

**“COMBATING INTELLECTUAL PROPERTY RIGHTS
INFRINGEMENT IN THE HONG KONG SPECIAL
ADMINISTRATIVE REGION: POSSIBLE ADDITIONAL
LEGAL TOOLS” - COMMENTS FROM
THE FRENCH LUXURY GOODS INDUSTRY**

Who Are We?

This paper is prepared on behalf of an informal alliance of French companies with a presence in Hong Kong that are involved in the luxury goods industry and who are deeply concerned about the enforcement of intellectual property. This paper has been prepared in co-operation with the French Consulate and is supported by Comite Colbert and its members, including Louis Vuitton, Hermes, Chanel and S.T. Dupont.

As French companies, we believe that we have a unique perspective on intellectual property enforcement in Hong Kong. We come from a civil law jurisdiction that has recognised the importance of protecting intellectual property on a global basis for longer than any country in the world. In this paper, we will attempt to draw upon our experience of intellectual property protection and enforcement in France and, where appropriate, apply this to the situation in Hong Kong. We hope that this will provide some constructive insights.

Background

Counterfeit luxury goods are more widely available in Hong Kong than they have ever been. This is causing grievous harm to our business and to the fame and repute of our respective brand names. The quality of the fakes is getting better and better and we are finding, for the first time, that consumers who previously would have purchased only genuine luxury articles, are now turning to the fakes.

The damage caused by counterfeiting is not restricted to the “victims” of this illegal activity, the intellectual property right holders whose products and brands are being copied and stolen. Counterfeiting also causes irreparable damage to the reputation of Hong Kong as a jurisdiction

that respects the rule of law and as a market that is attractive to international investors. The counterfeiters are undermining the efforts that are being made to promote Hong Kong at this time of recession. It is as much in the interests of Hong Kong as it is in the interests of our industry that counterfeiting be stamped out without delay.

We recognise that enormous efforts have been made by the Customs and Excise Department (“CED”), particularly over the past 12 months, to address the problem of counterfeiting. These efforts are appreciated. However, our perception is that a disproportionate amount of this effort has been targeted at the problem of counterfeit VCDs, CD-ROMs and audio CDs in response to the clamour of complaint from the copyright industries. The problems facing the luxury goods industry and other trade mark industries were overlooked to some extent during the anti-piracy crusades. We believe that the damage suffered by the luxury goods industries as a result of counterfeiting is just as serious and deserves comparable attention from the Government of the Hong Kong SAR (“HKG”) and its enforcement officials.

We concede that virtually no manufacture of counterfeit luxury products takes place in Hong Kong. The fakes are being made in Mainland China and in countries such as South Korea, Thailand and Indonesia. The problem we are facing is therefore one of import, distribution and sale, not of manufacture. At the retail end, distribution of counterfeit goods takes place openly and apparently without hindrance. This is something that we believe can and must be addressed as a matter of urgency.

As for importation, we believe that CED is vigilant in attempting to monitor the commercial importation of counterfeit goods at the border. However, our research indicates that significant quantities of counterfeit goods are hand-carried across the border by private individuals. This is an issue that we believe requires closer monitoring (see our comments below).

We commend the Trade & Industry Bureau and the Intellectual Property Department of the HKG for the effort that has been put into the preparation of the consultation paper of February 1999 (“the Consultation Paper”). Many interesting and thought provoking proposals have been put forward, some of which are clearly targeted at the on-going VCD piracy issue. We will therefore restrict our comments to proposals that we think will have an impact on the

problems that our industry is facing. As far as possible, our input will be based upon our experience of intellectual property enforcement in France.

Comments

1. General

France's anti-counterfeiting laws are contained in the Intellectual Property Code. This Code was amended by the *Loi Longuet*¹ on 5 February 1994. We are preparing an English summary of the provisions of the *Loi Longuet*. This will not be completed by the abridged deadline for this paper of 30 April 1999. It will be sent to you as soon as it is ready.

