

## ***The High Cost of Faking It***

While many consumers may have few qualms about purchasing a knock-off of their favorite designer handbag from a street vendor, it is questionable whether the same consumers would feel as comfortable at the thought of taking counterfeit pharmaceutical drugs, or trusting fake automotive parts in their cars. Indeed, the common perception of counterfeiting as a victimless crime is far from accurate.

The Organisation for Economic Co-operation and Development (OECD) has embarked on a major project to study the effect that the infringement of intellectual property rights has on economies, governments, right-holders and consumers. The project aims to study the economic effects of infringing activities and to address rising concerns over the health, safety and security threats posed by counterfeit products.

Recently-released Executive Summary of the findings of the project's first phase looks at the economic impact of counterfeiting and piracy. The report delves into the market analysis, notes the magnitude and scope of counterfeiting and piracy, assesses the effects of infringing activity, presents a framework for policy assessment, and suggests ways to improve enforcement and raise awareness.

The report suggests that the market for counterfeit and pirated products can be split into *primary* and *secondary* submarkets. In the *primary market*, consumers purchase fake goods believing the articles are genuine, while consumers in the *secondary market* are looking for what they believe to be bargains and knowingly purchase counterfeits. The degree to which consumers knowingly buy counterfeits varies depending on the nature of the product and the price

difference between the genuine article and its imitation.

Most susceptible to counterfeiting and piracy are products where profit margins are high, taking into account the risks of detection, potential penalties, size of the markets that could be exploited and logistical challenges. The scope of products has broadened from luxury watches and designer apparel to include items that directly affect personal safety and health, including food, pharmaceuticals and automotive replacement parts.

Counterfeit and pirated products are produced and consumed in virtually every country in the world, with Asia emerging as the single largest producing region and China as the single largest producing economy. The lack of comprehensive cross-sector data makes it difficult to measure the magnitude of the problem accurately, but an analysis of international trade data based on the landed customs

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## ***By Jovi, that's my name!***

Rock star Jon Bon Jovi has asked the makers of the energy drink Mijovi to change its name, finding it too similar to his famous moniker. He has also objected to the marketing slogans "itsmijovi" and "itsmilife," interpreting them as "It's My Jovi" and "It's My Life," the latter phrase being identical to the title of his well-known song. But the drink's creator, Marcos Carrington, says the drink is named after his girlfriend, whose name is Jovita, and not the 45-year-old singer. Carrington has agreed to stop using "itsmilife" on future cans, but plans to continue using the name Mijovi. The drink maker's trademark application for MIJOVI was published for opposition purposes on July 3 by the USPTO and will likely proceed to registration—as no oppositions appear to have been filed.

## ***Everything you wanted to know about Design Rights but were afraid to ask***

When devising intellectual property protection strategy for an industrial product design, it is appropriate to explore trade dress protection, design patent protection, and utility patent protection. While it is well established that these forms of protection can peacefully coexist, statements made to secure one form of protection could in fact adversely affect the ability to secure another form of protection.

Trade dress protects the total image of an industrial product design, including features such as size, shape, color or color combinations, texture and graphics. The elements of the trade dress must act in a manner that identifies the source of the product incorporating the design. Once achieved, trade dress will provide protection to the industrial product design in perpetuity. However, the standard for achieving such protection is high. Consumers must view the primary significance of the trade dress as identifying the source of the product, namely the trade dress has achieved secondary meaning. Once a protectible trade dress is established, to prevail on a claim of trade dress infringement, a plaintiff must show that the similarity of the defendant's trade dress to plaintiff's trade dress is likely to cause confusion among consumers.

A design patent protects a novel, non-obvious and ornamental industrial product design. Design patent protection is limited to the non-functional aspects of the design. To be novel, the new design must be viewed by the average observer as different and not a modification of an already-existing design – a much lower standard than the one for achieving secondary meaning for trade dress. In contrast to trade dress protection, which

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values of infringing goods suggests that up to \$200 billion worth of counterfeit products were traded internationally in 2005. This figure is larger than the combined GDPs of about 150 of the world's economies, but still only represents a fraction of the true total. The report notes that the overall economic value of counterfeiting is likely to be several hundred billion dollars greater when domestic markets and internet sales are taken into account.

The effects of counterfeiting and piracy are wide and varied. These activities stifle economic growth, finance criminal networks, pollute the environment, and adversely affect employment opportunities. Countries where counterfeiting and piracy are widespread may experience further tolls, including lower foreign direct investment and lowered ability to export legitimate products where health and safety concerns could be high.

Rights holders experience lower sales volume, losing market share to pirates and counterfeiters. Brand value and goodwill are damaged when consumers in the primary market who believed they were buying a genuine article become dissatisfied with their purchase, not suspecting the item is a fake. Loss of royalties, diminished incentive to develop new products and processes, and expenditures to fight counterfeiting and piracy are some of the other costs borne by brand owners.

Governments have to bear the cost of anti-counterfeiting measures and forego tax revenues, particularly in sectors such as tobacco and alcohol, where excise duties are high and smuggling of counterfeit products is widespread.

Counterfeiting is also bad news for

consumers who can be exposed to health and safety risks by substandard and unregulated products. Infringers have little interest in insuring the quality and safety of their products, particularly when a high return for little investment is a priority. Developing nations are particularly at risk due to lower levels of regulation, enforcement, and consumer awareness. In Central and Southern Africa in particular there exists a high prevalence of counterfeit pharmaceuticals, many of which are completely ineffective versions of drugs used to treat serious illnesses such as HIV/AIDS and malaria. Counterfeiting in the food and drink industry also carries potentially fatal consequences for consumers. Fake baby formula was responsible for the death due to malnutrition of over 50 infants in China in 2004. Counterfeit alcohol is a major problem in Russia, with reports of thousands of deaths in 2006 due to toxic poisoning from the consumption of contaminated spirits. Counterfeit automotive parts and electrical components also carry serious health risks for consumers.

Counterfeiting is a global issue that raises economic- and public-policy concerns. Although there is no one solution to the problem, it is clear that cooperation between governments, brand owners, and consumers is key to achieving results. The OECD report points out that one of the main challenges counterfeiters and pirates face is distribution of their products. Consequently, the importance of raising public awareness, both in helping the public to identify and avoid counterfeit goods, and in deterring consumers from deliberately seeking out "bargains" is self-evident. Effective authentication technologies are needed to assist consumers, retailers, and enforcement agents in identifying genuine goods. Brand owners should work on improving supply chain management by closely overseeing the movement of

their products and actively encouraging distributors and retailers to be vigilant when acquiring items.

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may last in perpetuity, a design patent is subject to a fourteen (14) year term. The test for infringement of a design patent is determined by the potential for deception of an ordinary observer. If in the eye of the ordinary observer giving such attention as a purchaser usually gives, two designs are substantially the same if the resemblance is such to deceive the ordinary observer. The offending design must also appropriate the points of novelty of the patented design that distinguishes it from the prior art.

A utility patent covers the functional features of an article of manufacture. Accordingly, one could be precluded from claiming that a feature of an industrial design is non-functional or ornamental if it is described as having a function in a utility patent.

A carefully crafted protection strategy may enable the owner of the industrial product design to obtain trade dress and design patent protection on the non-functional features of the design and utility patent protection on the functional features of the product.