement priority in its own right.’ However, today’s counterfeit ‘retailers’ regularly operate on a significant commercial scale and manufacture, label and sell counterfeit and pirated works using readily available and inexpensive computer equipment that allows them to, for instance, ‘burn’ huge volumes of pirated copies on-site, at minimal cost. Due to the outdated policy, the RCMP rarely targets criminal copyright piracy by retailers.”

¹¹⁵ Rick Harbaugh and Rahul Khemka "Does Copyright Enforcement Encourage Piracy?" (August 2001) (Claremont Colleges Working Paper 2001-14):

“More intensive copyright enforcement reduces piracy, raises prices, and lowers consumer surplus. We show that these results do not hold regarding the extent rather than intensity of enforcement. When enforcement is targeted at high-value buyers such as corporate and government users, the copyright holder has an incentive to charge super-monopoly prices, thereby encouraging piracy among low-value buyers. Extending enforcement down the demand curve broadens the copyright holder's captive market, leading to lower prices and higher sales that can increase both profits and consumer surplus. The standard tradeoff between the incentive to generate intellectual property and the cost of monopoly power is therefore avoided. Private enforcement by copyright holders may be insufficiently extensive since consumers can also benefit from more extensive enforcement. Similarly, new technologies which lead to stronger control over illicit use can paradoxically benefit consumers.” [Abstract quoted.]

papers.ssrn.com/sol3/papers.cfm?abstract_id=244949.

¹¹⁶ Canadian Anti-Counterfeiting Network “Report on Counterfeiting and Piracy in Canada: A Road Map for Change” (2007) p 12. http://www.cacn.ca/PDF/CACN%20Releases/Roadmap_for_Change.pdf.

153. A sensible approach is to have *ex officio* action in respect of syndicated crimes and to leave, within reason, other enforcement to rights holders. If this approach is followed it does mean that the authorities should keep rights holders informed of any known infringements. Concerning consumers, it has already been mentioned that counterfeiting and piracy for personal and domestic use is in general not criminalized. There is no reason to believe at this stage that there is any likelihood of a change within the foreseeable future.

154. Aiding and abetting any criminal act is a crime in all jurisdictions under criminal codes. Someone who aids or abets the commission of an IP crime can, accordingly, be charged under general principles without any special legislation (although from the provisions quoted earlier it appears that some countries have specific IP provisions). An interesting development is the prosecution of mall owners in China, Malaysia and Thailand who knowingly permit the sale of counterfeit goods by stall holders.

4.4 THE COMPLAINANT

155. The rights holder or his licensee or agent is typically the complainant in any case of counterfeiting. But with *ex officio* action, i.e. customs seizures or police raids, the authorities are first on the scene and they are then dependent on the rights owners to provide them with the necessary evidence and back-up. In smaller jurisdictions or jurisdictions where rights holders have no material presence they sometimes do not bother to take any steps, arguing that it is not cost effective for them to do anything. In the result the goods have to be released after the statutory holding period has lapsed, something that tends to demotivate.

156. The police and customs officials are also demotivated when the rights owner settles the civil claim and then withdraws the complaint or fails to provide the necessary evidentiary assistance (this applies especially to foreign rights holders). Put differently, the fact that the control of the criminal case is in a material sense in the hands of the rights holder is not without its problems.

157. An answer to the problem is to require the consent of the prosecutorial authority of any settlement that has the effect of a withdrawal or abandonment of the charge. This is the position in Singapore.

4.5 THE INVESTIGATOR

158. Investigating crimes is the responsibility of the state as represented by the police services. Rights holders, sometimes with a measure of justification, doubt the ability of the police to conduct a proper investigation. They then conduct their own investigation. Their market surveillance provides a valuable tool and is indispensable for proper policing. It has, however, been reported that investigators appointed by rights holders sometimes use unacceptable methods in their investigations.

159. Inspectors appointed under trade description, customs and tax statutes also perform functions in investigating counterfeiting and enforcing anti-counterfeiting measures.¹¹⁷ Their “police” powers may, however, be limited. They may not, for instance, arrest or conduct certain searches because they do not have any powers under criminal procedure codes.

¹¹⁷ In the UK, also local weights and measures authorities.

4.6 THE PROSECUTOR

160. Prosecution is in the hands of the state. Due to the lack of expertise and manpower to conduct such cases, rights holders would often prefer to conduct the prosecution by their own legal teams. Private prosecution is permitted in some jurisdictions like South Africa but only after a certificate from the prosecuting authority that it does not intend to prosecute.

