

Intellectual Property Sub-committee

It is a great pleasure for the Intellectual Property Sub-Committee to make these presentations this morning.

Please accept my sincerest apologies for my not being present today. I have tried hard to juggle some travel plans so as to be able to be here, but this proved impossible.

Since the last Bar Association seminar at which the Sub-Committee made contributions, there have been many national developments which have demonstrated the sentiments expressed at that seminar as to the growing importance of intellectual property law.

Receivers of well-known Jamaican companies have advertised for sale the trade marks of their companies (not the land, shares or furniture) since the trade marks (not the land shares or furniture) of the companies were the most valuable assets.

Recently, in one of the largest sales of businesses in Jamaica, the critical issue between the Vendor and the Purchaser involved the treatment of the Vendor trade marks.

Headlines have been written about a large and profitable Jamaica discount chain accused of infringing the trade marks of an overseas business which regards its trade marks as being its most valuable asset and with a policy to chase down people perceived as pirates to the very ends of the earth.

A new Trade Marks Act has been passed, although it is not yet in effect, which makes a number of significant changes. We will soon be able to register marks in respect of services and not only goods. Hotels, restaurants, banks, insurance, companies, entertainment promotion companies and retail stores will be able to register their names as marks directly in respect of the services which they offer. When Bermuda first recognised service marks a few years ago, the total number of applications to register marks did not double, it tripled.

In addition, the Act expressly recognizes the use of trade marks as security for obligations. Commercial lawyers who have seen the need to know about mortgages over land, debentures and even hypothecation of shares in order to have an effective commercial practice, will quickly have to learn about the due diligence involved in the issue of charges over trade marks.

The Copyright Act has been amended. The Lay-out Designs (Integrated Circuits) Act has been passed. A draft Patent Bill will soon be available to the public. We are still awaiting a draft of the Trade Secrets Act and the Geographical Indications Act. We also hear news of a pending E-Commerce Act.

Intellectual property rights have been described as “the currency of the 21st century”. The law governing these rights are, indeed, the gateway to the future.

I hope that in our choice of four of the most exciting intellectual property issues, the Sub-Committee will today educate, stimulate and captivate. I hope that we will help to show you the path to the gateway.

The Response to Trade Mark Counterfeiting

Probably from the earliest use of trade marks, unscrupulous persons have sought to make their living off the goodwill developed by legitimate trade mark owners. One authority has traced this free-riding back to the introduction of Roman wine in Gaul. The sales of the successful wine were soon diminished by imitators who attempted to pass off their inauthentic, or counterfeit product as genuine Roman wine.¹

This paper will seek to examine the impact of trade mark counterfeiting and the effectiveness of the legislative response to this problem.

Because of the widespread availability of reproduction technologies, counterfeiters throughout the world are capable of reproducing the often well-known trade marks and trade dress of popular manufacturers while substituting their own, generally inferior and relatively inexpensive product for that of the mark owner. The demand throughout the world for these relatively inexpensive products is of course enormous, the financial losses to the legitimate trade mark owner is staggering. Estimates place US business losses to counterfeiting at over \$200 billion each year.² In addition, the potential consequences for the unsuspecting consumer can also be disastrous. [See Attachment 1]

¹ Jed S. Raloff & Ira B. Wolff, *Commercial Counterfeiting and the proposed Trade mark counterfeiting Act*, 20 Am. Crim. L. Rev. 145.

² Maxim H. Waldbaun & Xuan-Thao N. Nguyen, *Using Creativity to Fight a \$60 Billion Consumer Problem - Counterfeit Goods*, 10 Loy. Consumer L. Rev. 88 (1998).

Counterfeiters have targeted many different kinds of products including cosmetics, car parts, airplane parts, toys, pharmaceuticals, infant formula, computers and computer software, sunglasses, luggage, compact discs and audio cassettes, video games and videotapes, food, shoes and clothing. [See Attachment 2]

In Jamaica, the best examples of counterfeit goods appear to be in respect of clothing and footwear. The International Trademark Association ("INTA") has recently published a study estimating the impacts that counterfeiting and infringement have had upon sales of these clothing and footwear worldwide during 1992-1995. Among the companies participating in this study were Anne Klein, Caterpillar Inc., Fila USA, K-Swiss, Inc., Land's End, Inc., Levi Strauss & Co., NBA Properties, Reebok International and the Timberland Company, several of whom have recently faced counterfeit problems in Jamaica.

The average loss in sales, by country, was found to be 22% (+/- 4%) and total lost sales were estimated at about \$2 billion out of total sales of about \$9 billion in the apparel and footwear industry alone. INTA concluded³:

"the results of the model clearly demonstrate the high price that trade mark owners must pay because of inadequate trade mark protection. This representative sampling of companies in one industry lost a staggering one-fourth of their sales on average due to trade mark infringement and counterfeiting, yet many countries still lack the will or the resources to address the problem".

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Estimation of the Impact of Trademark counterfeiting and Infringement on Worldwide Sales of Apparel and Footwear. <http://www.inta.orgtmctrftg.htm>.

The need for effective protection against these debilitating losses have caused trade mark owners all over the world to demand greater protection even before these goods find their way into stores.

THE PRESENT LEGISLATIVE FRAMEWORK

The Trade Marks Act, 1958

No where in the Trade Marks Act, 1958 ("the 1958 Act") is the term "*trade mark counterfeiting*" defined or used. A useful definition is however given by Spoor and Fisher⁴:

" the cloning or falsification of merchandise and products, particularly well known and reputable waves and products, with a view to deceiving consumers into believing that they are purchasing the genuine articles or products, whilst the imitations which they are in reality purchasing more often than not one of a far poorer quality than the genuine goods".

Notwithstanding the lack of express mention however, the Trade Marks Act extends protection to a registered proprietor against any unauthorized use of a registered mark, or a mark confusingly similar, in relation to the goods in respect of which it is registered.

The remedies available under this Act for any infringement of a trade mark, is however limited to the usual injunctive and civil remedies. Although undoubtedly these are important remedies for trade mark owners, they tend also to be a comparatively expensive option and may not be suitable for trade mark counterfeiting involving fast selling products and where transient peddlers and fly-by-

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night retailers are the offenders and can at a moment's notice, pack up shop, transfer or destroy evidence and vanish from the streets without a paper trail or an entity behind it from which an injured party could recover damages.

The Merchandise Marks Act

This Merchandise Marks Act ("the MM Act") provides that it is an offence to, among other things, forge any trade mark or to falsely apply to goods any trade mark or mark so nearly resembling a trade mark as to be calculated to deceive. In addition, any person who sells, or exposes for sale or has in his possession any such goods will be guilty of an offence unless he proves that he took all reasonable precautions to prevent committing an offence and had no reason to suspect that the marks were not genuine and supplies the prosecutor with all relevant information surrounding how he came into possession of the goods or otherwise satisfies the Court that he acted innocently.

The maximum penalty for committing an offence under the MM Act is imprisonment with or without hard labour, fine, or both imprisonment and fine, forfeiting of the goods by means of which the offence was committed, and to the subsequent destruction or other disposition of the goods as the Court may think fit.

The MM Act therefore extends a very useful remedy to trade mark owners. Trade mark counterfeiting is made a criminal offence, providing a greater deterrent against its occurrence. In addition, the trade mark owner is able, by virtue of these provisions to rely on the Police for the seizure of the goods and the prosecution of offenders without the costs which would be involved,

for example in obtaining an Anton Pillar Order to achieve the same effect. It is to be noted however, that the Merchandise Marks Act does provide that costs could be ordered to be paid by either the prosecutor or the defendant, having regard to the information given by and the conduct of the defendant and the prosecutor respectively.

Further, the Act provides in section 20 that although not exempt from any action which may be brought against an offender (but for the provisions of the Act), no discovery or answer to any question or interrogatory in any such action can be admissible in evidence against the offender in any prosecution under the Act. In addition, the limitation period applicable to offences under this Act is limited to either three (3) years next after the commission of the offence, or one (1) year next after the first discovery thereof by the prosecutor "**WHICHEVER EXPIRATION FIRST HAPPENS**". There is no provision for extending this period.

The Customs Act

Section 40 (ii) of the Customs Act ("the Act") designates as "Prohibited goods" any goods which if sold, or offered for sale, would be liable to forfeiture under the Merchandise Marks Act and bans such goods from importation into the island. Additionally, Under Section 210 of the Customs Act, the importation of such goods attracts a penalty of \$5,000 or three times the value of the goods (at the election of the Commissioner of Customs and Excise) and the goods may also be forfeited and destroyed. Section 203 authorizes an officer under the Act to search for prohibited goods and books and documents relating to prohibited goods anywhere where these are reasonably suspected to be located. This power, as well as the power to arrest and detain any person found committing an

offence against the Act, is conferred by reference to the definition of "officer" in the Act on persons attached to the Revenue Protection Division ("RPD") and the Department of Customs and Excise.

