

Developing an effective international anti-counterfeiting strategy

Anti-counterfeiting efforts can be successfully continued in a time of financial crisis by following a simple three-point plan: identify priorities, set a reasonable budget and stick to it

By **Massimo Introvigne**, Jacobacci & Partners Spa

Anti-counterfeiting is no longer what it used to be. Due to the international financial crisis, most companies and firms are struggling with reduced budgets. Some companies have slashed their anti-counterfeiting budget to a minimum, viewing the corresponding costs as non-essential. In large companies, many in-house lawyers who head IP departments are complaining that their resources are being cut by financial officers who do not necessarily understand what anti-counterfeiting is all about. Surveys carried out in Europe, North America and Japan show that IP budgets between 2008 and 2009 have been reduced by between 25% and 40% in most companies. Since large corporations are reluctant to drop new patent applications or even to reduce their trademark portfolios, the cuts are usually concentrated in the field of anti-counterfeiting.

And these cuts are not only monetary. Companies affected by the financial crisis have developed a number of strategies to reduce anti-counterfeiting costs. The bad news is that some of these do not work. Strategies best avoided include the following:

- Shopping for less expensive law firms. This may well work in other fields, but anti-counterfeiting is a question of

quality. There is also the risk of being seduced by attractive proposals with little substance. Typically, during an economic crisis companies are targeted by law firms which offer substantial discounts and claim to be able to achieve results on a very reduced budget. In the anti-counterfeiting field, this is rarely a realistic possibility. A reduced budget means either reduced services or poor quality. It is often preferable not to start an anti-counterfeiting campaign at all than to conduct it with poorly trained lawyers and with a budget so small that good results are unlikely to follow. Some infringers have premium lawyers and are prepared to spend good money in order to protect their (illegal) business. Losing a case due to a failure to devote the necessary resources may be catastrophic and may set a dangerous precedent for future cases. It is much better to avoid starting the case altogether.

Additionally, many companies initially attracted by the idea of switching to less expensive lawyers subsequently complain about the hidden costs involved. New lawyers may be unfamiliar with the fine art of anti-counterfeiting, and to some extent each brand or company represents a special case. A new set of lawyers may have to reinvent the wheel — and charge for the time spent in the process.

- Shopping for smaller law firms. In the challenging anti-counterfeiting field, small is not necessarily beautiful. Managing an anti-counterfeiting programme in a large country such as China or Mexico, let alone coordinating a programme on a worldwide scale, demands considerable resources. Small law firms confronted with problems too

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big for them to handle are not necessarily less expensive in the long run. The best solution may be a small group in a big firm – that is, a small group of attorneys, with limited turnover, fully conversant with the client’s problems and assisted by the resources of a larger firm.

- Taking more work in-house. Although in-house personnel often have well-honed anti-counterfeiting skills, a sudden increase in their workload due to the financial crisis is basically a mistake. Very few companies are hiring. If the idea is to cut the budget by redirecting work from outside law firms to in-house resources, this may only mean that existing resources have to handle more cases. This may well prove impossible, with a negative impact on the quality and speed of reactions to counterfeiting. And in anti-counterfeiting matters, time is always crucial.

What may work?

There are several strategies for continuing a meaningful anti-counterfeiting programme during a severe economic crisis. Some are creative, such as the idea of organising a “virtual law firm” with experienced (but comparatively less expensive) attorneys who have just retired, but are still interested in doing some work from home. Some US companies have taken the initiative of organising such virtual law firms with retired personnel both from their own company and from the law firms they regularly use, all specialised in the anti-counterfeiting field. It is unclear how much can be saved and how expensive it is to keep such a “firm” well organised and working smoothly.

Other suggestions, while less creative, have a similar (or better) chance of working.

Here are some, presented in the form of practical advice:

- Availing of alternative dispute resolution proceedings when you are confronted with somebody who is not a professional infringer and may even be acting in good faith. These cases may end up being very expensive, consuming a good part of your budget, but at any rate being settled sooner or later. Better sooner, using professional help or alternative dispute resolution proceedings, which may save a significant amount of money.
- Cutting unnecessary costs. You may save by reducing the amount of paper and reports, while maintaining the same quality of work. Once an anti-counterfeiting campaign has been concluded, you may ask yourself how much paper you really need in order to document it. Perhaps the lawyers may be persuaded to send you the raw materials so you can develop your own reports. In this way, neither the activity nor the amount of information you receive is altered; only the paper generated (and billed) by outside counsel.
- Having a budget specialist in your IP team, focused on controlling budgets and costs (this is feasible only for large IP departments).
- Insisting that your main law firm(s) include(s) a budget specialist in the team of lawyers working for you, whose function is to check how much your anti-counterfeiting campaign will cost, compare actual costs with the budget and report to you. Ideally, this specialist should be a skilled associate rather than a partner (who would charge too much).
- Treating your budget seriously.
- Prioritising.

The final two points above in particular merit closer attention.