Decisions like this take time and, in the event, the complainant must provide security for the costs of the accused and may be ordered to pay all the costs.

161. Other jurisdictions like Singapore use a fiat system permitting the complainant to conduct the prosecution. This enables the complainant to appoint expert private lawyers to prosecute. This appears to be a useful tool and of value to the state and not only the rights holders. It is nevertheless necessary that the state should retain the ultimate control over the proceedings by requiring, for instance, that the case be completed within a defined time frame and that withdrawal of the charge can only take place with the consent of the authorities. The fiat system may not be appropriate to deal with syndicated crimes where the public interest element is the primary concern.

4.7 THE CHARGE

162. Ordinarily, a prosecutor should not commence prosecution unless he believes that

- the person's conduct constitutes an offence and
- the readily available admissible evidence will probably be sufficient to obtain a conviction.

163. Even if a successful prosecution is probable, in countries where the decision to prosecute is discretionary, a prosecutor may decide not to prosecute if:

- prosecution will serve no substantial public interest;
- the person is subject to effective prosecution in another jurisdiction; or
- where adequate non-criminal alternatives to prosecution exist.¹¹⁸

164. Considering the complexity of prosecuting IP crimes, especially, piracy, alternative charges ought to be considered. As mentioned, pirated goods are usually sold under the trademark of the rights owner and because it is easier to prove counterfeiting than piracy, it may be advisable in a particular matter to forego the latter and to concentrate instead on counterfeiting.

165. On the other hand, anti-counterfeiting laws may be useful in combating crimes such as dealing in fake medicines.

166. Some countries, such as Malaysia and Hong Kong SAR, have limitations on the production of optical discs, requiring licensing. The producer of a pirated optical disc will invariably also contravene such a statute.

¹¹⁸ Adapted from "Intellectual Property—An Introduction" published by the Computer Crime & Intellectual Property Section of the US Justice Department on the Internet at www.cybercrime.gov/18usc2320.htm.

167. At another level, the counterfeiter or pirate will, probably, also commit any one of the following crimes: fraud, a customs or tax contravention, breaking a drug or food provision or a labour related provision. In serious cases charges relating to racketeering and money laundering may be indicated. Offences created by subsidiary laws relating to trading licences, trading zones, traffic offences or health regulations could be considered in cases where the level of culpability is relatively low.

4.8 THE PLEA

168. Thailand reports that in almost 98% of the infringing cases, the defendants plead guilty. In the USA the percentage is also high. Some other jurisdictions do not show the same or similar tendency. This may be ascribed to the ability of the prosecution to prove the offence because of a lack of capacity or the absence of a proper investigation; lost exhibits, lost dockets, the loss of evidence; and the like. Another factor may be unrealistically high minimum sentences: the accused may decide to fight the case because the court has no sentencing discretion.

169. In this regard mention should be made of the power of the prosecution to compound a crime. Thailand and Malaysia provide an interesting contrast. In the case of the former, IP crimes are always compoundable and in the event of a plea of guilty the court may reduce the sentence while in Malaysia some of these crimes are not at all compoundable or only compoundable under prescribed circumstances and a reduction of sentence is not possible even in the case of a plea of guilty.

170. Some countries (such as South Africa) provide for sentence agreements (or plea bargaining).¹¹⁹ These laws are of general applicability and provide for the accused to plead guilty and the prosecution to agree to a sentence at a lower scale (nevertheless it must be appropriate). The court has to be satisfied that the agreed sentence, in the light of the statement of case, is appropriate. The court may reject the agreement, in which event the case has to go to trial before another court.

4.9 ONUS

171. It is a basic principle that in any criminal case the prosecution bears the onus of proof in relation to all elements of the crime and that this onus must be discharged beyond reasonable doubt. This principle is sometimes constitutionally entrenched but even if not, courts look askance at any deviation from the principle.

172. As has become apparent, many IP laws create presumptions and place some onus the accused. The deviation is usually justified on grounds of expediency but it remains a valid question whether principle should yield to pragmatism. The House of Lords has held that there is sufficient justification for such a shift.¹²⁰ It would be interesting to know whether countries that do not shift any onus onto an accused have smaller conviction rates than otherwise.

¹¹⁹ Criminal Procedure Act 1977 s 105A.

¹²⁰ *R v Johnstone* [2003] FSR 230 (HL) par 53-54.

