

**OFFICE OF THE ASSOCIATE
MINISTER OF COMMERCE**

The Chair
CABINET ECONOMIC DEVELOPMENT COMMITTEE

**CRIMINAL REGIME AGAINST COUNTERFEITED GOODS AND PIRATED WORKS -
ENFORCEMENT ISSUES**

PROPOSAL

- 1 This paper seeks Cabinet agreement to amend the Trade Marks Act 2002 and Copyright Act 1994 to give the Ministry of Economic Development's *National Enforcement Unit* the powers necessary to enforce the criminal offences provided for under these Acts for manufacturing, importing and selling counterfeited goods and pirated works.

EXECUTIVE SUMMARY

- 2 There is a growing problem around the world relating to the manufacture, distribution and sale of counterfeited goods and pirated works ("counterfeits"). New Zealand is experiencing a similar steady growth in the sale of counterfeits; most being sourced from overseas.
- 3 The illegitimate sale of counterfeits deprives legitimate trade mark owners and copyright holders ("right holders") of potential income and can lead to an entrenchment in society of the acceptance and consumption of counterfeits, which is likely to result in health and safety risks, a disregard for the law and have a wider negative economic impact.
- 4 Consistent with our international obligations under Article 61 of the World Trade Organization (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights ("the TRIPS Agreement), both the Trade Marks Act 2002 and Copyright Act 1994 include criminal offences for cases of wilful counterfeiting or piracy on a commercial scale. Penalties for a person convicted of manufacturing, importing and/or selling counterfeited goods consist of fines of up to \$150,000 or imprisonment for a term not exceeding five years. The New Zealand Police ("Police") are considered to be the only government agency with the necessary investigative and prosecutorial powers to undertake enforcement of the criminal offences. The Police, however, are often required to give such prosecutions a low emphasis because of other competing priorities.
- 5 On 28 August 2006 Cabinet agreed in principle that the *National Enforcement Unit* ("NEU"), a business unit of the Ministry of Economic Development, should be responsible for the prosecution of these criminal offences, subject to consultation and establishing the feasibility of such a role for the NEU, and directed officials to report back to the Cabinet Economic Development Committee by 30 November 2006 [CAB Min (06) 32/12 refers]. The NEU

currently investigates and, where appropriate, prosecutes offences under a number of Acts that are the responsibility of the Ministry of Economic Development.

- 6 This paper proposes that the both the Trade Marks and Copyright Acts be amended to provide the NEU with suitable investigation and prosecutorial powers that would enable it to enforce the criminal offences contained in those Acts.
- 7 It is estimated that the total cost to the NEU for enforcement during year one will be \$664,050 and increasing by year three and outyears to \$964,465. Options for funding the NEU, including the option of third party funding, will be examined as part of the 2007 Budget process. Regardless of the outcome of that process, it is important to make the legislative changes now while there is a legislative vehicle available. Enforcement activity could be picked up in the future years if funding is not obtained for 07/08.

BACKGROUND

- 8 There is a growing problem around the world related to the trade in counterfeit products. For example, the World Customs Organization estimates counterfeiting and piracy accounts for five to seven percent of global merchandise trade, estimated to be equivalent to lost sales of as much as US\$512 billion per annum. The World Health Organization estimates that up to ten percent of medicines sold worldwide are counterfeit¹.
- 9 The types of goods commonly targeted by counterfeiters are luxury items because their retail price greatly exceeds their costs to manufacture and distribute. Typical counterfeits are therefore fashion clothing, footwear and accessories like perfume, sunglasses, handbags, watches, caps and jewellery. New technologies have facilitated the copying, distribution and sale of pirated movies, music and software. Many other types of goods are also being counterfeited, such as auto parts, motorcycles, cigarettes, medicines, sports equipment, toys, and even foodstuffs.
- 10 There is a growing body of evidence that these types of counterfeits can pose serious health and safety risks through the use of inferior quality ingredients (and sometimes poisonous ingredients), materials and manufacturing processes. There is also some evidence that counterfeits provide a ready a source of income for terrorist organisations² and organised crime as trading in counterfeits is increasingly viewed as a more viable and safer source of cash, compared to other unlawful activities, such as trading in illicit drugs.
- 11 Trade mark owners and copyright holders (“right holders”) are reporting strong growth in the sale of counterfeits in New Zealand. This growth is reflected in New Zealand Customs Service (“Customs”) statistics concerning the volumes of counterfeits being encountered at the border. For example, the volume of goods Customs has detained under the border protection measures prescribed in the

¹ BusinessWeek, 7 February 2005.

