Sri Lanka

Tackling the import of counterfeit products through border measures

As Sri Lanka is situated in an area where many international business and trade transactions take place – particularly in regard to trade relations between the European Union, the United States and the emerging economies of East Asia – many goods pass through Sri Lankan ports, through various channels of commerce. Among these transactions, a significant number of counterfeit products are often moved within and outside Sri Lanka. Therefore, the protection of IP rights at border crossings is vital to brand and copyright owners in order to safeguard their IP rights and sustain their businesses.

The Intellectual Property Act (36/2003) is based on the guidelines set out in the World Trade Organisation Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs),and therefore can be said to be fully compliant with the TRIPS model. Of the major amendments introduced by the act, the changes to the Customs Ordinance and the High Court of the Provinces (Special Provisions) Act are most significant, as they introduced new IP enforcement provisions to Sri Lankan law. The IP Act grants the director general of Customs and the courts broad powers to control offences recognised by the act. These amendments play a vital role in strengthening the border protection measures available in Sri Lanka to combat counterfeit and pirated products.

Amendments to Customs Ordinance

The Customs Ordinance was amended by the IP Act, which introduced new exhaustive provisions for border protection. Unlike the previous IP legislation, the amendments introduced by the new act target both imports and exports, thereby strengthening the border protection measures available to Sri Lankan Customs.

The provisions of the new act cover counterfeit, pirated and any other goods listed as prohibited goods for import and export under the Customs Ordinance. The act further provides for the disposal of such prohibited goods outside channels of commerce or, if such disposal would damage the interests of the rights holder, the destruction of such goods.

The IP Act also introduced measures for the suspension of certain goods by Customs. Accordingly, a rights holder that has valid grounds to believe that the import of counterfeit or pirated goods which infringe IP rights recognised under the act is taking place may apply in writing to the director general of Customs requesting him or her to suspend the release of such goods into free circulation. Such application should provide adequate evidence to establish a *prima facie* case of infringement. The act further provides discretionary powers to the director general of Customs to require an applicant to provide security in order to prevent abuse. According to the act, a rights holder that makes an application to the director general for the suspension of counterfeit goods should institute proceedings regarding the release of such goods within 10 working days. If such action is not filed within the stipulated time, and Customs is not notified accordingly, the suspended goods shall be released.

Procedure for recordal of trademarks with Customs

Unlike in many other jurisdictions, as yet Sri Lankan Customs has no proper procedure for the recordal of trademarks with Customs. Although in recent years discussions have taken place in this regard, the authorities are yet to agree on suitable procedures for the registration of trademarks with Customs. However, until a proper procedure is introduced by law, Customs has adopted certain informal methods. Although the government took its first steps towards the implementation of a recordal process in 2010, Customs is still finalising some of the procedures with respect to the application process. Thus, at present, most brand owners follow this informal process associated with recording trademarks with Customs in order to facilitate the detection of counterfeit shipments of their brands.

Amendments to High Court of Special Provisions Act

The IP Act also introduced a provision stating that all proceedings under the act were to be instituted before the High Court of the Western Province (the Commercial High Court), and that this court is vested with sole and exclusive jurisdiction to hear and determine IP matters.

According to the IP Act, the court has the power to provide the rights holder with sufficient opportunity to inspect any goods detained by Customs (as explained above) in order to substantiate the rights holder's claims. The court also has the power to provide an equal opportunity to the importer of such goods to have the goods inspected. In addition, the court is vested with the power to order the destruction or disposal of any infringing goods as provided for in the act without prejudice to the rights of action available to the rights holder and the defendant. The act states that the court shall not allow the re-export of infringing goods to an unrelated state or subject them to a different customs procedure. Therefore, as observed above, the courts have broad powers in respect of protecting IP rights at the border level.

Another advantage of establishing the Commercial High Court as the court with sole jurisdiction in IP matters is that appeals of its decisions are made directly to the Supreme Court. This avoids unnecessary delays in the appellate procedure.

Enforcement mechanisms

As discussed above, the IP Act sets down adequate provisions for the control of counterfeit and pirated products being exported and imported at the border. However, in practice, tackling counterfeit and pirated products can be a challenge. Although there are legal provisions that suspend the release, import and export of prohibited goods, no such provisions exist in respect of transshipments. Although many counterfeit goods pass through Sri Lankan Customs as transshipments, they often go undetected due to the lack of legal provisions relating to the detection of such goods.

Case study

Recently, the owner of a famous tea brand in Dubai filed an action in Sri Lanka to suspend the release for export of a consignment of tea containing counterfeit goods bearing its trademark. The brand owner had been engaged in the tea business for more than 15 years and purchased tea from Sri Lanka, which was packaged in its unique packs and shipped to and distributed in various countries, particularly the United Arab Emirates, Iraq and Jordan. The tea was manufactured and packed into the packaging by the brand owner's exclusive Sri Lankan supplier, and no other company had the authority to pack tea under the plaintiff's trademark or get-up. The plaintiff's action was filed on the basis that a consignment of counterfeit goods had been packed in packages almost identical to those used by the plaintiff, and claimed that the defendant had copied the trademark, trade name, trade dress and get-up of the plaintiff.

