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Role of Customs in Combatting Piracy and Counterfeiting in India

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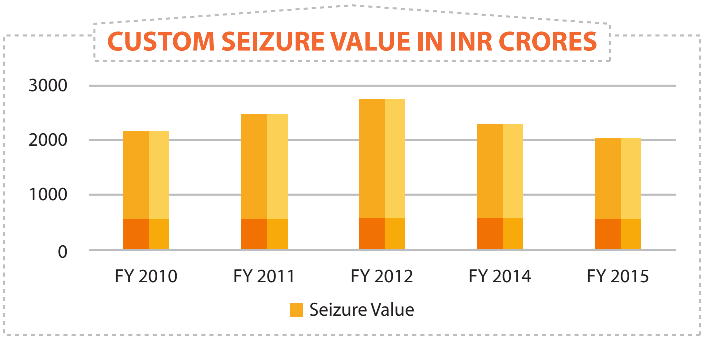
With a view to strengthen the Indian Customs law and to provide remedies for protecting intellectual property rights at the borders, the Government of India had notified the Intellectual Property Rights (Imported Goods) Enforcement Rules in 2007. Under these Rules, right holders can record their registered intellectual property rights with customs for a period of five years or until the expiry of the IP, whichever is earlier.

Basis the IP recordation, Customs interdicts those consignments that are not being imported by the rights holder's authorised representatives or importers green lighted by the rights holder. They then generate an alert asking the rights holder to join the proceedings by submitting an indemnity bond as well as a fixed deposit or bank guarantee equivalent to 25% of 110% of the value of the detained goods.

Once the rights holder has joined the proceedings, he or his representative can photograph or take samples of the interdicted goods for testing and analysis. Upon confirmation that the goods are counterfeit/ infringing, the Customs authorities will direct destruction of the goods in the event the importer is not able to demonstrate that the goods are in fact genuine. This ensures that goods are removed from the commercial stream at the point of their entry and the rights holder does not have to take multiple actions against retailers or wholesalers.

The challenges in Customs enforcement are however many. With the Indian government's recent policy to promote "ease of doing business" customs is required to mandatorily clear about 90% of inbound consignments without opening them. IP violations are not apparent even if a consignment were to be opened. Customs is thus heavily reliant on the declarations made in the bill of entry. When the written declaration and the goods do not match, or the trademark is mentioned on the bill of entry and the importer is not on the list of "authorised importers" submitted by the rights holder, only then are red flags raised by Customs. This has had a direct impact on the value of Customs seizures which appear to be declining.



Data sources:
http://www.cag.gov.in/sites/default/files/audit_report_files/Union_Compliance_In_Direct_Tax_Customs_Revenue_Dept_8_2015.pdf;
http://cag.gov.in/sites/default/files/audit_report_files/Union_Customs_Compliance_Department_Revenue_Report_5_2016.pdf

Smart infringers simply do not declare the trademark on the bill of entry. Often brand owners themselves let consignments containing second hand or refurbished products go on the mistaken assumption that they are permitted in law. In reality the jurisprudence is clear that refurbished and second-hand products cannot bear a registered trademark and are deemed infringing goods. Brand owners need to take advantage of the expansive definition of infringement under the Indian trademark law and find creative solutions.

In a March 2018 interview in World Trademark Review, Cynthia Tregillis, vice president of global brand protection and trademarks at Western Digital Corporation underscored her company's significant success in implementing creative enforcement tactics in India: "Working with wonderful outside counsel, we have employed very creative tactics in India, using consumer protection laws as a more effective means of upholding our brand and tackling counterfeiters and parallel importers. Consumers were being harmed, and we found that Indian courts are very receptive to that argument."

Finally, brand owners must invest in regular customs trainings not only to bring the authorities up to speed on the nuances of the products but equally to share intelligence that they gather from the market on infringement to ensure that their Customs enforcement strategy is updated and robust.