The *Loi Longuet* contains some of the most comprehensive and effective anti-counterfeiting provisions in the world. Our comments set out below in relation to the options contained in the Consultation Paper are made by reference to the corresponding provisions in the *Loi Longuet*.

2. Closure Orders

We support the introduction of immediate Closure Orders set out at option 5. There is no doubt that premises are used repeatedly for the sale of counterfeit goods. It is virtually impossible to determine who are the proprietors of the businesses operating from these premises at any given point in time. The only viable remedy is to close the premises down for a period of time.

In addition, we recommend the introduction of a provision similar to Article L521-4 of the Code de la Propriete Intellectuelle (as amended by Article 7 of the *Loi Longuet*) providing for the temporary or permanent closure of the whole or any part of any business that is found to be involved in dealings with counterfeit goods. A business subjected to such an Order would continue to be responsible for the payment of salaries and other obligations, but would have its business activities severely curtailed. Our experience in France has been that this provision has been significant deterrent to businesses engaging in counterfeiting activities.

¹ 94/102

3. Consumer Liability

Under French law, consumers who purchase or are in possession of counterfeit goods in “bad faith” for their own use are liable to criminal action². Penalties can be imposed of up to 1,000,000FF and 2 years’ imprisonment. The “bad faith” requirement means that the prosecution has to establish the consumer’s knowledge of the counterfeit nature of the product in question.

In determining whether there has been “bad faith”, the enforcement authorities take into account how famous and well known the trade mark in question is in France. The more famous the trade mark, the easier it is to establish “bad faith”.

Our experience has been that this has been an extremely effective legislative initiative. Consumers have been deterred from purchasing fake goods, thereby minimising demand and eradicating supply to a significant degree.

A provision along the lines of Option 8(a) of the Consultation Paper, which goes even further than the *Loi Longuet* in that it would introduce a strict liability offence, would be extremely effective and has our full support. We appreciate that many concerns have been raised from consumer groups and others as to the implications of the enactment of such a provision. Our experience of working with a similar provision in French law has indicated that most of these concerns are unfounded.

Our comments on some of the concerns that have been raised in relation to a provision such as this are set out below:-

“It will discourage tourism”

- It is in the interests of the contributors to this paper (being members of French luxury goods industry who do business in Hong Kong) that tourists come to Hong Kong for shopping and that they are not in any way discouraged from doing so. However, it

² CPI article L716-9

benefits no one for tourists to come to Hong Kong to buy counterfeit goods. The Tourist Authority should be actively discouraging tourists from coming to Hong Kong to buy fake goods. Tourists who want to buy fake goods should not be welcome in Hong Kong.

- Tourists who come to Hong Kong for a legitimate shopping experience will not be discouraged by the enactment of this type of law. On the contrary, they will be reassured that the products they purchase will be genuine and that any branded luxury product that they purchase will not be devalued by the existence of counterfeits.

“Businesses selling legitimate products will suffer because people will be too scared to buy anything from hawkers/market areas because of the risk that the goods on sale might be fake”

- If the areas which are now dedicated to the sale of counterfeit goods are cleaned up, these areas will become outlets for legitimate products. Manufacturers and suppliers of legitimate products will see demand for their products rise and revenues will accordingly increase, not decrease.

“Consumers often do not know whether the products they are purchasing are genuine or counterfeit”

- This suggestion assumes a remarkable level of ignorance on the part of Hong Kong consumers. Hong Kong consumers are known to be some of the most sophisticated in the world. To suggest that they do not know what they are buying is absurd. We believe that purchasers of counterfeit products know exactly what they are doing.
- If the penalties imposed are fines in the region of HK\$200-400 and if there is to be no criminal conviction record, these penalties would not be unduly onerous. In these circumstances, we believe that the benefits of enacting a provision such as this far outweigh the minimal risk of the occasional unwitting consumer being caught.

“It could be difficult to enforce payment of penalties”

- This problem could be alleviated by notifying the Immigration Authorities of any unpaid fixed penalty. Payment could be enforced whenever an offender with an overdue fine tries to enter/depart Hong Kong. Non-payment of fines will, of course, be a criminal offence.

