

fight against fakes

by Ruth M. Corbin, LL.M., Ph.D., ICD.D.

“PSST! WANNA BUY A ROLEX?”

For thirty dollars, you too can sport a fake Rolex watch that looks just like the real thing. Perhaps you have experienced the thrill of buying phony Prada handbags on Toronto’s Spadina Avenue, imitation Callaway golf clubs for \$200, look-alike Gucci sunglasses, or other status symbols reduced to fabulous knock-offs at affordable prices. By now, the thrill should be fading and anxiety setting in as you contemplate your contribution to a multi-billion-dollar world problem of criminal counterfeiting.

Counterfeiting means unauthorized use of a well-known trademark on a product imitation for the purpose of deceiving at least some buyers into thinking the article is genuine.

Some people view counterfeiting as a victimless crime. That view is mistaken. Counterfeiting poses significant threats to the reputations of companies

that make authentic brand products. Counterfeit products can be a risk to jobs, to public health, and to safety. Indeed, counterfeiting is now the business of organized crime. The unchecked proliferation of counterfeiting threatens the stability of modern economies by undermining consumer trust in brands.

This article highlights the responsibilities of corporate managers to inform themselves about the worldwide prob-



A replica Fendi “Spy” model bag. Fendi sued Wal-Mart, and settled out-of-court, for Wal-Mart’s alleged sale of Fendi knock-offs.

lem of counterfeiting, to be alert to specific risks for their corporations, and to be aware of actions they can take to safeguard shareholder value.¹

THE EMERGENCE OF A COUNTERFEITING CRISIS – YES, IN CANADA

No one can know for sure the size of the problem, since not all counterfeiting is discovered. Responsible estimates put the value of the global counterfeit market as high as \$600 billion annually, with the Canadian market supporting somewhere between \$20 and \$30 billion per year.² Jobs lost to counterfeit goods in Canada are estimated to number 75,000.³ In 2006, the International AntiCounterfeiting Coalition (IACC) named Canada one of the two most significant contributors to the worldwide proliferation of counterfeiting.⁴ The other country named was China.

Unlike China, Canada’s contribution to counterfeiting is not so much in the

manufacture of illegal copies, but in the tolerance of them. Canadian laws are relatively weak with respect to anti-counterfeiting, and Canadian border officials have less authority than those in other countries to inspect and seize suspicious goods. According to one news report, the Canada Border Services Agency searches less than three per cent of incoming shipments. It claims to have neither the budget nor the mandate to stop the huge flow of counterfeit products.⁵ Canada has become counterfeit-friendly.

The IACC's 2007 report again put Canada on its priority watch list, reiterating its concerns of "a lack of proactive effort by Canadian customs and prosecutors in dealing with counterfeiting," a reactive approach by government, and "poor cooperation among authorities and industry."⁶

THE RANGE OF AFFECTED BUSINESSES

Any product or brand that consumers have come to trust can potentially be targeted by counterfeiters. Indeed, it is the deep-seated trust in brand names or regulatory standards on which counterfeiters prey. The nature of the market for counterfeit goods has gone much beyond satisfying consumers' wishes to own clever substitutes of what they cannot afford; it now extends to deceiving those same consumers in areas of their lives where they have come to live with comfortable assumptions of quality and safety. Week after week brings fresh fodder for concern. Counterfeiters have made imitation Colgate toothpaste containing an antifreeze chemical and harmful bacteria,⁷ unregulated brake pads, air bags and other auto parts,⁸ unreliable imitations of famous-brand electronics,⁹ batteries that have exploded in an RCMP office,¹⁰ fake chainsaws,¹¹ counterfeit medicines,¹² and imitation Trojan condoms of low quality.¹³ Counterfeiters

have no incentive to spend money on quality controls, and their goods can be dangerous.

Counterfeit goods can also kill. In June 2005, police in Hamilton, Ontario, seized fake Norvasc heart pills (a Pfizer pharmaceutical product) that were suspected to be linked to five deaths in that city,¹⁴ and Toronto police seized a quantity of counterfeit Viagra pills believed to have been imported from India.¹⁵

Counterfeiting is not about over-enthusiastic entrepreneurs knocking off a product here and there. The RCMP and Interpol have linked counterfeit activities to organized crime and terrorism.¹⁶ It is all about the money. Mass producers of fake goods may either dupe their retail distributors or find retailers who participate knowingly in order to enjoy higher markups on the lower-cost substitutes of recognized brand name products.