This Act therefore provides an important avenue of redress against trade mark counterfeiting. It enables the trade mark owner to take action even before the goods actually reach the store. The difficulty however is that in order for steps to be taken under this Act, it is felt that the mark must first be registered under the Trade Marks Act. In addition, trade mark owners are faced with the difficulty that unless the mark is well known, and by some stroke of luck, RPD has discovered the counterfeit goods during a routine search of its own, RPD will have no reason to suspect the counterfeit nature of the goods being imported in order to warrant a search. The consequences of action by RPD also, will not likely involve any monetary compensation for losses suffered by the trade mark owner.

Once provided with information as to counterfeit goods expected to be imported into Jamaica, however, they are well versed in dealing with the problem, and can quite competently and quickly assemble a number of strike squads to mount raids at multiple locations throughout Jamaica with a view to seizing the offending goods and instituting a prosecution of the offenders. The Merchandise Marks Regulations stipulates the information that is to be provided to the Chief Officer of Customs. [See the Form of Notice attached].

Often where RPD becomes involved the matter is often able to be completed quickly and without the involvement of the Courts as the offenders often simply submit to the fine. The only concern

is that where the only thing exacted from the offender is a fine, the cost of engaging in the counterfeit market, as against the enormous profits which can be gained therein, may not provide enough of a deterrent to the counterfeiter.

The Fair Competition Act

Section 37 of this Act prohibits the making of false or misleading representations to the public in the course of trade. For the purposes of the Act, a representation includes one which is expressed on or attached to articles offered for sale or attached to an article. Trade mark counterfeiting will therefore also be an offence under this Act. The Act contemplates that the representation may have been made by a person outside of Jamaica, as is often the case with counterfeit goods in Jamaica, and provision that in such a situation, the representation is deemed to be made by the person importing the offending article.

Breach of the section attracts criminal and civil sanctions. As far as criminal liability is concerned, a breach of the section attracts a maximum penalty on conviction of \$1,000,000 for an individual, and \$5,000,000 for a company. The Act also states that persons in breach of the section are liable in damages for any loss caused to any other person by such conduct.

This Act therefore extends remedies, not only to the trade mark owner, but also extends an important remedy to the general public. The public in addition to invoking a criminal offense by lodging a complaint, either with the police under the Merchandise Marks Act or the Fair Trading Commission under this Act, is also able, by the wording of the civil liability section, if they have suffered loss as

a result of the counterfeit goods, to sue the vendor or manufacturer, as the case may be. It also appears that the mark constituting the representation need not be a mark registered in Jamaica.

The New Trade Marks Act

The new Trade Marks Act ("the new Act") has been passed but has not yet come into force.

The new Act, unlike the 1958 Act, makes express provision in section 66 (similar to that allowed under the MM Act) for the proprietor of a registered trade mark to give notice in writing to the Commissioner of Customs providing the Commissioner with details as to the expected arrival of infringing goods (which by virtue of its definition will include counterfeit goods) into Jamaica and requesting that the Commissioner treat them as prohibited goods under the Customs Act.

The new Act however provides in section 66(2) that:

"when a notice is in force under this section, the importation of the goods to which the notice relates, otherwise than by a person for his private and domestic use, is prohibited; but a person is not, by reason of the prohibition liable to any penalty under the Customs Act other than forfeiture of the goods."

Although the new Act extends protection to the proprietors of well-known trade marks which have a reputation in Jamaica (but are not registered here, but in a Convention country) against unauthorized use of a sign which takes or would take unfair advantage of, or is or would be detrimental to the distinctive character or the reputation of the well-known mark, this does not

unfortunately include those provisions which allow the proprietor to request that the Commissioner treat counterfeit goods as prohibited goods under the Customs Act. Under the terms of the new registration still appears to be a requirement for the extension of the provisions of the Customs Act.

TECHNOLOGY

Another important remedy against trade mark counterfeiting may not necessarily be found in the legislation. Technology may provide the answer that legislation has failed to produce. Many trade mark owners have been experimenting with various labeling techniques which involve the encoding of merchandise with light beams, that can be read by scanners to reveal detailed encoded information about the product such as expiration dates and date and place of manufacture or, similar to the techniques used in bank notes, certain codings may be used to indicate a legitimate product.

The Copyright Act

Although the focus of this paper is related to trade mark counterfeiting, I would just like to mention that counterfeit goods may often also involve breaches of the Copyright Act. The label on the product for example, may, if original, be said to be a work of art. Section 50 of the Copyright Act, similar to the new Act, provides that the owner of the copyright may request the Commissioner to treat the infringing products as prohibited goods under the Customs Acts. Where the copyright involves literary, dramatic or musical work, the period of the notice cannot however exceed five years and cannot extend beyond the end of the period for which the copyright may subsist. Where the copyright is in a sound recording or film, there is no such limitation. The owner of the copyright however must specify when and where the infringing copies are expected to arrive. Similar to the

provision in the new Act, where a notice has been given, a person will not be liable to any penalty under the Customs Act other than forfeiture of the goods, by reason that any goods are treated as prohibited goods by virtue of the section.

CONCLUSION

The potential for harm to consumers and legitimate owners alike in respect of counterfeit goods are astronomical and the incidence of trade mark infringement in Jamaica although not yet in itself at an astonishing level, is certainly on the increase. Trade mark counterfeiting is described by one of INTA's Board of Directors as "*the fastest growing and most far-reaching economic crimes worldwide*". As trade mark owners however continue to recognize the significance and value of their trade marks and become more willing to take such steps as are necessary to protect their rights it is hoped that with the aid of the available remedies counterfeiters will be effectively deterred from such infringing activity.

Use of Intellectual Property Rights as Security Interests

THE GENERAL NATURE OF SECURITY INTERESTS

A security interest is created when a person to whom an obligation is owed (the creditor) by another (the debtor) is provided, in addition to the debtor's promise to discharge the obligation, rights exercisable against the debtor's property to enforce the discharge of the obligation to the creditor.⁵

Where a security interest is held in the debtor's property, the creditor has an instant right on default to proceed to satisfy its claim out of such property, be it by sale of the property or some other process.⁶ The fundamental nature of a security interest, therefore, is that of a proprietary right in the debtor's property in favour of the creditor.⁷

The most commonly utilized security transactions are mortgages, charges and possessory securities. In brief these can be defined as follows: A legal mortgage involves the assignment of the legal title to the property (and therefore ownership of the property) to the creditor with the debtor having the right to have the legal title transferred back to it once it has fulfilled its repayment or other obligations and the lender having the right of foreclosure and sale in the event of default. A charge does not involve an initial assignment of legal title from the debtor to the creditor but it gives to the creditor the right to appropriate an asset in satisfaction of a debt in the event of default. In the

⁵ *Bristol Airport Plc. v. Powdrill* [1990] Ch. 744 at 760.

⁶ E.I. Sykes, *The Law of Securities*, 4th ed. (Sydney: Law Book, 1986) at p.3.

⁷ L.C.B. Gower, *Principles of Modern Company Law*, 5th ed. (London: Sweet & Maxwell, 1992) at p. 409.

meantime, the debtor is able to utilize the asset. The charge may be fixed, meaning that it is taken over a definable asset, or floating, meaning that it is taken over a class of assets where it is not possible to identify a particular asset. Possessory securities, such as liens and pledges, give the creditor the right of possession of the asset while the debtor retains the right of ownership. Whereas the pledgee has the power to sell the goods pledged if the pledgor is in default of payment, in the case of a lien, the person having possession may retain possession until the lien is discharged but does not have the right to transfer the asset to third parties⁸

THE GENERAL NATURE OF INTELLECTUAL PROPERTY RIGHTS

When one speaks of intellectual property rights (“IPRs”) one is commonly referring to trade and service marks, patents and copyright. Though intangible, IPRs have many of the attributes of tangible property. As with the ownership of tangible property, ownership of IPRs carries with it the right to exclude others from trespass, the right to license others to use the property and the right to transfer ownership to third parties. Although IPRs are rights and not physical objects which can be possessed, they can be dealt with and assigned and are therefore considered to be rights in rem.⁹

IPRs, like physical assets, can be assessed and allocated a monetary value. Once valued, like physical assets, they can be used as security interests. This is the topic on which I will be speaking this morning: the use of IPRs as security interests in commercial transactions.

