

COUNTERFEIT GOODS ACT

(Act No. 37 of 1997)

Most trade mark and brand owners, industrial and advertising designers, and copyright creators are likely, at some stage in their trading endeavours or professional undertakings, to be exposed to the harassing activities of counterfeiters and pirates. The Counterfeit Goods Act is special legislation to address the escalating problem of counterfeiting and piracy. Up to now, trade mark proprietors had to rely on the Merchandise Marks Act, 1941, with its limitations, to act against counterfeiters.

Brand owners invest substantial amounts of money in developing, protecting and promoting their brands. In addition, they have to contend with the increasing incidence and the increasingly blatant nature of counterfeiting. Counterfeit goods enter the country at an alarming rate, and an effective, quick and reliable mechanism is essential to strengthen the hand of brand owners in their fight against this destructive trend.

The problem of counterfeiting is not peculiar to South Africa; it is in fact a global problem, although it seems that crime syndicates have in recent years specifically targeted South Africa.

Counterfeiting, in the context of trade marks and brand products, can be described as the unauthorised manufacture and distribution of a product which so closely resembles, or which may even be identical in appearance, to the branded or trade mark product of another, as to deceive or confuse the consumer into believing that he/she is dealing with the genuine product.

The evil is not only to be found in the deception or confusion of the consumer; the counterfeit product will usually be of poor or sub-standard quality. In many instances, such as in the case of spare parts for motor vehicles, pharmaceutical products, electrical or mechanical devices, the sub-standard quality may in fact present a serious hazard to health and life itself.

Furthermore, it will be evident that the reputation of the brand owner will be seriously prejudiced if these inferior products are confused with the genuine product emanating from the owner.

For these reasons, the SA Government and authorities throughout the world (such as the World Trade Organisation) are aware of the urgent need to be able to act effectively

against counterfeiters. In the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement), which forms part of the WTO/GATT package of instruments and agreements of which SA is a signatory, an entire section (Section 4 : Articles 51-60) is devoted to measures to counteract counterfeit trade mark and pirate copyright goods.

In a recent meeting with the Director-General of Trade and Industry, Dr. Alistair Ruiters, attended by Adams & Adams partners, the fact that the counterfeiting problem has become one of international importance was again stressed. The Director-General indicated that a project manager, at senior level, is being appointed in the Director-General's office to fast-track the implementation of an effective anti-counterfeiting system on the basis of the Counterfeit Goods Act.

The project manager will focus on the enforcement of intellectual property rights and will investigate methods for interacting with the National Inspectorate. This Inspectorate has appointed an official specifically for setting up a workable law enforcement system.

It is encouraging that Government is seen as supporting and promoting the fight against counterfeiters.

The Counterfeit Goods Act, once its implementation problems have been straightened out, provides for an effective mechanism to enable the owner of an intellectual property right (defined to include trade mark rights and copyright) or a person with an interest in protected goods to act speedily and effectively against persons involved in counterfeiting activities through a specially created inspectorate.

The ambit of the Act

The Counterfeit Goods Act enables the owner of an "intellectual property right" or any other person with an interest in goods bearing or embodying such rights (the "protected goods") to act against persons involved in counterfeiting activity, both on a criminal and civil basis.

"Intellectual property rights" are defined as:

- rights in a trade mark conferred by the Trade Marks Act no. 94 of 1993;

- copyright in any work in terms of the Copyright Act no. 98 of 1978;
- the right of a person to use a specific mark included in a notice issued under section 15 of the Merchandise Marks Act, which other people are prohibited from using.

Persons with an interest in such protected goods, ie. "interested persons" would include:

- the owners or licensees of trade marks or copyright works in protected goods;
- importers, exporters or distributors of protected goods;
- the duly authorised agent, representative or attorney of the abovementioned persons.

"Counterfeit goods" include:

- goods which are manufactured, in the Republic or elsewhere, without the authority of the owner of an intellectual property right subsisting in protected goods in the Republic, where the protected goods are imitated to such an extent that the manufactured goods are substantially identical copies of the protected goods;
- goods to which a trade mark or copyright which subsists in protected goods in the Republic (or colourable imitation thereof) is applied, with the intention of causing confusion between the manufactured goods and the protected goods.

Prohibited acts

The Act sets out a number of acts which will amount to dealing in counterfeit goods and which are prohibited, including:

- possession or controlling counterfeit goods in the course of business;
- manufacturing such goods for use, other than private or domestic use;

- selling, hiring out, bartering or exchanging of such goods or offering or exposing them for sale;
- exhibiting such goods in public for the purposes of trade;
- distributing such goods for the purposes of trade or any other purpose with the result that the intellectual property right owner suffers prejudice;
- importing or exporting such goods, except for private or domestic use;
- disposing of such goods in any other manner in the course of trade.