173. The admission of affidavit evidence about relatively non contentious matters ought to solve most of the problems that haven been addressed by means of a shift of onus or presumptions in favour of the prosecution.

4.10 CONVICTION AND SENTENCE

174. Sentence levels and sentencing attitudes differ from society to society. It is impossible to make any sensible comparisons or to draw any meaningful conclusions.¹²¹ The following quotation from a press release by the European Parliament states the problem and supports its attempt to harmonize the criminal laws of the Community:¹²²

“At present maximum fines for violating intellectual property rights range from £586 in Greece to £67,000 in Holland. Maximum prison sentences range from three months in Greece to 10 years in Britain.

Under the new directive, in cases of serious crimes committed by a criminal organisation, the maximum penalty must be at least €300,000 and/or four years' imprisonment. The same applies where the offences carry a health or safety risk. For less serious infringements, the maximum penalties should include criminal and civil fines of at least €100,000. Aiding or abetting and inciting anyone to infringe intellectual property rights will also be treated as a criminal offence. In some cases, remedies can include the seizure and destruction of counterfeited goods.”

175. High maximum sentences are increasingly being legislated and a maximum of ten years' imprisonment apart from fines is not uncommon. However, sentences approaching these levels are hardly ever, if at all, imposed by courts. In South Africa, only one sentence of imprisonment has to date been imposed and in the USA, considering that these crimes are federal crimes, about 80% of sentences of imprisonment are for less than six months.

176. One may safely say that the possibility of high sentences does not, without more, have any material deterrence. Prescribed sentences have in the abstract no value. The deterring effect of sentences depends on the certainty of detection and conviction. Unless the police are properly equipped and able to investigate all crime within a reasonable time and bring the case to court and unless the court system is effective no sentence can have any deterrent value. A criminal commits a crime on the supposition that he will not be caught. The more realistic this supposition the more motivation there is for ignoring laws and committing crimes. The mere fact of a sentence of imprisonment in Hong Kong SAR and Singapore for peer-to-peer infringement has created some shock waves, at least in the popular press.

177. Andreas Rahmatian adds another perspective:¹²³

“Sentencing practice for trade mark crimes should not neglect the issue of proportionality. Too severe penalties may not deter, but even encourage counterfeiting at a larger scale (because taking the risk of harsh punishment only pays off in relation to larger operations), and they may undermine public respect and acceptance of trade mark and criminal law alike: ‘If the death penalty is imposed for both small and considerable

¹²¹ See Annex 1.

¹²² Press release 20070420IPR05539 of 25 April 2007.

¹²³ Andreas Rahmatian “Trade Mark Infringement as a Criminal Offence” *Modern Law Review* 67 (4), 670–683.

thefts [quoting Voltaire], it is obvious that [the offenders] will try to steal much. They may even become murderers if they believe that this is a means not to be detected. . . All that proves the profound truth that a severe law sometimes produces crimes.’ What Voltaire wrote in relation to theft in 1766, is also valid in relation to intellectual property offences today.”

178. High minimum sentences may be counter-productive. Malaysia introduced such sentences. Some allege that as a result no one is prepared to plead guilty. This requires lengthy trials and has led to the clogging of the court roll. Completed cases are few and the backlog is huge but the country has taken a series of impressive steps to address the issue including the formation of dedicated IP courts during July 2007.

179. Discretionary sentences have also led to disappointing results because there is reason to believe that some courts do not fully appreciate the seriousness of the crime and do not impose appropriate sentences. Considering that the profit margin on pirate DVDs can be in the vicinity of 1000%, it is difficult to justify an fine of \$ 7 500 in relation to pirated goods worth \$ 1m, taking into account that the business income tax revenue in the particular country is 31%. Sentencing guidelines offer some alternative worth considering.

180. Another problem area is the prescription of fines per infringing act. This applies in general to the monetary option and, at least apparently, not to sentences of imprisonment.¹²⁴ If one considers that one CD with a collection of music contains a number of copyright works, the reproduction of such a CD can lead to multiple charges and, unless there is a prosecutorial discretion of limiting the prosecution to one work on the CD, the copying of a single CD can lead to multiple charges and multiple sentences.