⁸ R. Burgess, *The Law of Loans and Borrowing*, (London: Sweet & Maxwell, 1989-1990 updated), Chapter 4.

⁹ Sykes, p.9.

Traditionally, where security has been taken over IPRs, this has been in addition to security taken over physical assets with little or no value attributed to the intellectual property aspect of the asset portfolio (e.g. security interest taken by the creditor in the debtor's manufacturing plant, machinery, stock and trademarks with little value placed on the trademarks). In practice, lenders have not attributed any, or any significant, value to intellectual property assets when considering the level of security available. This reluctance is understandable given the general mysticism which surrounds intellectual property and the peculiarity of these intangible property rights. This is changing, however, at least on the international scene, where the value of IPRs is being recognized and IPRs, in and of themselves, are being increasingly used as security for commercial transactions.

THE VALUATION OF INTELLECTUAL PROPERTY RIGHTS

Discussion of the methodologies used to ascertain the monetary value of IPRs is beyond the scope of this paper. Suffice it to say that the valuation process is carried out by accountants (not lawyers) and the methodologies used are consistent with those used for the valuation of physical assets, i.e., (i) the estimation of the future income or benefit conferred by the asset, (ii) the associated risk in achieving that income, and, (iii) the capitalization of the future income into a single figure.¹⁰ Notwithstanding this, the valuation of IPRs is a difficult and contentious area given the somewhat amorphous nature of the property right involved.

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M. Bezzant and R. Punt, "The Use of Intellectual Property as Security for Debt Finance", [1997] I.P.Q.: No. 3 (London: Sweet & Maxwell) 296,7.

The American business magazine *Financial World* conducted a survey in 1993 on the monetary value of some well-known trade marks. It concluded that the **MARLBORO** trademark used primarily in association with cigarettes was worth US\$39.5 billion, the **COCA-COLA** trade mark worth US\$33.4 billion, the computer technology trade mark **INTEL** worth US\$17.8 billion and the beverage trade mark **GUINNESS** worth US\$2.74 billion. These are examples of the value of one form of intellectual property, i.e. trade marks. The other types of IPRs, i.e. service marks, copyright, design rights, patents, can also be valued using the same methodologies. Consider for a moment some of our well known locally owned IPRs: the **LASCO** and **GRACE** trademarks, the **SANDALS** and **SUPERCLUBS** service marks, the copyright portfolios of Dennis Brown and Bob Marley. These assets, though intangible, can be valued, added to the balance sheet of the enterprises to which they are associated and used as security in commercial dealings.

USE OF INTELLECTUAL PROPERTY AS A SECURITY INTEREST

For a physical asset to be acceptable to a lender as security, its legal and beneficial ownership must be clear and it must be capable of definition, isolation and valuation. The same holds true for intangible IPRs. In order for them to function as security they must be:

- (1) defined and protected so that effective security can be taken, i.e. the borrower must be the clear and undisputed owner of the asset;
- (2) capable of separation from the business to which they are connected, i.e. the IPRs must be able to exist separate and apart from the borrower's business and must be capable of

realization in the event that the business fails. In summary, the IPRs must be capable of independent existence, and,

- (3) evaluated using tested methodologies so that a reliable monetary value may be determined.¹¹

IPRs which have not been well developed and are not properly maintained will be considered by lenders as too risky to act as security.

Large international firms with significant intellectual property portfolios have pioneered the use of IPRs as security in raising debt finance. Walt Disney, for example, used its copyright portfolio to raise US\$400 million in 1992¹² and the Calvin Klein design company in 1993 used its trade mark portfolio to raise US\$58 million¹³. These are two examples from the big international players, but the same principle can be applied on a smaller scale on the local scene.

Though similar to "hard" assets in many ways, IPRs have certain characteristics which set them apart. These characteristics must be born in mind when IPRs are used as security. Time does not permit a detailed treatment of this issue but I suggest that the following pointers be considered as a start:

¹¹ Ibid, p.293.

¹² *Financial World*, September 1, 1992.

¹³ *Corporate Finance*, January 1994.

- (1) For intellectual property assets to retain their value they must be properly maintained. This may involve, *inter alia*, use of the IPR, payment of renewal fees and enforcement against infringers.

So that the value of the security will be retained, provisions should therefore be made for the maintenance of the IPRs (either by the borrower or the lender) and adherence to these provisions must be monitored. Failure to properly maintain IPRs will result in depreciation of the value of the asset, and therefore the security, to the detriment of both the borrower and the lender.

- (2) Care must be taken to ensure that the term of the security does not exceed the term of the monopolistic right. This is of course particularly important where the IPRs over which the security is taken have a definite, non-renewable life span, as is the case of patent and design rights which have a life span of 14 and 15 years respectively. Registered trade marks, on the other hand, allow for renewable terms and as a consequence can have an indefinite life span provided that they are not removed from the Register for non-use of otherwise.

- (3) Intellectual property requiring exploitation to retain its value will not be well suited to securities involving possession of the asset by the creditor.

- (4) Security involving the transfer of ownership of the asset to the creditor, should be accompanied by a licence to the debtor allowing for the continued use of the asset (and therefore maintenance of its value) until the security is discharged.
- (5) Security requiring possession of the asset by the creditor will be difficult to enforce given the intangible, mobile and easily reproducible nature of intellectual property.

LEGISLATIVE PROVISIONS FOR THE TAKING OF SECURITY

IN INTELLECTUAL PROPERTY

Companies Act

The Companies Act contemplates that intellectual property will be used as security by providing for the registration and enforcement of mortgages and charges in respect of patents, trademarks and copyright against Jamaican companies and foreign companies resident in Jamaica.¹⁴ The charge must be registered with the Registrar of Companies within 21 days of creation and the Registrar must be provided with the instrument by which the charge was created or is evidenced. Where the charge is not registered as specified, it will be rendered void.¹⁵ The sufferer will be the creditor and not the debtor as the security will be lost. The Act provides, however, that if the charge is void for non-registration the whole of the sum thereby secured becomes immediately repayable.¹⁶

¹⁴ Companies Act, ss.93(1) and 104.

¹⁵ Companies Act, s.93(1).

¹⁶ Companies Act, s.93(1).

Intellectual Property Legislation

Recognizing the value and commercial potential of IPRs, intellectual property legislation in more commercially developed nations than ours have made express provision for the use of IPRs as security by prescribing how the security will be transacted, where it will be registered, penalties for default etc. This is not the case in Jamaica.

The intellectual property legislation currently in force in Island (i.e. the Trade Marks Act, Patent Act, Design Act and Copyright Act) is silent on the use of IPRs as security interests. The legislation's silence on the matter means that the process is not as simple and arguably not as safe as it could be. The existing legislation contains provisions which allows intellectual property to be used as security in a somewhat "round about" manner.

It does so by allowing for the assignment and licencing of IPRs thereby creating vehicles by which ownership of these intangible assets may be transferred to third parties as security and also the means by which the rights may be licenced back to the person transferring ownership for their continued use. With the exception of the Copyright Act, which does not provide for the registration of copyright, these assignments and licences may be officially registered in the respective Registers, e.g. the Register of Trade Marks, Patent Register and Design Register.

It is important to note, however, that the licencing of trade marks is closely monitored by the Registrar who may refuse to register a licence if in her opinion it mounts to "trafficking" in the trade

mark, i.e. the use of the trade mark for purposes other than the indication of the origin of the goods.¹⁷

The failure of the current legislation to provide for the use of IPRs as security interests and the restriction on the licencing of trademarks demonstrates quite clearly that the intellectual property legislation currently in force lags behind the reality and requirements of modern commerce.

The Trade Mark Bill which received Royal Assent on July 26, 1999 and is expected to come into effect in the ensuing months, addresses this shortfall in respect of trade marks by making express provision at section 30 (1) and (2) for the registration in the Register of Trade Marks of security interests against trade and service marks. It provides that any person claiming to be entitled to an interest in or under a registered trade or service mark arising from the granting of any security interest (whether fixed or floating) over a registered trade or service mark or any right in or under it may apply to the Registrar of Companies for the entry on the Register of Trade Marks of the particulars of the transaction. Section 30(3) provides that until an application has been made for the registration of the transaction in this manner, the transaction is ineffective as against a person acquiring a conflicting interest in or under the registered mark without knowledge of the transaction. An interesting question will be how registration of a security interest on the Register of Trade Marks interfaces with registration of a charge against a company on the Register of Companies pursuant to section 93(1) of the Companies Act. What will be the outcome if a creditor registers the charge on one register and not the other or registers on one Register before registering on the other.

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Re American Greetings Corp's Application ("Holly Hobbie"), [1983] 2 All ER 609 (CA), affirmed [1984] 1 All ER 426 (HL).

