

Counterfeit perfume causes a stink

Catherine White takes a look at the bad smell counterfeit sellers leave lingering

Fragrances are one of the most popular consumer products meaning the sector is one of the most vulnerable to attack from counterfeiters. The top selling genuine perfumes are infringed by criminals because they are the most commonly recognised in the marketplace.

Fragrance counterfeiters, with the aid of modern digital imaging and printing techniques, are capable of producing almost identical replicas of all major leading perfume brands in the marketplace. The operation requires expert strategy from sourcing fake bottles, using a factory to fill the bottles, using printers to produce labels and a box manufacturer to produce packaging.

The majority of counterfeit perfumes are usually imported from the Far East because of easy access to materials. Lisa Lovell, founder of Brand Enforcement UK, an independent specialist legal consultancy, said that in order to decrease products entering borders countries "must work with customs more to crackdown any shipments coming in from China and other popular countries of origin".

Fakes have been able to infiltrate all parts of retail – from 'retail' outlets where networks are commonly used for serious organised crimes, to e-commerce sites where fragrances are ordered online from other countries with no quality control or safety testing.

As a result, Lovell highlighted that fakes present serious health risks, "there are many dangerous ingredients commonly found in fake perfumes, including anti-freeze and animal urine. Fake perfumes can result in severe skin reactions (usually blistering) and the unregulated ingredients can also set off conditions such as asthma when sprayed." Editor Debbie Selikman, of online beauty magazine beautyheaven.com.au, said the ingredients in counterfeits may have expired, "there's no guarantee of the quality of the ingredients – or on what sorts of ingredients are being added."

A fake economy

The main costs for authentic perfume manufacturers include brand protection and marketing and the distribution of perfume is normally restricted to exclusive retailers resulting in price stability. However, Christine Burke from Strategic Intelligence Services PLLC, an investigative consulting firm, said, "Companies are going to have to protect their product the best way they can with the ability to sell the items for a reasonable price and still make a profit. Unfortunately, the better the product (higher demand) the more at risk it is for counterfeiting."

Counterfeits affect legitimate businesses, causing loss of brand trust, lower profits and lost sales. In turn, lower income results in job cuts leading to lower economic growth. By extension, governments are impacted by piracy through lower tax revenues and higher costs on crime prevention.

The Organisation for Economic Co-operation and Development (OECD) explains that counterfeiting and piracy "can have broader economy-wide effects on trade, foreign investment, employment, innovation, criminality, environment ... and ... counterfeiting and piracy have direct effects on tax revenues and government expenditures."¹

Trading Standards Institute joint lead officer IP Gavin Terry agreed. "In many cases the sale of counterfeits will displace sales of the genuine product and deprive the rights owners of income, these sales will cause

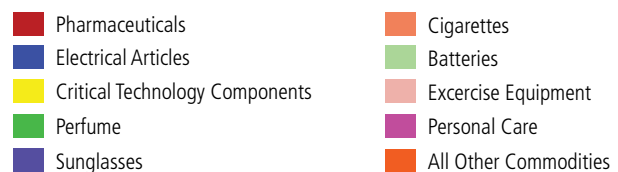
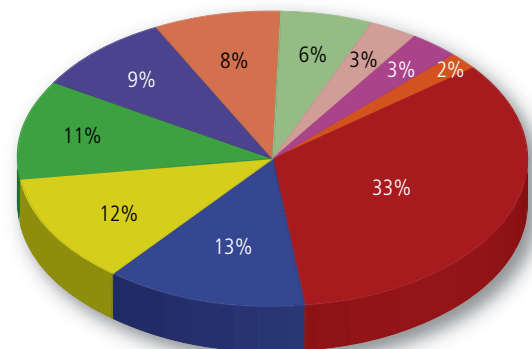
financial harm to both the rights owner and there will be loss to the economy through evasion of vat and tax."

During recessions, the number of fakes on the market increases. Lovell notes that counterfeit perfumes are rising. "I have seen a huge increase in black market trading since the recession; the sad thing is people are using redundancy money to feed a side line business only to find out the items purchased are fake."

Terry said that during economic fluctuations, counterfeiting rises, "even the counterfeit trade is not recession proof. During the good years there had been a drift away from home based manufacture to a global trading model."

2009 US counterfeits seized by USCBP²

Source: US Customs Border Protection



Online counterfeits

Due to the sheer space, scale, easy accessibility and anonymity of the internet, especially online auction sites, keeping track of counterfeit goods has become extremely difficult for rightsholders, but Selikman said that the only way for brand owners to tackle this is by being more proactive and keeping track of all their distribution outlets, "to ensure that their brands aren't being distributed and reproduced illegally. They should also promote their authorised stores/distributors (especially in the online sector) so that customers know where they can go to buy authorised product".