The action was filed in the Commercial High Court of Colombo. The plaintiff sought injunctive relief and interim measures, as well as damages, as provided for in the IP Act. At the time of filing the action, the brand owner had applied to register its trademark and such registration was still pending. Therefore, the action was based on unfair competition, as provided for in the act. The case was supported *ex parte* and the plaintiff had to establish a strong *prima facie* case of infringement on the part of the defendant. The plaintiff satisfied the court that the defendant had copied its trademark and trade name, and that an almost identical get-up with a colour combination identical to that of the plaintiff's get-up and trade dress had been used by the defendant for the export of its tea. Therefore, the defendant had attempted to 'piggy back' on the reputation of the plaintiff that was attached to the products and the trademark and trade name used by the plaintiff, as well as the plaintiff's business. Further, the plaintiff successfully established that the packaging used by the defendant to sell its tea created confusion among consumers with regard to the origin of the products, and that this confusion was accentuated by the fact that the defendant's counterfeit products were sold in the same market as that of the plaintiff's products.

The consignment of counterfeit goods in question had originated in India and was initially shipped to Iraq. However, after a previous consignment of the same counterfeit goods shipped by the same parties had been detained and destroyed by the Iraqi authorities based on a complaint made by the brand owner, upon arrival in Jordan the counterfeiters diverted the consignment back to India through Dubai and Colombo. It was revealed that the counterfeiters had a strong network and that several parties were involved in this transaction.

Although the consignment in question was in fact a transshipment, the brand owners established a strong *prima facie* case and obtained an order preventing the export of the consignment from Sri Lanka. As requested by the plaintiff, the court also issued interim orders directing Customs to detain the consignment. It also ordered that the plaintiff be allowed to inspect the consignment in the presence of Customs and to remove samples for examination in order to prove its case.

Upon examination of the samples removed from the detained shipment, the plaintiff discovered that both the inner packaging and the outer cartons were almost identical to the inner packaging and outer cartons of the plaintiff's product. Further, the outer carton contained other similar marks used by the plaintiff's tea supplier in Sri Lanka, such as its logo, business name, address, colour combination and layout design. The cartons also stated "Packed in Sri Lanka", although the tea was actually manufactured in India. Further, the counterfeit packaging carried the Sri Lankan lion logo, which can be used only after obtaining approval from the Sri Lankan Tea Board, which certifies that the tea contained in the packaging is authentic Ceylon tea. The similarities and contents of the packaging clearly established that the defendant had violated the plaintiff's IP rights and attempted to copy the plaintiff's trademarks and trade dress, as well as having violated other local regulations. Interestingly, the counterfeiters used fictitious names and addresses (similar to that of the plaintiff) in the inner packaging and outer cartons, thereby attempting to mislead consumers further. However, the plaintiff traced the correct addresses of the parties involved from the shipping documents. Although notices have been served on the parties, they have thus far failed to come forward to claim the consignment. At the time of writing, the action is pending in court.

This case is also significant for another reason. The trademark owner is a large importer of valuable tea from Sri Lanka, produced and shipped by its exclusive manufacturer in Sri Lanka. The brand is one of the most popular consumer teas in the United Arab Emirates. As a result, large quantities of counterfeit tea of this brand have been released on the same market by various parties. In recent years, upon thorough investigation, the brand owner had identified several tea manufacturers in Sri Lanka which have been involved in the manufacturing, packaging and export of counterfeit tea from Sri Lanka. After a series of actions filed in the Sri Lankan courts over several years, these manufacturers gave an undertaking in the court and agreed to change their packaging and get-up. Accordingly, the brand owner had the counterfeiting issue under control for some time. However, more recently the brand owner noticed that counterfeit goods had again begun appearing on the Dubai and Iraqi markets. On conducting further surveillance, it was revealed that the counterfeiters had shifted their operations from Sri Lanka to India, and that the consignments now originated from India. Therefore, this case is vital to the brand owner, since it has been able to trace the counterfeiters and take action against them in Sri Lanka.

Comment

As demonstrated by this case study, it is important that both adequate legal provisions and proper enforcement mechanisms are in place for the protection of IP rights and for protection against counterfeit goods at the border to be effective. In the absence of appropriate practical enforcement methods, even properly formulated legal provisions can be ineffective and the objectives of such laws cannot be achieved. As shown by the case study, many counterfeiters now operate in a more organised manner and have established their own powerful networks. Therefore, it is important that brand owners take appropriate steps to investigate and take continuous action to combat the operations of counterfeiters. It has also become necessary to treat counterfeiting as a global issue and to establish links throughout the world to bring counterfeiters to justice. In some instances, since counterfeiting and piracy involve not only IP violations, but also the violation of other regulations, it is also important that the authorities work together in order to bring the infringers before justice.

Sudath Perera
Managing Partner
sudath@sudathpereraassociates.com
Sudath Perera Associates
Sri Lanka

Sudath Perera founded the law firm of Sudath Perera Associates in 2002. He is a member of the Bar Association of Sri Lanka, the International Bar Association, the International Trademark Association, the Asian Patent Attorneys Association and the International Association of Outsourcing Professionals, and was named a "leading individual" in Sri Lankan IP law by the *Legal 500*. Mr Perera specialises in administrative and IP law, with a focus on brand protection and anti-counterfeiting work. He currently serves on the board of investment firm Investec Capital.

Aromi Silva
Senior Associate
aromi@sudathpereraassociates.com
Sudath Perera Associates
Sri Lanka

Aromi Silva is a member of the firm's anti-counterfeiting and brand protection team. As well as advising local and foreign clients on strategies to protect IP rights, her other areas of practice include civil litigation of corporate law, tax law, money recovery and criminal litigation of IP law and consumer protection law. Ms Silva is a member of the Bar Association of Sri Lanka and was the convener of the BASL ICT Law Committee in 2008/2009 and 2009/2010.