WHAT EXACTLY IS THE PROBLEM FOR PUBLIC COMPANIES?

Companies with good products and good names risk devaluation of their brands through association with inferior goods. In the case of high-end name brands, widespread ownership of imitations dilutes their exclusivity. If counterfeit brands come to be associated with health or safety risks, then corporations face the prospect of plummeting sales, as consumers worry about the danger of buying the wrong product. The potential problem is comparable to that of tampered products. Recall the plunge in sales suffered in 1982 by Johnson & Johnson upon discovery of cyanide tampering in Tylenol and, more recently, the discovery of tampering by makers of Stella Artois beer in Toronto and Kamloops. The road back to consumer credibility and confidence is an expensive one, without guaranteed success.

There is a bigger issue that touches every respected company in Canada:

the loss of trust in branding altogether. Superior technology and increasing wiliness by counterfeiters makes possible ever closer imitations of the real thing. Eventual discovery by consumers that these imitations are inferior – even dangerous – will surely lead to increasing skepticism at every point of advertising or purchase, through the Internet in particular. Once trust in brands is undermined, the backbone of modern commerce is severely weakened. If brands lose their status as instant conveyors of trust, imagine how consumer decision-making would slow down. Grabbing your favourite toothpaste as you whiz by the shelf might now be a three-minute exercise of reading the label, examining the package, or looking for other assurances of legitimacy. Every company with a trusted brand or trusted name is vulnerable to negative impacts of a decrease in consumer confidence and retail spending. Famous brands, those with the most momentum and cachet, risk suffering the most.

WHAT CAN CORPORATIONS DO?

The fundamental step that all corporations should be taking, with or without a counterfeiting crisis, is an audit and measurement of their intellectual property. Intellectual property now constitutes up to 70 per cent of the assets of modern corporations. Heed the well-known aphorism, "You can't manage what you don't measure."

Famous high-end or trustworthy brands need the support of a worldwide monitoring system to detect instances of both infringement and outright counterfeiting. Reliable reports of illegal counterfeiting can be followed up with private investigations – a standard available service. Depending on the strength of the evidence, a corporation can follow through either with a lawyer's warning letter or with an outright report to the police authorities (in Canada, the RCMP). In the domestic



market, there are causes of legal action and financial penalties under the *Copyright Act*, but not all counterfeit goods are protected by copyright. Nonetheless, the Canadian government has committed recently to taking a more proactive approach to solving the problem, and the RCMP has undertaken a program of consumer and business education through its website and other informational support activities. Corporate action in other countries will be governed by the strength of intellectual property law and enforcement in those markets.

Some corporations have pursued new levels of brand identity protection. Holographs, identity numbers, or other indicia to verify authenticity may be added to packaging and labels. This sounds like we are describing ways to protect currency against counterfeiting! Measures taken by currency printers may indeed offer helpful creative ideas.

Another step corporations can take is consumer education, even incitement of consumer activism. Consumers have just as much to lose in managing the effi-

ciency of their own lives, should branding lose its perceived integrity. Consumers need to start by rejecting the purchase of known knock-offs. They need to consider where the money they spend on knock-offs is going. Unless consumers say no to Prada bags on Spadina, unless they refuse to frequent retailers who knowingly distribute fake brand goods, unless they call on governments to increase protection against risks to their health and safety, their lives as consumers will be dogged every day by mistrust of brands. Since reporting suspected counterfeits may be intimidating to consumers, companies can establish a hotline to field queries and initiate investigations about any suspicious activity relevant to their own brands.

MANAGEMENT OPPORTUNITY

With intellectual property being among the largest categories of assets in modern corporations, risks to intellectual property deserve priority attention. As Warren Buffet recently told the annual meeting of Berkshire Hathaway, "I can make a whole lot more money skill-

fully managing intangible assets than tangible assets."¹⁷ Counterfeiting is a direct attack on intellectual property.

Management should ensure a culture of awareness and proactiveness. It might need to start with management team education. A request can be made to have one or more experts deliver an educational seminar for senior management, customized to the corporation's field of business.