Simon Chapman, partner at law firm Lewis Silkin said that while customs and trading standards work with brand owners to raid territories and source fake origins, and brand owners investigate the marketplace and internet to bring civil actions against infringers, more still needs to be done to hinder fake perfumes. "There needs to be an increase in sanctions against criminals. Counterfeiting

is pushed to the bottom of the list and fakes are not a priority for the government." Therefore, he said that the government and enforcement agencies need to work better together, especially when regarding online auction products, "individual products coming into the country are hard to detect, therefore there needs to be better enforcement, monitoring, taking down fake products online and communicating with eBay".

Progress is being made – penalisation has become more robust with copyright legislation sentencing rising from two years in prison to a maximum of 10 years. The ruling in the case of *Louis Vuitton v eBay* of the Tribunal De Grand instance of 30 June 2008 is a good example of harsher penalties towards fakes. The court ordered eBay to pay €38.5m (recently reduced to €5.7m on appeal) in damages after the luxury goods maker, its sister company Christian Dior and four of its perfume brands, accused the site of illicit sales. The ruling was a highly significant decision for rightsholders because it showed that eBay could not hide behind a hosting defence of the type available to internet service providers because it did more than act as an intermediary between sellers and buyers – it exercised control over transactions and profited from them directly.

Partner at Hammonds Law firm, Andrew Clay, said the ruling "will undoubtedly have worried eBay and it is likely to pay more attention in future to complaints from high profile brands with a history of repeatedly warning it about its failure to take effective measures to prevent the sale of counterfeit products on its platform. Its failure to deal in a timely manner with such complaints from Louis Vuitton (which dates back to 1999) appears to have been a material factor in the harsh approach taken by the French court to eBay. Rightsholders especially those based in France have been given potentially a useful stick with which to beat eBay."

However, Clay says that, "there are still many sites offering trading platforms. eBay itself lists millions upon millions of different items for sale at any one time so the problem is very unlikely to disappear." However, he noted that the ruling is still important because French courts have jurisdiction to order compensation in relation to claims arising from internet sites accessed in France and even if eBay's promotion of goods on its trading platform does not necessarily target the French market, eBay could still be held to be liable in France.

Chapman agreed that brand owners cannot stop individual products being infringed, but acknowledged that they could make it more difficult for counterfeiters by "protecting branding, packaging and perfume by having registered rights like trademarks and patents and work with anti-counterfeiting technology, like printing techniques which make it easier to spot fakes". He continued that registering IP rights globally is paramount. "Rights owners should put in place a team to understand their product, have in-house lawyers and an anti-counterfeiting team to investigate alongside government agencies, otherwise without brand enforcement, life becomes difficult if an owner wishes to bring a claim forward."

What's being done to reduce counterfeiting?

Combating counterfeits begins at various levels, starting internally at the manufacturer and externally at all stages in the process. Burke said that, "proactive and reactive measures should be present to ensure that trade secrets, ingredients, manufacturing methods and the like are protected through confidentiality agreements, security and licensing."

Local authority bodies have created ways to help reduce counterfeiting. The UK's Trading Standards Institute launched the *National e-Commerce Week* in September 2010 in an attempt to

educate consumers about counterfeits. Shoppers around the UK were particularly warned about electrical goods, drinks, perfumes and cosmetics and the hazards that fakes present. The scheme created a step-by-step system called 'CHECK', assisting customers when buying online. The steps included choosing sites carefully and contacting the police if suspicious.

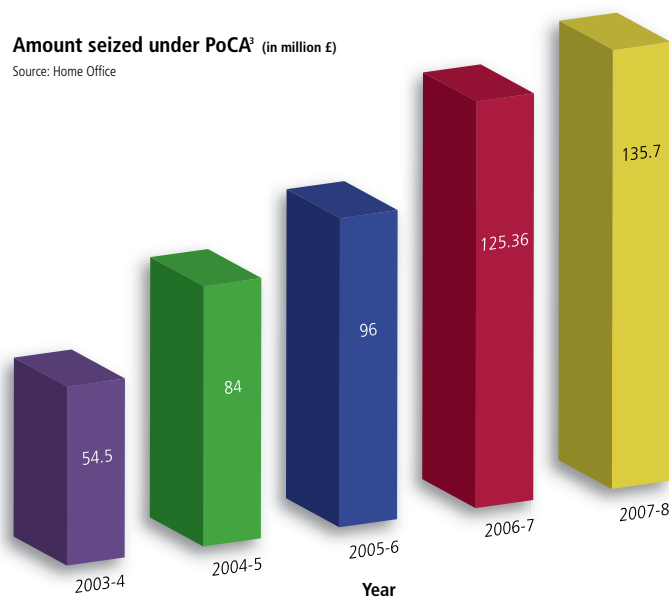
In 2002, the Proceeds of Crime Act (PoCA) gave enforcers greater powers to seize assets from those who were profiting from the crime. However, prosecutions under the Act were initially slow to target IP criminals, and awareness of the Act was poor. Since then, much work has been undertaken to raise awareness among law enforcement investigators and prosecutors and to provide advice on how to take forward investigations. In 2007-2008, the Act saw a significant rise in confiscations from criminals operating at the top level of IP crime and according to Home Office figures a total of £135.7 million was seized for all crimes.