Doctrine of Bad Faith in Trade Mark Law

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The doctrine of bad faith is rooted in the common law principle - no man shall reap that which he has not sown. In the Trade Marks Act, 1999 (the Act), bad faith is an ex officio ground for refusal of a mark. The Act also places a duty on the Registrar to take into consideration a party's bad faith in contentious trade mark proceedings. Bad faith can also be a successful rebuttal to a defense of acquiescence. In a cancellation action, registrant's bad faith can be the sole ground for removal of a registered mark. Even in comparative advertising, a mark is considered to be infringed by a competitor's advertisement if such an advertisement is contrary to honest practices in commercial matters. Here too, bad faith is a decisive factor. The Paris Convention stipulates that no time limit be fixed for cancellation or the prohibition of use of a mark if it has been registered or used in bad faith. Under the Uniform Domain Name Dispute Resolution Policy, bad faith is an essential element to be proved by the complainant. So what exactly does 'bad faith' mean and how does one prove it?

The Act does not define the term 'bad faith'. Bad faith isn't specifically defined either in the Paris convention or under the TRIPS Agreement. Indian jurisprudence is fairly clear that the term "bad faith" does not simply mean bad judgment, but the conscious doing of a wrong with a dishonest purpose. Bad faith contemplates a dishonest state of mind and intention. Bad judgement or negligence is not bad faith which imports a dishonest purpose. Therefore, 'innocent' misunderstanding or ignorance of the law or facts or even lack of genuine use of the mark is not in itself definitive of bad faith.

The Act having not defined 'bad faith' has left it to the courts to decide in a particular case what amounts to bad faith. The essential requirement for finding bad faith of a party is that it knew of the right holder's interests/ rights in its mark which is identical/similar to the party's mark. Such knowledge can be actual or circumstantial. Next, it needs to be shown that the party's conduct in applying/using the mark is inconsistent with norms of reasonable, honest, and fair commercial behaviour. Presenting affirmative answers to the below non-exhaustive list of questions can establish this.

i. whether the mark was applied primarily to appropriate a trademark well known in other jurisdictions or to disrupt the business of a competitor;

ii. whether the mark was applied primarily to sell, license, or otherwise transfer the registration to the right holder or his competitor;

iii. whether the mark was applied primarily to obtain a defensive registration;

iv. whether the party has a legitimate interest in the mark;

v. whether the party applied for the mark with the intention of creating confusion as to the source, sponsorship, affiliation, or endorsement vis-à-vis its products/ services;

vi. whether the party knowingly made false statements in its application;

vii. whether the party is a habitual infringer or has a pattern of applying for mark without legitimacy;

In asserting that a mark is applied/used in bad faith, the onus rests on the assertor. However, this does not preclude the insertion of rebuttable presumptions. Proof of existing bad faith can be difficult if the party acting in bad faith denies any knowledge of a prior mark, or can be more difficult if the mark (applied in bad faith) is only similar but not identical. In such cases, the distinctiveness of the mark becomes important. A dishonest applicant can offer little justification for applying or using a mark identical to the right holder when its mark is a coined or arbitrary mark.

Expert Evidence through Hot Tubbing

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The last few decades have seen considerable rise in patent infringement litigation in India. As Indian civil judges hear IP (and in particular patent) disputes along with other regular civil or commercial matters, the requirement of an expert witness to assist the judge in his/her understanding of a complex technical subject matter often becomes inevitable. The first time an expert was used in a litigation matter can be traced back to 1782, when an English court accepted evidence from a leading civil engineer, in a matter relating to the silting-up of Wells harbour in Norfolk.

Patented inventions often involve complex scientific subject matter blending principles of science and technological innovation. To analyse such patents, judges sometimes rely on subject matter experts as amicus curiae before delivering a judgement, to present a neutral point-of-view or "breakdown" complex scientific ideas for easier comprehension. Parties in a matter can bring in their own experts who can be then cross-examined under oath.

A patent remains valid only for a limited period which makes it more important to protect it from infringement. The idea of concurrent evidence sessions can therefore be a valuable addition to trial procedure in India significantly cutting down lengthy sequential depositions. In contemporary times, the use of expert testimony has increased dramatically, both in terms of frequency and in its complexity, especially in specialised litigation such as patent disputes.