In recognition of the fact that trade marks are in fact a viable commodity, the pending Trade Mark Bill also deregulates the licensing of marks. Trade and service marks may therefore be transferred and licensed without restriction by the Registrar. This will further facilitate the use of marks as security.

It is not yet clear what, if any, amendments will be made to the Patent Act and the Design Act to encourage the use of these IPRs as security.

CONCLUSION

Three points in conclusion:

1. The owners of intellectual property assets must be purposeful in the treatment of their intellectual property portfolios so as to maintain and increase the value of these assets. Well maintained IPRs will not only give a commercial enterprise the competitive advantage in the marketplace but may also add to the worth of the enterprise by adding value to the balance sheet and being capable of use as security in commercial transactions;
2. The deficiencies in the current legislative provisions must be addressed so that both borrowers and lenders may feel more secure in using IPRs as security, and finally,

3. Using intellectual property as security must be approached with caution by both borrowers and lenders given the peculiarities of these assets. The IPR must be well suited to the type of security being used.

Development in Copyright: Anti-piracy Protection for the Music Industry

This paper attempts to answer 3 questions related to Anti-Piracy Protection for the Music Industry.

1. Why does the Music Industry need special Copyright protection; isn't the Copyright Act enough?
2. What sort of Copyright protection is being proposed?
3. What are some of the difficulties and the practical and legal considerations affecting such protection?

As a preliminary matter, what do we mean by piracy in the music industry?

Piracy is a generic term used to describe the unauthorized manufacture, production, importation and distribution of CD's, audio cassettes, vinyl records (mostly 45's) and music videos. The term covers three methods of unauthorised reproduction for commercial use:

- (a) Pirating is when the original recording is copied without the authorization of the owner of the copyright and sold with different packaging and labelling.

- (b) Counterfeiting is when the copies are made and packaged to resemble the original as closely as possible.
- (c) Bootlegging is the unauthorized recording of performances of artists usually at concerts or dance halls and sold without the permission of the artist, composer, producer or the recording company to which the artist may be under contract.

We will use the generic term Piracy to describe all unauthorized manufacturing, recording, sale, or distribution of recorded music products on CD's, vinyl or cassettes.

To address our first question: **Doesn't the Copyright Act provide sufficient Protection?**

Although Jamaica's Copyright Act does not recognize or impose any specific device or system for piracy prevention or control, like most Copyright Laws, it provides a framework of provisions relating to piracy which could form the basis for implementing more specific features of an anti-piracy system.

EXISTING PROVISIONS

As a foundation the Copyright Act already outlines (among other things):

1. What constitutes piracy and who is culpable (ss 31&46)
2. The sanctions for such acts (s 46.4)

3. The remedies for the copyright owner (s 32)
4. The fate of the pirated products (ss 33,48,137)
5. The powers of the police (s140) and
6. The jurisdiction of Customs (s 50)

ACTS OF PIRACY

Section 46 of the Copyright Act outlines the activities which would be subject to a mandatory anti-piracy system. It provides that any person who:

- makes for sale or hire - (i.e. a manufacturer)
- sells, lets, offers or exposes for sale or hire- wholesaler, retailer, store owner
- exhibits in public - (marketing, promoter)
- commercially distributes
- imports into Jamaica for other than private or domestic use
- distributes other than in the course of a business - (promotion purposes)

any article which he knows or has reason to believe is an infringing copy of that work, commits an offence. (S 46.1) Further, any person who makes or has in his possession an article specifically designed or adapted for making copies of that work knowing it is to be used for making infringing copies for sale or hire or for use in the course of business, commits an offence. (S 46.2)

SANCTIONS

These offences attract a fine, imprisonment or both. (S 46.3). In the Resident Magistrates Court fines up to \$100,000.00 can be imposed as well as 2 years imprisonment. Before a Circuit Court, the limit of the fine is not stated but imprisonment is up to a period of 5 years.

REMEDIES

The above-mentioned acts, in addition to being offences, are acts of infringement subject to Civil sanctions (S 31). A copyright owner or exclusive licensee can obtain relief by way of ordinary and aggravated damages, injunction, and accounts.

FATE OF PIRATED PRODUCTS

Infringing copies or an article used to make infringing copies can be delivered up to the copyright owner, or, as the Court directs, be disposed of.

POWERS OF THE POLICE

Once an Inspector of Police has reason to believe that a Copyright offence is being committed he may direct a constable to, among other things, enter and search premises which he suspects contains infringing copyright works (a warrant is required for private premises), seize or detain the infringing article, the article used to make infringing copies or anything appearing to contain evidence of the suspected offence.

THE JURISDICTION OF CUSTOMS

A copyright owner may give written notice to the Commissioner of Customs as prescribed in the Copyright (Customs) Regulations that he expects that infringing copies of his work are about to enter the territory. Based on the information in the notice and evidence produced in support of the notice, the Customs Official can treat the copies as prohibited goods under the Customs Act and forfeit the goods.

Right now there is an ongoing action in the RM Court in Half-Way-Tree concerning copyright infringement brought by one of our leading record distributors against a retail music outlet for allegedly selling infringing product. However, the fact that the case has been going on for over a year and there is no end yet in sight points to one of the difficulties of the Copyright Act - claims have to be brought through the Court system with all the attendant costs and delays that we know so well. Furthermore, because of the criminal penalties in the Act, the DPP may intervene in the suit and the victim's civil action and remedies become bogged down in a protracted criminal investigation, as has happened in this case.

The Music Industry is made up of not only large scale distributors like the plaintiff in the case just mentioned, but small time writers, artists, producers who do not have the resources to pursue protracted litigation through the courts. One solution to be further discussed later in this paper, is to establish a special Anti Piracy Unit, under the control and within the ambit of the Copyright Unit. Another proposal is to extend the jurisdiction of the Copyright Tribunal to determine all

infringement disputes with powers of subpoena and confiscation like the Fair Trading Commission and the imposition of fines but not imposition of jail time.

Furthermore, the Copyright Act might work quickly and effectively against pirated and bootlegged works where the difference between the authorized and the non-authorized is obvious, but the counterfeit product, where the labels appear similar, is not so susceptible to ease of detection and may require detailed evidentiary findings. The Anti Piracy protection that is here being proposed would involve the use of a Banderole or stamp, the presence or absence of which would be a presumption of legality or illegality.

The Anti Piracy protection is being suggested as complementary to and subsidiary to the Copyright Act which would still be available and enforceable against copyright infringement. The Anti Piracy protection is additional and concerned more with authentication of the importation, manufacture, production and distribution of sound and audio visual recordings.

BENEFITS OF ANTI-PIRACY PROTECTION

There are important benefits to be derived from extending special protection to the music industry through a special Anti-Piracy Programme.

Revenue

The use of the stamp or Banderole would attract a tax that could generate revenue for the administration of the Anti-piracy Programme. At the moment there is no revenue accruing either

to the government generally, or to the Copyright Unit in particular from the Copyright Act. Jamaica's music industry has the potential to be a big money-earner but at the moment is too loosely regulated and controlled to benefit the participants. The pirates however are doing well. One of the leading distributors estimates the annual loss of revenue by the legitimate recording industry to pirates at \$130 million. Our music is one of our most valuable cultural and economic resources, as valuable as Tourism and Bauxite but not as fragile as Tourism and not as finite and depletable as Bauxite. As a creative and cultural resource, it is capable of constant regeneration and exploitation. It deserves special protection from the pirates who give nothing back to the industry.

Statistical Data

Another important benefit is the generation of statistical information on the music industry, both in terms of its imports and exports. At the moment, we all feel that our music industry is a hugely profitable one though we don't know exactly how profitable. At the moment, much of our statistical data on the extent of our sound recording industry is guesstimates. An anti-piracy programme, with the requirement of authentication or certification for sale, will provide us with important and reliable statistical information concerning the extent and development of the industry. It will also close the gap through which much of the revenue generated by the industry is lost to the pirates. An anti-piracy programme would reduce loss of revenue to the government, the artists, the writers, the producers and the distributors who subsidise their less popular music by the profits from their hits.

International Reciprocity

Jamaica is a signator to the Geneva Convention for the Protection of Producers of Phonograms and so are many countries which buy our music. The USA has an active Copyright Unit in the FBI and the International Federation of the Phonographic Industry ("IFPI") police and monitor their multibillion music industry providing Copyright protection. With adequate protection in place Jamaica obtains foreign reciprocity for enforcement of Anti-Piracy protection outside our shores as well as acceptance for foreign investments in high technology enterprises, thus ensuring a continuing transfer of technology and expertise.

