



THE AUSTRALIAN SPORTING GOODS ASSOCIATION

SUBMISSION TO THE PRODUCTIVITY COMMISSION

Counterfeit products are extremely common in the Australian market and are becoming more prevalent. Our proximity to Asia and the ease at which counterfeit products are manufactured and imported into Australia facilitates their entry into the market place.

The Australian Government is considering amendments to intellectual property laws however it is the submission of the Australian Sporting Goods Association that the proposals contained in the exposure draft of *The Intellectual Property Laws Amendment (Raising the Bar) Bill 2011* require further amendment.

Flaws in our legislative framework and compliance and enforcement regime, coupled with the ease of importation and the desire by Australian consumers for cheaper consumer goods has seen an increase in counterfeit products imported and sold in Australia.

Whilst the consumer desire for cheaper products is legitimate, over time it will become a greater burden than the benefit that consumers believe they receive from being able to purchase lower cost counterfeit goods. Lost revenue to legitimate importers wholesale distributors and retailers and lost taxation revenue must be considered.

Whilst it is easy to make the argument that the only harm caused is to the bottom line of perceived large businesses with enough fat in their margins to absorb the competition from some cheap counterfeit product, this paper will show that the damage runs deep and is far more detrimental to Australia's economy and the security of Australian jobs.

The economic effects of counterfeit are far reaching and detrimental to retail and the system of enforcement in Australia is due for an overall.

THE VALUE OF COUNTERFEIT IMPORTS

The O.E.C.D. reported in 1998 that counterfeit and piracy accounted for approximately US\$237 billion in sales. These figures do not include the sales of



goods in their country of manufacture or pirated digital products distributed via the internet.¹

The O.E.C.D. estimates that trade in Counterfeit goods represents between 5 and 7 percent of world trade.²

In Australia, a case study undertaken in 2005 has revealed the large amount of counterfeit product that enters Australia³.

Case study 2005

This case study is about 18 Brand owners who have registered trade marks working with Customs.

- Customs detect and seize 40,000 products bearing counterfeit trademarks of the 18 brand owners in 2005,
- Customs inspects only 5% of shipments that come into Australia,
- Assuming that the 40,000 products detected equate to only 5% of what would be detected if all shipments were inspected, this equates to about 800,000 products for these 18 brand owners.
- The 800,000 products only represent the 18 brand owners, who represent around 10% of brand owners of trademarks registered with Customs.
- If this figure were expanded to all brand owners of trademarks registered with Customs, then 8 million products enter Australia ever year that are counterfeit.
- If an indicative value of \$50 per product is placed on the goods, then an estimated value of \$400m worth of counterfeit goods are imported.

The above figures are estimations and only relate to brand owners who have registered Trademarks with Customs. For reasons outlined later in this paper, not all brand owners register trademarks with customs owing to problems with enforceability and cost.

The economic loss of counterfeit is not only equated by the loss to the brand owner.

There is a loss to the Government;

- Counterfeiters generally do not declare earnings and avoid taxation,

¹ OECD report on the economic effects of counterfeiting, 1998

² OECD report on the economic effects of counterfeiting, 1998

³ Stephen Stern, Corrs Chambers Westgarth 2005 Case Study of Corrs Chambers Westgarth Clients



- Counterfeit goods are often sold via mechanisms with avoid the application of GST,
- There is a loss to the State when illegitimate businesses do not pay taxation on earning and compete with legitimate businesses that do pay taxation.

COMPLIANCE, DETECTION AND ENFORCEMENT IN AUSTRALIA

The process, administered by Customs under *Part Xxii* of the *Trade Marks Act, 1995 (Section 131-141)* operates as follows;

1. Registration of Trademarks

- Only trademarks registered in Australia are subject to Customs enforcement,
- Common law trademarks and trademarks registered overseas are not able to be protected by Customs,
- Companies can register a trademark with Customs and can assist to educate Customs on how to detect counterfeit product,
- Trademark owners however must give, at the time of registration, a blanket guarantee to Customs that it will cover the costs of Customs if Customs make an incorrect seizure.

2. Detection and Seizure

- Customs undertake a program of inspections and where Customs believes there is a trademark infringement they 'seize' the goods,
- The seizure however is not a real seizure and is only a temporary detention of the goods,
- Notice is given to the importer advising them of the seizure and asking them for consent to forfeit the goods,
- Notice is given to the brand owner giving them only;
 - The name and address of the importer
 - The quantity of alleged counterfeit goods
 - The details of the trademark that has been infringed
 - No other information is provided to the brand owner.

The problem with the current system is that, should the importer not give consent to forfeiture, then the onus is on the brand owner to take action and often it is cost prohibitive to do so.

3. Forfeit or Release

Once Customs makes a seizure brand owners have 10 business days to;



- Obtain the consent of the importer to forfeiture of the goods for destruction by Customs; or
- Consent to the goods being released to the importer.

If consent is not given by the importer to forfeiture and the brand owner does not consent to the goods being released to the importer, the goods are released to the importer anyway.

4. Court proceedings

The only mechanism that the brand owner has to prevent the release of the seized goods to the importer, if it does not have the importers consent to forfeiture, is to initiate court proceedings for trademark infringement. This is when it becomes costly and time consuming for brand owners.

- If a brand owner then initiates court proceedings it only has 20 days to do so and this time period is not extendable. The brand owner must within these 20 days;
 - Obtain consent by the importer to the forfeiture of the goods,
 - Consent to the goods being returned to the importer.

If consent is not given by the importer to forfeiture and the brand owner does not consent to the goods being released to the importer, the goods are released to the importer anyway.