Such heightened awareness will likely inspire the right questions for seizing the strategic issue. What brands do we have? How much are they worth? Who might steal their identity and how? What monitoring system do we have to detect counterfeiting in time to do something about it? Do we have an emergency response system in place?

Managers representing their corporations on industry committees or boards of trade may wish to press for their business groups to initiate government advocacy for more effective laws, inspection, and border enforcement.

Deciding on policies for source manufacturing in China is another neces-



sary step for global companies, since about 75 per cent of counterfeit seizures in North America in recent years have been from China. The Chinese government has now explicitly stated its respect for intellectual property and its willingness to punish counterfeiters. In late June, the Chinese government said it had cracked down on food manufacturers by closing down 180 factories using industrial chemicals and additives.¹⁸ Declining to take an optimistic approach, Jamieson Laboratories has reportedly instituted a policy of not sourcing any materials from China-based companies until it is convinced of the effectiveness of that government's enforcement.¹⁹

In summary, corporations should be actively pursuing appropriate measurement, monitoring, and emergency response plans with respect to their intellectual property. But they also have the opportunity to exercise leadership, even vision, in a broader social context, in working with government, educating consumers, and advocating internationally for cooperative solutions to the

worldwide crisis. These actions are part of the new face of social responsibility in a world where precious consumer confidence in respected brands has been put at grave risk.

REFERENCES

- ¹ I acknowledge with thanks the research contributions of Lindsay Banack.
- ² Parliament of Canada, Standing Committee on National Safety and Public Security. "Counterfeit Goods in Canada – A Threat to Public Safety." 2007 (May).
- ³ Several statistical sources cited in the authoritative paper of James Holloway's "Canadian Anti-Counterfeiting Laws and Practice: A Case for Change." *The Trademark Reporter*, 2006: 96, 724–757.
- ⁴ International AntiCounterfeiting Coalition. "Submission to the United States Trade Representation, Special 301 Recommendation." 2006 (Feb. 10).
- ⁵ I. Marlow. "Dangerous Fake Goods Cross Border Unchallenged." *Toronto Star*, 2007 (July 2), p. 1.
- ⁶ International AntiCounterfeiting Coalition. "Submission to the United States Trade Representation, Special 301 Recommendation." 2007 (Feb. 12), p. 40.

⁷ See Health Canada warning, "Counterfeit Toothpaste, Falsely Labeled as Colgate, Found To Contain Harmful Bacteria." 2007 (June 29); and CBC News. "Fake Colgate, Chinese Toothpastes Pose Risk." CBC News Report. 2007 (June 30).

⁸ Holloway, *supra*.

⁹ See "Special Address" by Shri Navin B. Chawla, Secretary, Consumer Affairs, Government of India. 2004 (April 21). Reported at www.ficci.com

¹⁰ I. Marlow, *supra*.

¹¹ I. Marlow, *supra*, p. 5.

¹² E. Barraclough. "A Counterfeit Cure." *Managing Intellectual Property*, 2007 (April), 41–42.

¹³ ScienceDaily. "New York Delis Condoms Help To Inflate Egos." 2007 (May 30).

¹⁴ M. Nelson. "Bitter Pill." *Hamilton Spectator*, 2005 (Oct. 7).

¹⁵ RCMP news release. 2005 (Sept. 27).

¹⁶ Union des Fabricants. *Counterfeiting and Organised Crime Report* (2nd ed). Paris: Union des Fabricants, 2004; and RCMP, Criminal Intelligence Service Division. "Evaluation of Commercial-Scale Copyright Piracy and Counterfeiting of Brand Names in Canada." Ottawa, 2000.

¹⁷ D. Haigh & M. Rocha. "Digging Deep for True Brand Value." *Intellectual Asset Management Magazine*, 2007: 23, 30–38.

¹⁸ M. Mittelstaedt. "Policing Chinese Food Exports Proves a Daunting Task." *Globe and Mail*, 2005 (July 2), p. 5.

¹⁹ *Ibid*, p. 1.

Dr. Ruth M. Corbin is CEO of CorbinPartners Inc. and adjunct professor at Osgoode Hall Law School, teaching courses in intellectual property and litigation evidence. Her research on counterfeiting and brand auditing has recently been covered by several media, including the news publication of the Institute of Corporate Directors. She can be reached at (416) 413-7600 or rcorbin@corbinpartners.com