Dispute Resolution

Our proposal for anti-piracy protection would provide a speedy dispute resolution mechanism either through the Copyright Tribunal or alternatively through an Ombudsman for handling infringement disputes. Arbitration, mediation, pro bono services by IP lawyers are some of the strategies that might replace or supplement the existing litigation channel.

Regional Cooperation

The Potential for regional cooperation is not to be overlooked. The music of Trinidad and Barbados suffer the same fate at the hands of the pirates. A regional approach to optional registration, policing and authentication could be a useful part of our Caricom thrust. Brazil and Africa, it is reported, pirate Jamaican music on a large scale. Brazil, Ghana, Nigeria and Malawi have anti-piracy legislation that could provide reciprocal protection of our music.

Generally there are two types of identifying or certification marks: the **Hologram** and the **Banderole**. Those of you who have a credit card probably will see a sample of a hologram on your credit card. It is also placed on most CD's coming out of the United States. The banderole is a strip of paper, more like a label, that is attached to the CD vinyl recording or audio cassette; it is very difficult to remove it and it is much cheaper than the hologram. The certifying information is often encoded on the label. The control and security of the banderole is most important and would only be issued on production of appropriate documentation proving copyright ownership or license. **Hungary, Poland, Russia and Nigeria** are among the countries using the hologram; **Greece, Turkey, Ghana and Malawi** use the Banderole and **Portugal** uses a mixture of both - a banderole with a hologram on it. We are in favour of the banderole because it is cheaper and simpler to apply than the hologram. But the particular device is a technicality which need not detain us here. Of greater concern is the necessity for legislation governing the distribution and use of the seal and penalties for the misuse or non-use of the seal, whatever it is.

EXISTING ANTI-PIRACY LAWS

We do not have to reinvent the wheel. A number of countries have legislated specifically on piracy control, notably, Portugal, Malawi and Nigeria all of which implement an anti-piracy system using as the device, either the banderole or a stamp. Brazil & Ghana are also preparing legislation on anti-piracy.

Jamaica already has a Replication plant that can copy CD's by making a Glass Master or Stamper that records an existing CD on a blank CD. It has however a minimum capacity of 500 pieces. We are about to get a Duplication Plant that does not use a Master, just a blank tape, has no minimum quantity and copies at eight times the speed of real time. To quote from a Seminar Paper on Sound Recording Piracy presented at a Seminar at Terra Nova in 1998 sponsored by the World Intellectual Property Organisation (WIPO):

"...If, in today's world of technology, the copyright system is to continue to serve effectively the purpose for which it was designed, then in many countries both their statutory provisions and administration in practice may need to be adapted - in some cases substantially adapted".

WHAT SORT OF COPYRIGHT PROTECTION IS BEING PROPOSED?

We propose a stamp or seal - some sort of special identifying mark that distinguishes the authentic recording from the pirated recording. Whatever the type of identifying mark used it should have at least the following characteristics:

1. standardised in a particular market
2. cheap
3. simple to apply
4. as secure as possible from unauthorised replication
5. easy to locate, read and understand

COMMON FEATURES

Some common features of these laws include provisions concerning:

- the scope of application of the anti-piracy system
- a special unit or office in Government designated to administer the system
- a procedure/process by which goods are authenticated
- the imposition of fines for non-compliance with the products
- the presumption that unmarked products are illegal/ unauthorized

SCOPE OF APPLICATION

The scope of the laws is specific as to copyright subject matter. In the case of Portugal, the existing anti-piracy decree relates only to audio-cassettes; in Malawi, videos as well as audio recordings are covered and recording is not limited to cassette recordings.

Special Unit/Office

In Portugal the General Directorate for entertainment and Copyright in the Ministry of Education and Culture has jurisdiction to implement the anti-piracy decree. In Malawi the Copyright Society of Malawi implements the anti-piracy Regulations. The Copyright Office of the Ministry of Justice monitors the anti-piracy system in Ghana and the copyright commission in the case of Nigeria.

Powers of Special Unit/Office

The Malawi Copyright Society has the power to seize infringing copies and to consider objections and revoke the seizure in cases of error or omission. Under the Portugal Decree, the Directorate of Entertainments and Copyright has a power to impose fines, sanctions and dispose of illegal material and equipment.

Authentication Procedure

The authentication process requires a manufacturer for example to apply to the designated office for a specified number of stamps, banderoles or other device to affix to a specific work. He must present along with the application some proof of authorization from the copyright holder for the particular activity/mode of exploitation he seeks to carry out.

The application is subject to a fee the use of which varies from country to country. For example, the fee can be applied to a special fund for Cultural Advancement and/or to the designated office, so that the system virtually pays for itself.

Involvement of Customs and Police

In the administration of the anti-piracy system there is a relationship between the designated office, the Customs and the Police, the customs having jurisdiction over the importation of copyright products and the police having jurisdiction over the products already released into the stream of commerce in the territory.

Presumption of Illegality

The legal presumption that unauthenticated/unmarked recordings are illegal is the pivotal feature of an anti-piracy system. The presence of the required marking on a product signals to the wholesalers, retailers, the police and the consumers at large that the product is legitimate.

The Jamaican Paradigm

Although Jamaica's Copyright Law does not recognize or impose any specific device or system for piracy prevention or control, like most Copyright Laws, it provides a framework of provisions relating to piracy, described earlier in this paper, which could form the basis for implementing more specific features of an anti-piracy system.

The introduction of an anti-piracy system would require a few adjustments to the legislation and a set of Regulations and Orders.

Implementing the Anti-Piracy System.

The Banderole is the proposed device of choice for Jamaica because of:

- its low cost of production, (this may be the most important factor as the costs for the strips should not be prohibitive)
- its high level of security (not easily replicated)
- its value as a tracking and statistical tool and
- the fact that it could be produced locally (through the Bank of Jamaica)

Scope of Application

To determine the scope of application of the anti-piracy system it would be useful to ascertain what is being pirated in Jamaica and the major modalities of piracy. This would give an indication of whether it is practical to apply the device to music videos as well as sound recordings or whether it should also extend to literary works expressed orally (e.g. audio-cassettes of Hutchinson's "Dat Bumpy Head Gal' or Ms. Lu's dialect verses on tape).

The scope of copyright works would need to be specified in the Law; for example "audio and audiovisual music recordings/works" would cover audio-cassettes, compact discs, records and music videos.

A Special Unit/Office

The Law would also need to designate an office, which would have the authority to administer the regulations on the banderole System. The Copyright Unit, Ministry of Commerce & Technology, which already has the portfolio responsibility for administration of the Copyright Law, could be the point for such an office.

Powers

The office's function and role in the administration of the system including any special powers would need to be outlined in the law.

The powers of such an office in Jamaica's context may be purely administrative (i.e. examining banderole applications and attendant documentation and issuing the strips) and need not extend to quasi-judicial functions.

Once there is a presumption of illegality and the offender is deemed to have known that the articles are infringing articles he could be subject to the sanctions ascribed by section 46 of the existing law and hence subject to a court of law. The police and customs and the court would therefore still be responsible for enforcing the law and not the administrative unit, although provision could be made for it to impose fines for non-compliance with the Regulations.

In addition, as mentioned before, it could be useful for the Copyright Tribunal to play the role of an alternative dispute resolution mechanism in the settlement of disputes arising from the implementation of the Anti-piracy system with a right of review by or appeal to the Courts.

Authentication Procedure

It is useful for Jamaica to adopt some features of the Portugal and Malawi laws in defining a procedure by which the office would authenticate the audio and audiovisual recordings.

These features include:

1. A process requiring the producer/manufacture, distributor or importer to apply for the banderole specifying the amount of banderole strips needed and the products to be marked. This amount should of course coincide with the number of recordings being manufactured,

distributed or imported. In the case of importation the application should precede importation.

The application should relate to a specific product and the strips should not be automatically transferable to another product. The Special Unit could have the discretion in a case where a transfer is requested.

The application should be user friendly and prescribed by Forms embodied in the regulations.

2. The requirement for proof of authorization from the copyright holder for the particular activity/mode of exploitation the applicant is intended to carry out.

This proof may comprise a license or assignment, contract for distribution, a certificate of registration or other document evidencing ownership of the economic rights. We should also consider optional registration of copyright ownership as an added protection for the artists, writers and producers of local music. Such registration would be prima facie evidence of copyright ownership as well as the usual evidence provided by a license agreement with the artist and/or the writer. Optional registration is likely to reduce the number of copyright infringement disputes that arise in the entertainment industry.

3. The payment of a fee to the office for the banderoles

The actual amount charged and the use to which the fees would be put would be determined by policy. It would be useful to consider the category of persons that lose from piracy activities, such as the creators, mainly, but also the lawful publishers, producers, manufacturers and distributors. The society on a whole loses out.