Police teams and trading standards have witnessed the benefit of PoCA. By allowing councils to retain a proportion of assets seized, the Act does not require council funds to be implemented and helps to reduce the appeal of counterfeiting.

Lovell highlighted that raids are a strong weapon in a brand owner's arsenal. "Raids are a good thing, although very much controlled by volume rather than a seller having one box full of counterfeit perfume. Raids tend to be well managed and brand owners only enter premises when all is clear." Burke agreed, "Raids take the illegal product off the market and sends a message to criminals. If you can remove the marketplace (end purchaser) and remove the retailer (counterfeiter), it cannot exist".

Amount seized under PoCA³ (in million £)

Source: Home Office



Future initiatives to hinder fake fragrances

Burke stated that in addition to penalties, perception is one area that could help reduce counterfeiting. She said, "A small percentage of the overall population conceive, make and sell products. Until a person is in that situation and sees how easily anticipated profit is lost, or market share gone, they find the 'thrill' of getting something for nothing acceptable." Burke added that maybe the end purchaser should be penalised too.

Lovell also noted that education is a key tool for rightsholders. "Brand owners need to raise awareness that counterfeits exist, including information on where they are sold, what price they are sold for, which overt security features are included in the packaging (like holograms) and where consumers and law enforcement officials should be reporting any suspicious product. It is paramount that brand owners

Counterfeit perfume

KEEPING CONTROL OF A BRAND

Burke highlighted the steps rights owners should follow to beat fakes:

- Audits should be conducted where materials or IP may be at risk;
- All stages of the process, from production to end user receipt, should be protected and brand owners should consider potential routes of exposure;
- Regular market inspections should be conducted-raids and seizures allows for regional control;
- Scientists should be hired to examine chemical makeup and tests should be held to ensure product specifications are met;
- Distinctive packaging and tracking should be used-though Burke did highlight that this was difficult to accomplish without making it obvious for infringers to copy this new standard;
- Conduct trademark and brand investigations. These can be successful when implemented via the internet and also in person at retail locations – again Burke noted that the difficulty lies with staff resources, funding and the ability to continue this on an on-going basis;
- Companies need to continue current initiatives, but develop new methods based on what is occurring in the marketplace – this may need to develop on a step-by-step case; and
- Bring forward civil routes such as injunctions, legal costs and damages.

take the education of law enforcement officials seriously. They also need to keep their loyal customers on their side and be competitive with giving them the best product for the best price.”

Chapman agreed that counterfeiting needs to be made a priority. “There needs to be more harmonisation between countries and to work together. Fakes need to be taken more seriously as a crime and a range of sentences needs to be given. Penalties should be at the higher end rather than viewed as a soft crime, additionally seizing assets and power to police need to be used more extensively.”

Ending counterfeiting in the long term is a complex step, mainly because of the revenues. “The profit in counterfeiting is enticing and

the thieves are quick to meet and overcome any new hurdles made by brand owners”, Burke said.

Chapman agreed saying that “to a degree criminals can turn out fakes very quickly so it can never be stopped. With the invention of the internet the supplier can go directly from China to the customer, which makes it extremely difficult to track”. Lovell added, “counterfeiters only need to colour match to produce a fake and they do not care what development has gone into making the product.”

Lovell concluded that the only way to make real progress is in greater intelligence gathering and sharing. “I cannot underestimate the importance of gathering and sharing intelligence with the relevant law enforcement authorities and government officials.”

Footnotes

1. Courtesy of OECD.
2. US Customs Border Protection.
3. 2008-2009 IP Crime Report from the Intellectual Property Office, sourced from the Home Office.

Author



Catherine White is a staff reporter and sub-editor for Intellectual Property Magazine. She previously worked as an editor and writer for Only Group, London.

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Tel +46 8 4635016 Fax +46 8 4631010
info@fenixlegal.eu www.fenixlegal.eu