Traditionally when expert evidence is tendered in contested proceedings, considerable court time is absorbed as each expert is cross-examined in turn and issues become submerged in a maze of detail. The court does not have the opportunity to assess the competing opinions given since the experts instead of assisting the courts are more concerned about justifying their views from being discredited.

In such a scenario, 'the Hot-tubbing' of experts or 'Concurrent Evidence' offers the necessary solution for making the recording of expert evidence a simpler more satisfactory experience for all parties involved. 'Hot-tubbing' is a technique in which expert witnesses give evidence simultaneously in each other's presence and in front of the judge or an arbitrator, who puts the same question to each expert, effectively acting as 'chair' of a debate between the experts. It is a co-operative endeavour to identify key issues of a dispute and where possible evolve a common resolution for all of them. However, where resolution of issues is not possible, a structured discussion, with the Judge as chairperson, allows the experts to give their opinions without the constraints of the adversarial process and in a forum, which enables them to respond directly to each other. The Judge is thereby not confined to the opinion of only one expert but has the benefit of multiple experts who are rigorously examined in public.

By a November 2018 amendment, the Delhi High Court (Original Side) Rules, 2018 now permits introduction of expert evidence through the hot tubbing method. There is no case which utilises the method till date and its relative success still remains to be assessed.

Should Celebrities be Responsible/ Liable for the Products they Endorse?

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Consumer buying behaviour in the present day is increasingly influenced by drivers that are "brands plus", key among which is influencer/ celebrity endorsement and the surrounding peer pressure and aspiration. Hosts of brands use prominent faces to endorse their products and services in a manner that resembles a famous person letting a consumer in on a 'beauty secret', for example, rather than the traditional format of celebrities role-playing as regular people in an ad film. Through such endorsements, the brands attach themselves to the fanbase and the equity associated with the celebrity's name.

The relationship between the endorser and the brand is governed by the endorsement contract executed between the two parties. In most cases, these contracts indemnify the celebrities of any liability incurred with respect to such advertisements. Hence, irrespective of the kind or quality of products, celebrities are seen endorsing wide-ranging products making claims of superior characteristics of the products. The veracity of such claims is generally irrelevant and the endorsers unknowingly end up making claims or statements as suggested by the manufacturers. The fact that the endorsers may not have used the product as claimed in the advertisement is immaterial.

The advertising laws and regulations in India are restricted to the content of advertisements and while they proscribe liability on brands for misleading advertising, there is currently no liability for the endorser.

There has been a recent furore over celebrity endorsement in India when the promoters of real estate brands endorsed by popular actors and sportspersons were found guilty of embezzlement of funds and again when health and safety concerns were raised over certain packaged foods endorsed by celebrities. In response to public and political pressure, the Advertising Standards Council of India, a voluntary organization sponsored by advertising firms within the Indian industry (comprising advertisers, media, advertising agencies and other professional/ ancillary services connected with advertising) has laid down a set of best practices which address pre-emptive measures that should be made by endorsers before signing an endorsement contract:

- Celebrities are expected to endorse products that must reflect their genuine opinion of the product and must be based upon adequate information about or experience they have received with respect to the product or service being advertised.
- Celebrities are expected to perform reasonable due diligence to ensure that all description, claims and comparisons made in the advertisements are ascertainable and not misleading or deceptive.
- Celebrities should not participate in any advertisements for products which, by law, require a health warning in their advertising or packaging. Therefore, most cigarettes and alcohol brands opt for surrogate advertising to create consumer recall of the brand in the guise of another product.

The government, in turn, has tabled the new Consumer Protection Bill, 2018 under which celebrities/ public figures will be liable to pay heavy penalties for their association with a misleading 'advertisement' and not just for making misleading endorsements of their own accord. This puts a significant onus for due diligence on an actor in an advertisement who happens to be a celebrity or public figure. Drawing from the principles laid down by the US Federal Trade Commission, the liability framework ought to have considered that the due diligence threshold for the endorser is discharged insofar as the endorsement reflects the honest opinions, findings, beliefs, or experience of the endorser. Another guideline which may be considered is that the endorser must be a bona fide user of the product that they are endorsing in an advertisement.