A donation to a Cultural Fund and/or to a national association of authors and artistes and to the Special Administrative Unit could be considered. It is very important for the anti-piracy system to pay for itself.

The fee for the banderole should be minimal so as not to be onerous on the manufacturer, producer or importer who has large volumes of material dealing with. Even though the manufacturer, distributor and importer would bear the cost of the banderoles the benefit is that the cost should be recovered since the market for pirated copies would be crippled and wholesalers and retailers would be obliged to purchase the products labeled with the banderole.

Presumption of Illegality

Considering that the presumption of illegality of unmarked/unauthenticated works is an essential feature of the anti-piracy system, the knowledge requirement under Jamaica's Copyright law is critical to the operation of such a system.

If a retailer exposes unmarked cassettes for sale, the law could provide that the retailer is deemed to know or to have reason to believe that the articles are infringing copies. Similarly a "cassette vendor" selling unmarked cassettes or a promoter distributing unmarked CDS at an Expo, would be deemed to have the knowledge required for his culpability.

The Copyright Law has some presumptions that do not apply when dealing with piracy as an offence (Section 44 & 45). However the presumption of illegality could be directly related to offences.

Involvement of Customs & Police

The involvement of Customs would also need to be spelt out by regulations. Customs already plays a critical role in Copyright Enforcement. The point of entry into the jurisdiction is the point of enforcement. With the banderole system the copyright products coming into the country would have to be authenticated on entry.

The application process where it concerns importation would necessarily entail some notification to Customs officials that the goods are authentic. The Special Unit on a successful application by the importer could issue the notification to customs. The release of the products to the importer by Customs may be subject to the importer producing an amount of banderole strips coincident with the quantity of the products imported.

The presumption of illegality would also impact on the powers of the police who have the authority to act when they have cause to believe that an offence is being committed. A presumption of illegality could enable the police to be more proactive in spotting unmarked recordings being distributed, sold or offered or exposed for sale.

Right to object

The right to object to seizure of the goods, which is peculiar to Malawi may be a useful one to consider in Jamaica's context. Because seizure of goods is based on a presumption of illegality, there is merit in having a mechanism prior to court proceedings for this to be rebutted.

This would be practical in the case where in error some products were not marked or the wrong products were marked or even in cases where documents produced were not legitimate. The Copyright Tribunal could be utilized to address such objections. This would require amendments to the Copyright Act to increase the jurisdiction of the Tribunal. With the growing pressure of copyright groups lobbying for the Copyright Tribunal to act as a dispute resolution mechanism, this objective is worth pursuing.

Quantifying Personal Use

In terms of defining personal and domestic use in quantitative terms the merits of this approach may be considered but would essentially be a matter for policy to decide in terms of consistency with other import rules and regulations. If personal use is quantifiable under the banderole system it probably would need to be quantifiable for every related provision of the Copyright Law.

**WHAT ARE SOME OF THE DIFFICULTIES AND
THE PRACTICAL AND LEGAL CONSIDERATIONS
AFFECTING SUCH EXTENDED PROTECTION?**

There are some difficulties to be faced in attempting to implement an Anti-piracy programme. One of the more obvious ones is getting the public to cooperate with such a programme. At the moment, piracy thrives because the buying public is unconcerned with the legitimacy or otherwise of the product. A public awareness programme to convince the consumer of the need for such protection must be the first step in introducing anti-piracy protection. The consumer is primarily concerned with the cost of the product. To the extent that Anti-piracy protection increases the cost to the distributors and therefore to the consumer, it is likely to meet with some resistance.

The music industry itself also has to support the Programme. It appears that the enthusiasm that anti-piracy protection was first greeted with in the music industry has waned somewhat for two reasons: increased costs which the producers/distributors fear they will have to absorb and the invasion of privacy by the statistical information that will be generated on their sales. Already they and the artists they record, are complaining about tax assessments to which they are being subject. There is a great deal of apprehension about the government collecting hard data on the sale of records and cassettes and using this information to collect taxes from such persons who are presently outside the tax net and from whom retroactive payments may be demanded. In short, the music industry does not, as a whole, seem inclined to have the government know just how much money it makes. If the taxes, penalties and fines raised from the programme are placed back into the music industry, the industry might react more favorably to it.

The industry also has a concern for the security of the stamp. There is a feeling that the stamp itself will be subject to piracy and the legitimate users will again end up being cheated. The feeling is that as long as the stamp is made in Jamaica its security is uncertain and it should therefore be imported. Even if the stamp could be secure from copying, there is the fear of illegal distribution without the proper documentation. In Ghana, the producers themselves were engaged in the black market sale of banderoles.

The lack of cohesion and organisation among those engaged in the music industry has been identified as a problem in establishing an anti-piracy programme. Such a programme would need concerted action by the government and the IP rights owners. At present there is no association representing the manufacturers in the recording industry nor songwriters and publishers. The fragmented industry will have to be consolidated as part of any anti-piracy programme.

Another practical difficulty to be faced is the difficulty of enforcement and policing. An anti-piracy programme needs a special unit to be formed, with representation from Customs, the police and the Copyright Unit, along the lines of the Revenue Protection Division, which can respond quickly and effectively to complaints of piracy. This allocation of manpower and resources to a specialised unit requires a level of commitment which needs to be justified in economic terms.

Optional registration poses its own problem of resource allocation. A regional body like the UWI library with the costs shared by the other West Indian Territories is suggested as the most cost effective but will require cooperation and funding.

The advances in technology also pose a problem to an effective anti-piracy programme. CD's can now be made from computers and customized CD collections are produced to order in a matter of hours. Cassettes are even easier to copy. The advent of the Replication and Duplication plants in Jamaica may provide the technology for extensive piracy. A levy on blank cassettes, CDs and recording equipment may recover some of the revenue lost to piracy but is likely to be very unpopular with the general public who only use these for personal use.

This list of difficulties is not exhaustive. However, these are factors to be considered in designing and monitoring the programme, not reasons for doing nothing to protect the recording industry. And they are by no means insurmountable. The Government has shown a recognition of the value of the music industry, identifying it as one of the priority areas in its National Industrial Policy. It has received commendable assistance from the World Intellectual Property Office ("WIPO") in Geneva. It remains now for the recording industry, the legal practitioners in IP rights and the government to design an effective anti-piracy programme.

E-commerce And Intellectual Property

Electronic Commerce is a broad term describing business activities with associated technical data that are conducted electronically via the Internet. Intellectual Property both affects and is affected by e-commerce in many ways. Experts predict that broader protection for IP is needed before the advent of a new generation of e-commerce users. They say that while existing e-commerce networks focus largely on sales contracts and payment methods, advocates of global patent and copyright protections want to expand IP protections for the next generation of e-commerce networks through which goods such as software can be delivered on-line.

So how fast is the NET growing? The figures are staggering. The number of Internet users in 1999 has been estimated at 130.6 million and is projected to grow to 350 million by 2003. Over 3.4 million domains in the .com, .org and .net categories were registered in 1999 alone. Brand recognition of *amazon.com* (an on-line book shop) is 117 million adults in the United States alone. It is estimated that on-line sales will approach US\$1.4 trillion by 2003.

Countries in Africa, Asia and the Caribbean presently have low figures in comparison, but that will change. E-commerce is still in its infancy. Even now, a massive growth rate is taking place in this vast on-line market with millions of transactions, and IP violations, daily. We all know that even before the e-commerce boom arrives, many countries have been hit by cybersquatters who register domain names with a view to pre-empting legitimate businesses.

In this presentation, I propose to look at just a few of the challenges that will confront intellectual property owners when seeking to enforce their rights against piracy in the age of e-commerce.

TRADE MARKS ON THE INTERNET

The problem with the Internet is that it represents a serious challenge to the principle of territoriality which is fundamental in IP law. Regarding trade marks, the problem can be illustrated thus: Let us presume that the same mark (not a very distinctive mark) has been registered in two different countries for identical or similar goods. Neither of the marks is well known in the other country and there is no evidence that the registrations have been obtained in bad faith. Both owners want to market their products or services in cyberspace. How should they be advised by their lawyers? Do they run the risk of being liable for infringement of the other's mark?

In this situation, three basic questions arise for consideration:

1. Which courts have jurisdiction over the matter?
2. Would there be an infringement of the other right and which precautions may and should be taken to prevent such infringement?
3. Will it be possible to enforce a judgment which prohibits use of one of the marks on the Internet in the country where the owner of the mark is domiciled?