181. South African law, after prescribing maxima, contains the following list of useful sentencing guidelines:

- In aggravation of sentence, a court is obliged take into account any risk to human or animal life, health or safety or danger to property that may arise from the presence or use of the counterfeit goods in question.
- In mitigation of sentence, evidence is admissible that the accused, fully, truthfully and to the best of his ability had disclosed to the investigator all information and particulars available to him in relation to:
 - the source from which the counterfeit goods were obtained;
 - the identity of the persons involved in the importation, exportation, manufacture, production or making;

¹²⁴ The South African Counterfeit Goods Act 1997 s 19(1) is an example:

“Any person convicted of an offence referred to in section 2 (2), will be punishable—

- (a) in the case of a first conviction, with a fine, in respect of each article or item involved in the particular act of dealing in counterfeit goods to which the offence relates, that may not exceed R5 000,00 per article or item, or with imprisonment for a period that may not exceed three years, or with both such a fine and such term of imprisonment;
- (b) in the case of a second or any subsequent conviction, with a fine, in respect of each such article or item, that may not exceed R10 000,00 per article or item, or with imprisonment for a period that may not exceed five years, or with both such a fine and such term of imprisonment.”

- the identity and, if reasonably demanded, the addresses or whereabouts of the persons involved in the distribution; and
- the channels of distribution.

4.11 OTHER ENFORCEMENT MECHANISMS

182. In deterring these crimes it is also necessary to look wider at other enforcement remedies like forfeiture of proceeds of crime.¹²⁵ The United Nations International Convention against Transnational Organized Crime for one provides that States Parties must adopt, to the greatest extent possible within their domestic legal systems, such measures as may be necessary to enable confiscation of:

- proceeds of crime derived from offences covered by the convention or property the value of which corresponds to that of such proceeds;
- property, equipment or other instrumentalities used in or destined for use in offences covered by the convention.

183. The offences covered by the convention include participation in organized criminal activity, money laundering, corruption and serious crime which is defined as offences punishable by at least four years imprisonment. Such provisions can give teeth to the Article 61 obligations under TRIPS.

184. This convention does not require the enactment of civil forfeiture laws but leave it to individual countries to determine the most appropriate form of law. A number of other countries (particularly common law countries) have introduced civil forfeiture laws. They include the United States, Australia, Ireland, South Africa, Columbia and the United Kingdom. According to the report relied on, conviction-based forfeiture is the norm for most countries in Europe, but Italy has a form of civil forfeiture.

PART 5

CONCLUSION

185. This comparative study is by its very nature incomplete and the author concedes that his understanding of the laws of the countries considered is imperfect and the statement of law incomplete. In addition, there are societal issues that differ from country to country but are not necessarily visible from the outside. The author often had to rely on secondary sources fully realizing the inherent danger of the procedure. The author also relied on information obtained and views expressed during discussions with role-players in Malaysia, Singapore and South Africa.

186. The investigation produced a number of striking conclusions.

¹²⁵ What follows is based for the sake of convenience on the Australian Tom Sherman report "Report on the Independent Review of the Operation of the Proceeds of Crime Act 2002 (Cth)" July 2006. www.ministerjusticeandcustoms.gov.au/.

First, the laws of the countries considered are not only in general terms TRIPS compliant but are in many instances stricter. This is because the minimum requirements of TRIPS are not sufficient to deal with problem. There remains nevertheless a distinction between civil and criminal enforcement in the sense that what is a civil IP infringement is not necessarily a criminal one.

Second, some developing countries are very serious about criminalizing counterfeiting. This is apparent if one has regard to the width of the crime as defined in legislation, the availability of evidentiary aids such as presumptions and affidavit evidence, the sentencing provisions, fast tracking of cases, and the introduction of specialist courts.

Third, effective enforcement does not depend on laws but on law enforcement. Neighboring countries with virtually identical laws have vastly different rates of IP infringement as does the effectiveness of their enforcement. There also appears to be a correlation between IP activity and effective enforcement. Laws in themselves are not sufficient. Laws must be enforced. The respect for the law depends on the principle of certainty: if enforcement is uncertain or unlikely infringement is certain and likely. Deterrence depends on the likelihood of detection and swift and certain prosecution. Governments at all levels must be seen to take their own criminal laws seriously.

Fourth, criminal enforcement should not be seen in isolation and effective enforcement depends on a holistic approach to the issue. First and foremost is education: the public must be encouraged to respect the law in general and IPRs in particular; and the public must understand the rationale behind IPRs and their protection.¹²⁶ As James Boyle said:¹²⁷

“The more one moves to a world in which the message, rather than the medium, is the focus of conceptual and economic interest, the more central does intellectual property become. Intellectual property is the legal form of the information age. Like most property regimes, our intellectual property regime will be contentious, in distributional, ideological and efficiency terms. It will have effects on market power, economic concentration and social structure. Yet, right now, we have no politics of intellectual property – in the way that we have a politics of the environment or of tax reform. We lack a conceptual map of issues, a rough working model of costs and benefits and a functioning coalition-politics of groups unified by common interest perceived in apparently diverse situations.”