It is an offence for any person to perform or engage in any prohibited act, if such person knows or has reason to suspect that the goods are counterfeit goods and does not take reasonable steps to avoid the prohibited act.

Criminal complaints procedure

The Act provides for a criminal complaints procedure to be followed, when a prohibited act is committed or is likely to be committed:

- Any person with an interest in the protected goods who reasonably suspects that a counterfeiting offence is being, has been or is likely to be committed, may lay a complaint with an inspector, who may be an official appointed by the Minister of Trade and Industry, a police official holding the rank of sergeant or higher, or the Commissioner for Customs and Excise.
- If the inspector is satisfied that the complainant is entitled to lodge the complaint, that an intellectual property right subsists in protected goods and that the suspicion on which the complaint is founded, is reasonable, he may take appropriate steps to put a stop to the counterfeiting activity.
- the inspector must first obtain a warrant from a judge of the High Court or a magistrate in chambers. In certain prescribed circumstances, an inspector may proceed without a warrant.

- Once an inspector has a warrant, he/she may enter any place, premises or vehicle to:
 - seize, detain and/or remove any counterfeit goods;
 - collect evidence relating to the counterfeiting activities;
 - conduct any searches reasonably necessary;
 - seal off any place, premises or vehicle where counterfeiting activities have taken or are taking place;
 - seize, detain, and/or remove any tools used in the counterfeiting activities;
 - question persons and take down statements;
 - procure relevant books, documents and materials;
 - take reasonable steps to terminate the counterfeiting activities.
- Seized goods are then, where possible, removed to a counterfeit depot, which is a place designated as such by the Minister.
- The seized goods must also be released if the State does not prosecute the offender or if the complainant does not institute civil proceedings within a certain period of time.
- In any criminal or civil proceedings the court may order that the seized goods be delivered up to the owner of the intellectual property right or to the complainant and that the identity be disclosed of any persons involved in the manufacture, importation or distribution of the counterfeit goods. In certain circumstances, goods which have been delivered up may not be released again into commerce or exported.

An implementation problem which has prevented the effective operation of the Counterfeit Goods Act up to now, has to do with the designation of counterfeit goods

depots. The Director-General of Trade and Industry has indicated in the efforts by the Department to smooth out the implementation of the procedures provided by the Act.

Civil steps

Special statutory provision is made in the Act for the granting of Anton Piller-type orders to preserve evidence relating to counterfeiting activities.

Where counterfeiting activities are suspected on reasonable grounds an ex parte application may be brought before a judge in chambers for an order directing the sheriff or another designated person to enter any place or premises, to search, seize and remove documents, records and alleged counterfeit goods. The order may also direct the disclosure by the respondent of any documents, information and material.

Before an ex parte order will be granted, there must be a prima facie case of infringement of an intellectual property right and the judge must be satisfied that the usual procedure for the discovery of evidence is likely to be frustrated because of the concealing or destruction of evidence.

Safeguards against abuse of the procedure have been built into the Act. These include:

- the right of the respondent to have his or her attorney present during the execution of the order;
- the compulsory preparation of an inventory of any documents, records or goods seized or removed;
- the filing of a statement under oath with the court by the applicant's attorney reporting the search.

Customs action

Application may also be made to the Commissioner for Customs and Excise to seize and detain counterfeit goods being imported into the Republic.

Once the Commissioner is satisfied on reasonable grounds that an intellectual property right subsists and that the applicant is the owner thereof, he must deal with the request without delay and grant it.

The Commissioner may, however, require the applicant to furnish security indemnifying the customs authorities against any liability.

Criminal penalties

The following penalties are provided for:

- in the case of a first conviction, a fine not exceeding R5 000.00 per article or item, or imprisonment for a period not exceeding three years, or both;
- in the case of a second conviction, a fine not exceeding R10 000.00 may be imposed per article or item, or imprisonment for a period not exceeding five years, or both;
- in imposing a penalty, the court may take into account any risk to human or animal life, health or safety or any danger to property arising from the use of the counterfeit goods in question;
- the court may declare the counterfeit goods to be forfeited to the state or order the goods and any tools used in their manufacture, to be destroyed.

Incentive

As an incentive to combat trade in counterfeit goods, a person who submits any counterfeit goods purchased by him or her to an inspector together with proof of the price paid therefor, may be awarded a sum of money three times the amount paid for the counterfeit goods if the seller is convicted of an offence under the Act.