For now, there are no accepted answers to any of these questions. While efforts to investigate the issues and design strategies for their solution have been undertaken at various levels, principally by the World Intellectual Property Organisation (WIPO), realistically, legal harmonisation and/or uniform practices will not be achieved in the short term.

Further, assuming that key trade mark concepts, namely (i) requirement of use, (ii) likelihood of confusion, and (iii) the definition of infringement, are not affected by the Internet medium, trade mark authorities and the Courts are still left to grapple with the parameters of “use”, “confusion” and “similarity” on the Internet. What type of use is required by the defendant to infringe? Does the use have to be in the course of trade?

In *Marks & Spencer Plc, et al vs. One in a Million Ltd.*¹⁸, the High Court of the United Kingdom (whose decision was upheld by the Court of Appeal) found that the defendants were not themselves using the domain names for web sites or even for their e-mails. They were professional domain name dealers and as they were registering the domain names to extract money from owners, this amounted to “use in the course of trade”. It would appear that the Court stretched the meaning of “use” for reasons of public policy. (We will look at this case more closely when discussing Domain Names.)

In contrast, in the US decision *Brookfield Communications Inc. vs West Coast Entertainment Corp.*¹⁹, the defendant’s registration of the domain name “moviebuff.com” and its use in their e-mail was not considered use in order to give the defendants a trade mark right superior to the plaintiff. If one were to follow these cases, we could conclude that where a party asserts proprietary

¹⁸ 1998 FSR 265

¹⁹ 9th Cir. April 22, 1999

rights, there is a higher standard of use in keeping with conventional trade mark law principles, while relatively insignificant activity by a defendant might well be “use” constituting infringement.

The standard of confusion on the Internet may also be different, where a new trade mark could become very well-known in a short period of time. The cost of proliferating a mark on the Internet is so low compared to the cost of advertising and printing, that marks could acquire vast reputation and enormous geographical coverage in a shorter time. Therefore, the standards of judging proprietorship through the establishment of reputation and goodwill could be more liberal in this context.

“Similarity” on the Internet also raises a number of issues, particularly when considering disputes between trade marks and domain names. [See Domain Names].

ELECTRONIC DELIVERY OF PUBLICATIONS, MUSIC, FILMS AND SOFTWARE

The Internet is a unique medium. It provides an interactive experience, or not, as the user prefers. The tool used to give us access to the on-line world may be used for other things as well. If you are using your computer to balance your cheque book or send messages to co-workers, you may want some entertainment while the computer completes that operation. In the old days, that may have been Solitaire. Today, it may mean listening to the latest musical release from your favorite artiste or watching a 10-minute film clip.

Along with the tremendous potential that e-commerce offers the music, film and software industries, it presents a problem of epidemic proportions. Like all criminals, Internet pirates are

adaptive and ingenious, constantly finding ways to use the very technology that makes e-commerce possible for illicit purposes. It is very difficult for legitimate e-commerce to develop in an environment where theft of intellectual property is rampant.

In January, 1999, the software industry shut down a piracy ring based in Denmark, which offered counterfeit CD-ROMs of numerous software products. By that time, it is estimated they had sold in excess of US\$300 million in counterfeits. The economic impact of piracy extends far beyond the confines of the software industry, harming economies worldwide in the form of diminished tax revenues and substantial numbers of lost jobs. Even in a small economy such as Jamaica's, it is impossible to determine the monetary loss flowing from the piracy racking our own music industry.

The problem of electronic piracy must be tackled both by practical steps within each industry as well as by laws and treaties. For example, the software industry employs full-time Internet investigators who receive tip-offs, and scan the Internet for pirate sites engaged in a substantial amount of activity. Detection is followed by a "takedown" notice to the service provider operating the site, who is usually more than willing to cooperate with the powerful software lobby to prevent legal action being taken against them. It is estimated that hundreds of sites are taken down every month using this practical procedure which does not require expensive or time consuming court actions or bureaucratic formalities.

On the other hand, international copyright protection is even more critical to protect the rights of smaller artists and businesses worldwide, thereby ensuring a cultural diversity that will be lost if

only the biggest distributors are able to survive. Where there is no statutory protection, or where there is law but no will to apply it, there are no financial incentives for investing in and producing music. The market becomes overwhelmed by pirate productions.

The good news is that there has been some progress in the global movement toward the protection of artists and companies against the illegal transmission and distribution of music and other intellectual property. The WIPO treaties adopted in 1996 set the stage for fair international digital distribution of music. The treaties respond to the realities of the electronic marketplace, where copyright owners rely increasingly on the communication of signals rather than the delivery of physical products. The treaties also confirm that existing national copyright laws apply in a generalised way to all technologies and media and not in a technology specific manner, which has particular relevance to the right of reproduction and its limitations in digital media.

However, the truth is that the strains of technology and the realities of the marketplace will limit the effectiveness of any legal protection available now or in the future. Even so, legal protection is a critical part of the security that copyright holders need to persuade them to undertake the risks connected with making their works available on the Internet, thereby further stimulating the growth of legitimate e-commerce.

DOMAIN NAMES

Domain names are a new species of intellectual property which identify sites on the Internet. A complex regulatory framework has evolved in many countries, together with a trade in valuable domain names.

The practice of domain name piracy, or cybersquatting, is believed to have been effectively buried in the U.K. by the *One in a Million* decision.²⁰ One in a Million Ltd. had registered the plaintiffs' names and trade marks as Internet domain names, without their consent, and then sought to sell them. The plaintiffs (Marks & Spencer Plc, J. Sainsbury Plc, Virgin Enterprises Ltd., British Telecommunications Plc, Telecom Securicor Cellular Radio Ltd. and Ladbrokes Plc) claimed that the defendant was passing-off and infringing their registered trade marks or that its activities threatened to do so.

The defendant accepted that the trade names concerned are well-known brand names with substantial goodwill and claimed that it registered domain names with a view to making a profit either by selling them to the owners of the goodwill, using the locking effect of the registration to obtain a good price, or, in some cases, selling them to collectors or other persons who could have a legitimate reason for using them. It argued that this could not amount to passing off or a threat of passing off.

²⁰ Marks and Spencer Plc vs. One in a Million Ltd., *ibid.*

The Court of Appeal dismissed the appeal, holding that the registration of a distinctive name such as “marks and spencer” made a false representation to persons who consulted the register that the registrant was connected or associated with the name registered. This constituted passing off and was an erosion of the plaintiff’s exclusive goodwill in the name. Aldous L.J. felt that the domain names registered by the defendant were instruments of fraud because any realistic use of the names would result in passing off.

Being all household names denoting the respondents, the Court decided that the defendant’s motive was to use the respondents’ goodwill, and to threaten to sell the domain names to another who might use it for passing off in order to obtain money from the respondents. The value of the domain names lay in the threat that they would be used in a fraudulent way. The Court had no difficulty in finding that “there was clear evidence of systematic registration by the appellant of well-known trade names as blocking registrations and a threat to sell them to others.” The defendant sought leave to appeal to the House of Lords but was refused.

Being the highest U.K. authority at this time on domain names, this case would no doubt be highly persuasive were the issue to arise in our Courts. Practically speaking, when registering a domain name, it is important to undertake prior trade mark searches to avoid conflict with trade mark owners. Where a potential conflict is discovered, agreement should be sought with the trade mark owner to avoid charges of passing off.

In closing, the WIPO held its first international conference on Electronic Commerce and Intellectual Property in September, 1999 in Geneva. This bears testimony to the growing awareness on the part of the global community of a need to “[define] more clearly the adjustments that are necessary, and the issues that need to be addressed, in order to ensure that in the digital era, intellectual property continues to serve as a dynamic instrument for encouraging creativity and technological growth.”²¹

The conference programme alone spanned 13 pages of topics and speakers. For those of you that are interested in further reading on this subject, you can find many of the papers at the WIPO website at <http://ecommerce.wipo.int>.