Budgeting

Taking your budget seriously is the key to remaining as active as usual in the anti-counterfeiting game while controlling your costs. You should discuss with your financial officers how much you will be allowed to spend on anti-counterfeiting in a given fiscal year. The chances are that you will find the final figure too low, while the financial officers will find it too high. The discussion should take place before any figure is named. Once you have agreed on a figure, both you and the finance department should stick to it, no matter what. In the absence of events so catastrophic and rare that the attention of the board of directors is caught, which would allow the budget to be revised, you should assume that the yearly budget will not change. This may seem quite simple, but it is not. Usually whenever and wherever counterfeiting is serious, you are contacted by branch managers, licensees or related companies in faraway countries insisting that you take immediate and strong action. Sometimes these requests are reasonable – but not always. Every local manager understandably regards infringement in his or her area as a disaster. When you operate on a strict budget, you should assess whether this is in fact the case, based on the overall international picture. Sales in the country concerned are a factor, but you should also consider whether counterfeiting may dilute the trademark and whether infringers in the area, if left unchecked, have a known tendency to expand their activities both in their country and internationally. Once you have assessed the cost-benefit ratio and decided how much you want to spend, you should be firm in maintaining your decision and resist protests from the local area manager or licensee. This may be difficult and may not improve your relationship with the area manager. But it is very important in order to stay within budget. Note also that the most important countries in your list should have a budget. Even if you have decided that a certain country is your top anti-counterfeiting priority, you should nonetheless fix a budget for that country and resist the temptation to spend more.

Prioritising

Programming, rather than reacting to reports of infringement on a case-by-case basis, is the best strategy. If you are in a

field plagued by counterfeiting, such as fashion, entertainment or consumer electronics, chances are that your budget will not allow you to move against every single infringer that you become aware of. You should decide beforehand what your priorities will be in the year and dismiss anything else that comes to your attention. Every company and trademark has a different set of priorities. However, it is a fact of life that a good deal of the world's counterfeiting either takes place in or comes from China. Even though you may not sell in China, China nonetheless exports to and sells in your country. As a consequence, you should devote an adequate part of your budget to China.

But this is not enough: how you spend your money in China is even more important. I favour anti-counterfeiting strategies based on lump-sum agreements, whereby you pay a local law firm a fixed sum and define a number of raids and other actions against infringers that you plan to take during the year. These actions should be connected to a programme indicating, for example, the number of pieces detected in a preliminary sighting by detectives which will justify action. If, based on the programme, the Chinese law firm intervenes in a significantly lower number of cases than you expected, you should get a refund. But what if there are more cases than expected? This should not happen or your budget will be blown. If you have too many cases in the first months of the year, you should simply re-adjust the programme. Remember, you will be unable to go after all infringers that you hear of (unless you have an unlimited budget). Most companies switching from case-by-case billing to lump-sum agreements normally report that they have cut their costs in China without seizing a lower quantity of infringing products. Some are unhappy about the results; but they should probably consider changing their Chinese lawyers. Lump-sum agreements are based on a strong relationship of trust between clients and lawyers.

It is also important to note that the number of seizures or pieces seized is not the only measure of success in China. "Cleaning" tourist areas in the main cities, and identifying manufacturers and exporters, are equally important and cannot be measured in purely quantitative terms. Once you have a system you are happy with in China, you may want to export it to other regions. Again, these will vary from company to company, but Latin America and Mediterranean Europe

(particularly Italy and Spain) follow immediately after China in terms of counterfeiting problems. Within Latin America, for most brands the largest part of the budget should probably be spent in Mexico and Brazil. But also beware of Ecuador, which is fast becoming a gateway to the whole of Latin America for infringing goods manufactured in China. In addition, fighting infringement in your domestic market is always a priority.

Budgeting in countries other than China should not be too difficult, but you may discover that lump-sum agreements (which most Chinese firms now accept) are less popular in Latin America and Europe. However, there are alternatives. Strict

monthly controls on spending may be an adequate substitute for a lump-sum agreement if you are firm in your decision to stop pursuing infringers (in the absence of exceptional circumstances, of course) when a given country's budget limit has been reached.

Conclusion

There are three integral points to remember when fighting counterfeiting in a time of financial crisis: define your priorities, establish a reasonable budget and stick to it. While tools such as lump-sum agreements and less complicated and cheaper ways of preparing reports are useful, a coherent strategy will always come first. **iam**



A law and philosophy graduate, Massimo Introvigne joined Jacobacci & Partners, where he is now a partner, in 1990. He is a registered Italian patent and trademark agent, a professional representative before OHIM and an active panellist for domain name dispute resolutions with WIPO in Geneva. A part-time lecturer in sociology with the European University of Rome and a frequent guest lecturer at other universities, he has authored more than 40 books and 100 articles on his fields of interest.

Massimo Introvigne
Partner
mintrovigne@jacobacci-law.com
+39 011 2440311

Jacobacci & Partners Spa
Italy
www.jacobacci.com