Brand owners will often impose internal thresholds for the value of counterfeit goods they will pursue. Importers 'test the waters' to see which shipments brand owners will pursue and their value and work out the threshold limits for companies and then import below that value knowing is unlikely that brand owners will take court action.

In addition, importers are abusing the system by utilising the Low Value Importation Threshold to import multiple packages of \$1000 or less avoiding detection and the application of duties, marking the goods as personal goods and gifts.

Multiple packages can be imported at any one time, and in the case of products with several components they can be split up to two or three packages, addressed to different people at the same or different addresses and then the final product assembled in Australia.

Overseas exporters to Australia advertise online that they will fudge consignment notes to specify a lower than actual value for the goods to allow them to be imported under the threshold and avoid detection through the self assessment process. ASGA released a report into this in November 2010. A copy of the report into the abuse of the Threshold and its role in illicit trade can be found at; http://www.asga.com.au/images/stories/ASGA_Research_Paper_on_the_Low_Value_Importation_Threshold.pdf

5. Obtain an Injunction

After court proceedings have commenced, the only way that a brand owner can prevent the release of the goods to the importer and stop them making their way into the market is to obtain an injunction from the court preventing their release. This injunction must be obtained within 20 days. The injunction prevents the goods from being released to the importer until the conclusion of court proceedings.

It can often cost hundreds of thousands of dollars to pursue these matters through the courts to their completion.

In summary the problems with the operation of the current legislative framework are as follows;

- The costs to take action by initiating court proceedings for trademark infringement or injunction to prevent the release of goods are too costly.
- Importers of counterfeit have worked out how to use the system to their advantage, avoid detection or avoid action by brand owners by importing below brand owners thresholds and utilising the Low Value Importation Threshold.
- Only 5% of shipments are inspected and often importers will take the risk knowing that if one or two shipments in intercepted the value of the goods that get through and are not detected makes up for those detected.
- Even when goods are seized they are returned to the importer.
- The system is engineered in such a way that even if the goods are counterfeit and even if Court proceedings are initiated for trademark infringement the goods can still be released to the importer unless



the brand owner takes the further costly and onerous step of seeking an injunction.

- The current value of the Australian dollar coupled with the benefits of the Low Value Importation Threshold and the poor regulation and enforcement of this Threshold allow importers to import multiple packages under the 'radar' of Customs and brand owners, and it is cost prohibitive for brand owners to take court action for multiple imports.
- Customs do not have the power to impose administrative penalties or fines for breach of trademark
- Customs cannot assume that goods have been forfeited and destroy them if an importer does not respond to a notice.

LINKS WITH TRANSNATIONAL ORGANISED CRIME AND TERRORISM

The ASGA is concerned at the connection between illicit trade and serious and organised transnational crime and even terrorism. Reports indicate that those involved in organised counterfeit activities often are also linked with serious and organised crime such as people smuggling, drug trafficking and even terrorist activity.⁴

The use of illicit trade in counterfeit products is well documented as a mechanism to finance the activities of those involved in serious and organised domestic and transnational crime and terrorism.⁵

The ASGA believes that stricter controls, legislative reforms and granting greater powers to impose administrative penalties to Customs will prevent the importation and sale of counterfeit goods and assist in preventing these organised rackets from financing the activities of serious organised criminal and terrorist networks that operate against Australia's national interests and security.

The ASGA is concerned about the enforcement regime in Australia and the failure of Commonwealth agencies to share information. There is minimal interaction between Customs and State or Federal Police services about

⁴ Union des Fabricants 2004

<http://www.interpol.int/Public/FinancialCrime/IntellectualProperty/Publications/UDF.pdf>

⁵ Organised transnational crime, an increasing threat to the world market", Nato, Economic Committee, 1998



counterfeit products however their role in financing those who seek to undermine Australia's national security should be of alarm to the Government.

CONSUMER PROTECTION

The ASGA is concerned with consumer protection issues relating to faulty goods products that could lead to serious injury and harm.

The ASGA recognises that, counterfeit products that make their way into the Australian market also pose a risk, such as pharmaceuticals with incorrect ingredients or faulty electronic goods and these pose significant health and safety concerns.

PROPOSAL FOR CHANGE

The ASGA seeks a commitment from the Australian Government to consider legislative changes and other changes to administrative arrangements.

Specifically the ASGA seeks;

1. Changes that would see a true seizure system rather than the present system of 'temporary detention' giving powers to Customs to destroy Counterfeit product and impose administrative penalties to importers of counterfeit goods.
2. Changes to Customs administrative procedures that would result in more information being provided by Customs to the brand owners so that brand owners might use this information to pursue those who import counterfeit and the international brands might use this information in other jurisdictions.
3. An agreement between Customs and State and Federal policing agencies to share information, with specific emphasis placed on the role of counterfeit trade in financing organised crime and terrorism.
4. A presumption of abandonment of goods where importers don't respond to seizure notices from Customs added to the legislation.
5. Provisions for punitive and statutory damages for trade mark infringement added to current legislation.



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6. The landing cards signed by all passengers arriving in Australia should be amended to include a statement as to whether passengers are carrying with them into Australia counterfeit or pirate goods;
7. Anti-counterfeiting messages and posters should be erected at the arrivals halls at the various Australian airports and ports;
8. Where counterfeit goods are seized by Customs, Customs should be entitled to made *ex officio* decisions to destroy the goods and, if appropriate, impose penalties on the importers;
9. Government should allow private industry to fund specific Customs officers devoted to anti-counterfeiting roles;
10. Government should engage in public education programs with private industry, designed to discourage the current consumer acceptance of counterfeiting; and
11. The *Trade Marks Act 1995* should be amended so dealing in counterfeit goods, even for personal use, is an infringement.