²¹

Dr. Kamil Idris, Director General, WIPO, Opening Remarks, International Conference on Electronic Commerce and Intellectual Property, Geneva, September 14 - 16, 1999

Table 1 Estimated Percentage of Sales Lost by Country Due to Counterfeiting and Infringement 1992-1995

Counterfeiting Scorecard			
Loss: 25% or more	Loss: 20%-25%		Loss: 14%-19%
Argentina	Canada	Mexico	Australia
Pakistan	Italy	Thailand	Germany
Venezuela	Singapore	Hungary	United Kingdom
Brazil	Chile	The Netherlands	Belgium
Philippines	South Korea	Turkey	Hong Kong
China	Sweden	Indonesia	Denmark
Russia	Cyprus	Poland	Japan
Czech Republic	Malaysia	United States	France
Saudi Arabia	Taiwan	Israel	Switzerland
India	Greece	South Africa	
Spain			

	Apparel & Footwear Sales	% Loss	Loss in US\$
Argentina	\$2,203,276	-25%	\$543,215
Australia	\$78,856,741	-18%	\$13,838,325
Belgium	\$52,045,618	-16%	\$8,484,372
Brazil	\$40,939,373	-26%	\$10,570,004
Canada	\$236,071,582	-21%	\$49,777,337
Chile	\$5,498,559	-24%	\$1,322,057
China	\$30,476,780	-26%	\$7,977,006
Cyprus	\$414,707	-20%	\$82,800
Czech R	\$5,199,350	-25%	\$1,295,451
Denmark	\$29,330,418	-18%	\$5,411,654
France	\$261,172,938	-14%	\$35,593,703
Germany	\$424,022,220	-16%	\$69,191,277
Greece	\$42,418,756	-24%	\$10,362,117
Hong Kong	\$47,942,256	-17%	\$8,213,206
Hungary	\$28,669,947	-24%	\$6,929,018
India	\$1,305,395	-28%	\$359,189
Indonesia	\$303,805	-22%	\$67,772
Israel	\$5,724,019	-24%	\$1,372,860
Italy	\$379,954,182	-24%	\$91,334,761
Japan	\$392,712,832	-17%	\$67,906,043
Korea, S	\$51,587,718	-23%	\$12,046,213
Malaysia	\$19,600,673	-22%	\$4,287,419
Mexico	\$49,001,526	-24%	\$11,817,985
Netherlands	\$100,551,393	-21%	\$21,342,085
Pakistan	\$7,300	-30%	\$2,219
Philippines	\$41,470,800	-25%	\$10,192,853
Poland	\$26,589,559	-21%	\$5,707,534
Russia	\$139,712	-28%	\$39,269
South Africa	\$7,070,176	-21%	\$1,495,695
	\$4,518,772	-28%	\$1,257,239
Saudi Arabia	\$5,129,905	-22%	\$1,123,652
	\$167,340,222	-25%	\$42,632,792
Singapore	\$43,769,520	-24%	\$10,703,483
Spain	\$54,668,027	-18%	\$9,783,755
Sweden	\$24,445,201	-21%	\$5,172,240
Switzerland	\$479,369	-24%	\$116,804
Taiwan	\$47,098,688	-22%	\$10,552,742
Thailand	\$302,329,336	-17%	\$52,499,816
Turkey	\$6,416,548,617	-23%	\$1,462,624,147
UK	\$4,405,290	-28%	
US			\$1,234,998
Venezuela			
Total	\$9,432,014,558	-22%	\$2,055,265,107

Instances of Counterfeiting Schemes worldwide

□ BABY FORMULA

In early 1995, authorities discovered a counterfeit-labeled version of a popular infant formula on the shelves of Safeway and Pak n' Save grocery stores in Northern California and in tractor trailers in Kentucky. In response, the FDA issued an alert warning consumers not to buy the counterfeit-labeled baby formula bearing a fictitious code number and expiration date. Authorities later found the phony formula in a total of 16 states. Press reports indicate that some babies only refused the fake formula, while others who had consumed the fake developed rashes and seizures.

□ OTHER FOOD PRODUCTS

In 1995 authorities uncovered a counterfeit candy scam in Boston. The counterfeit-labeled butterscotch candy, illegally bearing the Borden brand-name, was found at a warehouse. Some of the candy was stored unlabeled and uncovered in boxes with expired expiration dates. Law enforcement officials seized the counterfeits before they reached consumers

□ PHARMACEUTICALS/MEDICAL DEVICES

- (1) *A 1993 magazine article reported that a counterfeit version of the ulcer medication "Tagamet" found to contain aspirin -- caused a woman's ulcer to bleed and develop*

allergic reactions when applied to the skin.

□ **AUTOMOBILES & AIRCRAFT PARTS**

- (1) *In 1991, the San Francisco Chronicle reported that a General Motors investigation discovered that a mother and her child were killed in an auto accident when a counterfeit brake failed. Investigators found that the counterfeit brake pad was made out of wood chips. Other counterfeit brake pads have been made of wool and compressed board.*
- (2) *Aviation officials believe a faulty clutch made of counterfeit parts was the cause of a 1987 helicopter crash that killed a traffic reporter during a live broadcast. Federal investigators discovered, after a series of similar accidents, that more than 600 helicopters sold to U.S. civilians and NATO were equipped with counterfeit parts.*
- (3) *In 1989, a Norwegian plane crash killing 55 people reportedly resulted from substandard counterfeit bolts manufactured in the U.S.*

□ **TOYS etc.**

U.S. toy manufacturers fear that counterfeit toys with small sharp breakable parts pose a choking hazard to children -- or may have toxic paint. Counterfeit sunglasses have been known to shatter easily and may fail to product ultra-violet ray protection as advertised.

a dangerous infection.

- (2) *A counterfeit of the antibiotic "Ceclor" caused children in seven states to suffer painful ear infections and risk possible ear damage because they received the wrong treatment.*
- (3) *Another report indicates a patient purchased a 20 gm tube of Retin-A cream in Mexico for \$2. Except for the ink color, the packaging was identical to the product sold in the U.S. for \$20. However, the Mexican version of the powerful skin medicine was a counterfeit containing only vitamin A cream.*
- (4) *The FDA recalled \$7 million worth of intra-aortic pumps used during open-heart surgery, after it discovered malfunctioning counterfeit parts in the devices.*
- (5) *In 1981, the pharmaceutical company Searle discovered that over 1 million counterfeit birth control pills had been distributed to unsuspecting women, resulting in unwanted pregnancies and irregular bleeding.*

□ TOILETRIES AND COSMETICS

In August 1995, Ohio-based Proctor & Gamble, maker of Head & Shoulders shampoo, placed a half-page national advertisement in newspapers informing consumers that counterfeits of its name-brand shampoo on store shelves could harm users with weakened immune systems. Legitimate manufacturers of cosmetics fear that counterfeit cosmetics may contain the residue of industrial solvents and carcinogens which may cause severe



RPD reports big seizure of counterfeit goods

The head of the Revenue Protection Division (RPD), Michael Surridge is reporting that in the past two weeks the agency has seized "a huge amount" of counterfeit goods in clothing and footwear.

"We have also detained five container loads of clothing and shoes and are expecting more to attract our attention," Surridge told the *Observer* yesterday.

Among the counterfeit goods are jeans, shirts and shorts bearing the Tommy Hilfiger label as well as Levi Strauss jeans, Adidas and Nike shoes. Meats and vegetables have also been seized, Surridge reported.

"We have had meetings with the Ministry of Agriculture and the Bureau of Standards to ensure that Jamaica is not dumped with out of date goods," he said, adding that the RPD had a special examination system relating to meats because of the potential effect illegal imports could have on locally-produced meat and ultimately, employment.

On the other hand, he praised higglers who import lower-priced shoes for children as well as material to make school uniforms.

These higglers, he said, properly declare their goods, and pay their duties, and are providing a service to consumers.

According to Surridge, all goods found to be counterfeit are destroyed after experts from particular manufacturing companies are brought in to determine their authenticity.

THE MERCHANDISE MARKS REGULATIONS, 1908

SCHEDULE

(Regulation 7)

NOTICE

The Merchandise Marks Act

To the Collector or Chief Officer of Customs at the port of

I hereby give you notice that the undermentioned goods, that is to say— are about to be { imported into / exported from } your port on or about the day of next, in the from

That such goods are liable to detention and forfeiture being

That

Mr. of and Mr. of

are prepared to become my sureties in such bond as may be required upon the detention of the goods.

And I request that the said goods may be detained and dealt with accordingly.

Dated this day of A. B. (or agent for)

BOND

The Merchandise Marks Act

KNOW ALL MEN BY THESE PRESENTS, that we A.B. and are held and firmly bound unto our Sovereign Lady Elizabeth the Second by the Grace of God of Jamaica and of Her other Realms and Territories Queen, Head of the Commonwealth, in the sum of dollars to be paid to our said Lady the Queen, Her Heirs or Successors. For which payment well and truly to be made we bind ourselves jointly and severally, our heirs, executors and administrators, firmly by these presents. Sealed with our seals.

Dated this day of in the year of our Lord one thousand nine hundred and

A. B.

Whereas the above named A. B. has by a notice dated the day of informed the Collector of Customs at that the undermentioned goods, that is to say

were about to be { imported into / exported from } the port of

contrary to section 14 of the Merchandise Marks Act and requested that the said goods should be detained and dealt with accordingly.

[The inclusion of this page is authorized by L.N. 154/1986]

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