We believe that the enactment of this provision is fundamental to resolving the problems of intellectual property enforcement in Hong Kong and at the retail level we urge the HKG to enact this provision.

4. Smuggling Offence

Option S(b) is referred to in the Consultation Paper as an “alternative option”. We believe it to be complimentary and supplementary to Option 8(a), not “alternative”.

The purchase of counterfeit goods by consumers outside Hong Kong (particularly in Mainland China) and the hand-carry of these products to Hong Kong is the single factor that most directly affects the businesses of French luxury goods companies in Hong Kong. Consumers who would never before consider purchasing fake products are now going to Shenzhen for a day’s shopping and bringing back counterfeits for their own use. These consumers would not consider hand-carrying counterfeit goods across border if they thought that this could lead to criminal liability.

In addition, most of the market areas and street hawkers where counterfeit goods are sold are supplied by products hand-carried over the border.

In France, specific provisions have been enacted aimed at criminalising the smuggling of counterfeit goods, even for personal use³. These provisions cover only trade mark related offences. They operate on a strict liability basis in much the same way as suggested in option 8(b). Customs officers are empowered to seize counterfeit goods and impose fines.
In

³ CPI article L716-9

practice, they exercise these powers with zero tolerance, seizing single items from individuals in appropriate circumstances. Our experience of the enforcement of these provisions has been that they have operated effectively without giving rise to the concerns raised in the Consultation Paper.

Many of the concerns referred to above in relation to Option 8(a) have also been raised in relation to Option 8(b). We repeat our responses to these concerns. An additional argument that has been raised is that enforcement will delay the flow of traffic at the border crossing points. We do not see why this should be so. At present, CED undertakes spot checks of visitors/residents as they pass through the border check-points. CED can look out for smuggled counterfeit goods during their course of its normal spot check procedure.

5. Involvement of the Police

We believe that it is critical for the Police to become involved in the enforcement of intellectual property rights at the retail level in Hong Kong.

CED has done an outstanding job of enforcing Hong Kong's intellectual property laws in view of its limited resources. However, CED has only about 250 personnel dedicated to intellectual property enforcement. It is impossible for it to monitor the market and take effective enforcement action with such limited manpower. The 48 additional officers that will be recruited next year will assist, but will not make any significant difference.

Mr. Calvin Leung, Head of the Intellectual Property Bureau of CED, had said on many occasions that CED is not the Fire Service and cannot provide a rapid response service to all complaints made. However, the situation is so serious that rapid response is exactly what is needed. Enforcement of intellectual property rights at the retail level must be put in the hands of an agency that has the resources to do the job effectively. The Police is the only such agency. This would enable CED to focus its activities on other important aspects of trade mark and copyright protection.

In France, criminal enforcement of intellectual property rights is placed in the hands of the most appropriate law enforcement agency, depending upon the circumstances. Therefore,

counterfeiting at the border is handled by Customs; counterfeiting at the local, retail level by the local police; counterfeiting at the national level by the gendarmerie, and counterfeiting involving fraud or money laundering by the appropriate economic crimes agency. All these law enforcement agencies work closely with the Prosecutor's Office, thereby facilitating the efficient prosecution of offences.

Intellectual property related offences are handled in the same way as other criminal offences in France. They are not singled out for special treatment or for handling by a special enforcement agency. They are therefore viewed by the community as seriously as other offences that carry similar penalties (e.g. theft, fraud etc.). This is a model that Hong Kong should follow.

Conclusion

We make the above comments in the spirit of co-operation in an attempt to make a constructive contribution to a problem that is besetting Hong Kong. We acknowledge that Hong Kong has outstanding intellectual property laws and that CED has done more than could reasonably be expected of any enforcement agency in its position.

We appreciate the opportunity that has been given to us to participate in this debate. It is clearly in the best interests of all responsible members of the community in Hong Kong to ensure that appropriate steps are taken to eradicate counterfeits from Hong Kong.