Given that the threshold is significantly higher and a mere indemnity clause is a contract will no longer act as a safeguard for the celebrity endorser, commercial and advertising lawyers need to recalibrate their contracts in instances where an advertising campaign is slated to cover India in its geographical reach.

IP Law as a First Line of Defence in Instances of Criminal Frauds and Scams

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The technology industry in India has been rapidly growing for many years. Recently, the government has taken several measures to encourage digital payments and provide easy, affordable internet access across the nation. This has indeed led to a rise to both internet and technology use, thereby providing a huge scope of growth in e-commerce and other digital services.

However, the burgeoning growth of this sector comes with some drawbacks. One is the increasing vulnerability of the public to phishing scams and monetary frauds. India is witnessing a sharp increase in both the number and sophistication of such scams. Some of these frauds involve individuals misrepresenting themselves as employees or agents of reputed companies to collect money on the pretext of registrations for lucky draws and lotteries, gift schemes or promises of job interviews in multinational corporations.

While the customers and members of the public who lose money, these scams also have far-reaching consequences for the company itself. Frauds of this nature affect public perception and trust in the brand, directly impacting company goodwill and reputation.

Given the nameless and faceless nature of such scamsters, the obvious route of criminal action often hits a dead end. It is then that brand owners can creatively use principles of IP law to achieve the desired results.

In two recent lawsuits titled A.M. Marketplaces Private Limited v Rohit Sharma and ors. CS(COMM) 1055 of 2018 and Jasper Infotech Private Limited versus Aadi Sins & ors. CS(COMM) 1214 of 2018, both of which were filed before the Delhi High Court and involved similar phishing scams under the guise of lottery schemes being run on behalf of prominent e-commerce portals, Fidus was able to secure the following interim reliefs:

- Restraining the Defendants (some of whom were John Does) from using the brand name and trademarks of the company;
- An Anton Pillar order empowering the company to raid the premises of the infringer and seize their computer systems, records etc. under the supervision of a court official;
- A Mareva injunction to freeze the bank accounts where the public was directed to deposit the money;
- Suspension of all the domains which were being used for the scam;
- A Norwich Pharmacal order against third-parties (or non-parties to the suit) such as banks, domain name registrars, customs authorities etc., directing them to provide information about the identity of the infringer, or any other details which aid the logical conclusion of the suit.

As these reliefs were obtained ex parte, it meant that a lot of the damage could be contained before the fraudsters got wind of it.

Making strong observations about the fraudulent acts of the Defendants, the Single Judge of the Delhi High Court in A.M. Marketplaces Private Limited v Rohit Sharma and ors. ordered the immediate freezing of over 100 bank accounts in 6 banks, and also directed the National Internet Exchange of India to suspend the defendants' domain. Since there were no details of the domain registrant available, the Judge also directed GoDaddy to reveal such particulars.

In Jasper Infotech Private Limited versus Aadi Sins & ors. the court ordered the respective domain registrars to suspend 34 domains and 10 bank accounts and directed the registrars as also the banks to reveal the names and other particulars of the domain registrants and the holders of the bank accounts.

While some of the above reliefs like freezing bank accounts could have been obtained from a criminal court as well, key orders such as suspension of the domains or the directions to the domain registrars (many of whom were domiciled outside India) could not have been passed by a criminal court. Hence following up on an order from the civil court with a criminal action to enable law enforcement to track down the identity of the scamsters could be to be a far more effective solution to the problem. The orders in the civil suit also meant that, in an overburdened criminal justice system, such as the one in India, the matters would be treated on a priority basis by law enforcement for fear of censure from the courts.

Successful pursuit of such actions ultimately hinges on the cooperation of all intermediaries and third parties whose services have been used. From the domain name Registrars who needs to suspend the domain forthwith to the banks who are required to freeze the accounts, intermediary support is key to a brand owner successfully using this methodology to tackle online frauds and scams.

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