Criminal enforcement goes hand in hand with civil enforcement. They are not in competition but the former is there to shore up the latter. It should be the fallback, not the prime matter. But the scale of counterfeiting in a particular jurisdiction may require more emphasis on criminal enforcement.

Fifth, all governments do not view their treaty obligations in the same light. It is one thing to sign a treaty and another to comply with its provisions.

¹²⁶ Eric Ancil “Copyright and Book Piracy: The #bookwarez Phenomenon and Beyond”:

“For better or worse, cryptography [technology] and ethics are really the only means to safeguard intellectual property rights. Ethics requires re-educating a public that believes free ownership is earned by virtue of cracking copyright encryption.”

www.gslis.mcgill.ca/marginal/mar9-2/bookwarez.htm.

¹²⁷ “A Politics of Intellectual Property: Environmentalism for the Net”. www.law.duke.edu/boylesite/ipmat.htm.

Sixth, human creativity is not static and the challenges of IP law are ever changing as technology develops and other aspects of the human psyche that have financial implications come to the fore. IP laws require constant revision and updating, not only to comply with treaty obligations but to serve the needs of each particular country.

Last, criminal enforcement of IPRs – even if sometimes patchy and ineffective – is fully justified and performs an important social function.¹²⁸

“But piracy entails a high cost to the creative people and also to those who invest their scarce resources in bringing out copyrighted materials for use by millions. Until the pirates are scared by giving exemplary punishments in cases of copyright violations and the common end users realize that in the long run protection of copyright is beneficial not only to those who are involved in creation and commercialization of intellectual properties, but to all including themselves, piracy will prevail. What is needed, therefore, is an effective enforcement machinery along with a wide spread propaganda highlighting the adversities associated with piracy.”

[Annexes follow]

¹²⁸ “Study on Copyright Piracy in India” sponsored by the Ministry of Human resource Development at <http://copyright.gov.in/mainact.asp>.

ANNEX I

Summary and Comparison of Criminal Penalties for Copyright Infringement in Selected Countries copied from “Study on Copyright Piracy in India” sponsored by the Ministry of Human resource Development at <http://copyright.gov.in/mainact.asp>.

| Country | Fines/Penalty | Imprisonment Terms |
|-----------|---|---|
| U.S.A | Up to \$ 250,000 for a first offence of infringement by an individual done “willfully and for purposes of commercial advantage or private financial gain”. | Up to 5 years |
| | Up to \$ 250,000 for a second offence by an individual. | Up to 10 years |
| | Up to \$ 50,000 for first offence by an organisation. | Up to 5 years |
| | Up to \$ 500,000 for a second offence by an organisation. | Up to 10 years |
| France | 6,000 to 120,000 Francs (about US \$ 1070 to US \$ 21,428) for a first offence of infringement. Double the above penalties for second offence. | 3 months to 2 years |
| Poland | Unspecified fines for unauthorised dissemination for purposes of economic gain. | Up to 2 years in jail |
| | Unspecified fine if the infringer turned the above offence into a regular source of income for a criminal commercial activity and organises or directs such activity. | Not less than 6 months and not more than 5 years. |
| | Unspecified fine for unauthorised fixation or reproduction activity. | Up to 2 years in jail. |
| | (Reported the maximum criminal fine under the penal code is 250 million zloty (about \$ 11,075)) | Up to 3 years in jail. |
| Hungary | Unspecified fine for infringements causing considerable damage. | Up to 3 years. |
| | Unspecified fine for infringements causing particularly high pecuniary damage. | Up to 5 years. |
| Greece | 1 to 5 million Drachmas (about \$ 4,050 to \$ 20,485) for infringing acts | At least 1 year. |
| | 2 to 10 million Drachmas (about \$ 8,100 to \$ 40,485) applies if the intended profit or damage threatened by infringing acts are particularly large. | At least 2 years. |
| Portugal | The equivalent of between 150 and 250 days for infringements of enumerated acts. The above penalty doubles for repeated offence, provided that the offence in question does not constitute an offence punishable by a more severe penalty. | Up to 3 years. |
| Singapore | Up to \$ 10,000 for the article or \$ 100,000 whichever is lower. | Up to 5 years |
| | Up to \$ 6,666 or \$ 66,000 for violation of the reproduction and the display rights and to the sale or importation of infringing copies. | Up to 3 years. |

| | | |
|--|---|----------------|
| | Up to \$ 50,000 (US \$ 33,335) for violation of the distribution right. | Up to 3 years. |
| | Up to \$ 20,000 (US \$ 13,333) for making or possession of a “plate or similar contrivance for the purpose of making infringing copies of sound recordings or audio - visual works and for violation of the public performance right. | Up to 2 years. |

[Annex II follows]

ANNEX II

EXCURSUS ON SUBSISTENCE OF COPYRIGHT

The work must be a protected work, i.e., a work on which copyright is bestowed by virtue of the relevant Act. It must, consequently fall within one or other definition. It may also be important to determine the exact nature of a work. Is it for instance a cinematograph film or is it a computer program (the latter being entitled to protection as a literary work whereas the former is of a different type).¹²⁹ A country such as the Netherlands has in a sense a somewhat different approach because it “includes . . . generally any creation in the literary, scientific or artistic areas” within the scope of protected works. Such omnibus protection was not found in common-law jurisdictions.

Second, the work must be “original”. The requirement of originality is universal. What it means differs not only between civil law and common-law countries but also between common-law countries themselves. This is usually the result of judicial interpretation and not of statutory definition. All accept that the first requirement is that the work must not have been copied.¹³⁰ The question then is whether something more is required. This is usually the requirement that sufficient effort must have been expended to make the work original in character. This concept, derived from the jurisprudence of the USA, is found in the Copyright Act of Malaysia, but not in other common-law countries. However, those courts that tend to follow English precedents generally require merely that the work must not have been copied – a kind of sweat of the brow approach. There is nevertheless a movement to a middle position as evinced by recent Canadian jurisprudence.

Third, the work must have been written down, recorded or otherwise reduced to material form. This requirement is typical in common-law countries. In practical terms this means that a legitimate copy of the original work must be presented as evidence.

Fourth, copyright must have been conferred either because the author was a qualified person (resident or citizen or incorporated locally or in a convention country) or by virtue of first publication (in the local jurisdiction or a convention country).¹³¹ This involves a determination of the author which can be a complicated issue if regard is had to the authorship of, for instance, computer programs. The definition of “author” of a work may differ, depending on the nature of a work. The Copyright Act of Barbados provides a good example:

“‘Author’ in relation to a work, means the person who creates it, being in relation to –

¹²⁹ See for instance the relevant definitions in the South African Act:

“‘cinematograph film’ means any fixation or storage by any means whatsoever on film or any other material of data, signals or a sequence of images capable, when used in conjunction with any other mechanical, electronic or other device, of being seen as a moving picture and of reproduction, and includes the sounds embodied in a sound-track associated with the film, *but shall not include a computer program.*”

“‘computer program means a set of instructions fixed or stored in any manner and which, when used directly or indirectly in a computer, directs its operation to bring about a result.’”

¹³⁰ This does not mean that the work may not in itself infringe someone else’s copyright. Whether a work is a copy and whether it infringes are two separate issues.

¹³¹ A problem in this regard is the failure of countries – South Africa is an example – to keep the list of proclaimed convention countries up to date. This is a breach of an international obligation.

- a literary or dramatic work, the author of the work;
- a musical work, the composer of the music, and in relation to accompanying words, if any, the author of the accompanying words;
- an artistic work other than a photograph, the artist;
- a photograph, the photographer;¹³²
- a sound recording or film, the person by whom the arrangements necessary for the making of the recording or film are undertaken;
- the typographical arrangement of a published edition, the publisher;
- a broadcast . . . , the person making the broadcast and in the case of a broadcast by reception and immediate re-transmission, the person making that other broadcast;
- a cable programme, the person providing the cable programme service in which the programme is included;

a computer-generated literary, dramatic, musical or artistic work, the person by whom the arrangements necessary for the creation of the work are undertaken.”

A complicating factor is that authorship and ownership may not necessarily coincide. Although the author is as a general rule the first owner of the copyright, common-law countries usually provide that the ownership of copyright in commissioned works or works done in the course or scope of employment or under the control of the State or Crown belongs not to the author but to the commissioning party, the employer or the State or Crown.

[End of Annex II and of document]

¹³² In South Africa it is the person responsible for the composition of the photograph.