² Al Qaeda manual on raising fast cash.

Trade Marks and Copyright Acts³ have risen by over 400 percent since July 2000. During the last financial year Customs detained over 260,000 suspected counterfeit items, an increase of over 70,000 items compared to the previous period. Since Customs cannot inspect every shipment of goods entering New Zealand⁴, the true volume of counterfeits being imported is likely to be substantially higher than these statistics suggest.

- 12 Aside from isolated incidents, New Zealand does not yet appear to face problems associated with counterfeits, such as medicines, foodstuffs and auto and machinery parts, that pose a risk to public health and safety. It is likely, however, that as more counterfeits find their way into the New Zealand market, the risk to public health and safety will increase.

Civil remedies

- 13 The Trade Marks and Copyright Acts provide a civil remedies regime through which right holders may undertake civil enforcement to prevent further manufacture, importation, or sale of counterfeits. The court may grant relief in the form of an injunction, damages, and an account of profits.
- 14 Right holders can also enforce their trade marks and copyright rights under the common law tort of passing off and under the Fair Trading Act 1986 to address the sale of counterfeits in New Zealand. The court may grant relief in the form of an injunction, damages, and an account of profits.
- 15 Both the Trade Marks and Copyright Acts provide for a border protection regime against the importation of counterfeits, whereby a right holder may lodge a notice with Customs. Thereafter, the Customs is obliged to identify and detain any suspected counterfeits covered by these notices that are encountered at the border for a limited period to enable the right holder to initiate civil action against the importer.
- 16 In keeping with international practice, right holders are responsible for taking civil enforcement action. There are a range of issues that often make it impractical or uneconomic for right holders to take effective action against the sale of counterfeits, including:
- the cost of private legal action often renders this enforcement mechanism uneconomical;

³ A right holder may give notice to the New Zealand Customs Service to request the detention of any infringing goods that come into the control of Customs. Customs will notify the right holder of any such goods it detains under the notice. Right holders then have ten working days to take infringement action against the importer. If the right holder does not take action or the goods are not relinquished by the importer to Crown, Customs must release the goods to the importer.

⁴ Customs makes use of intelligence and risk assessment information to target particular shipment for inspection.

- tactics employed by offenders and their itinerant nature can make civil enforcement by an individual right holder difficult;
- right holders do not normally pool their intelligence and resources to pursue civil enforcement against repeat offenders;
- the majority of importers forfeit counterfeit products that are discovered and detained by Customs, reducing any incentive for legal action by right holders as the counterfeits are removed from the market at no cost to the right holders;
- repeat offenders regard the cost of civil penalties, such as the forfeiture of goods, as being merely a cost of doing business; and
- offenders can structure their businesses so as to avoid being able to pay civil costs and penalties, even if they are imposed. For example, the use of structures such as limited liability companies is common in order to avoid civil costs such as court orders to pay damages or an account of profits to right holders.

17 In short, the private civil enforcement efforts are not providing an effective deterrent to serious and repeat offenders.

Criminal offences

- 18 Consistent with our international obligations under Article 61 of the WTO TRIPS Agreement, both the Trade Marks and Copyright Acts include criminal offences for cases of wilful counterfeiting or piracy on a commercial scale. Penalties for a person convicted of manufacturing, importing and/or selling counterfeited goods consist of fines of up to \$150,000 dollars or imprisonment for a term not exceeding 5 years. The courts may also issue orders for the seizure, forfeiture and destruction of any infringing goods and of any materials and implements used in the commission of the offence.
- 19 Criminal penalties are also provided for under the Fair Trading Act 1986 (the "Fair Trading Act") for breaches of its provisions. The Fair Trading Act provides that the Commerce Commissioner is responsible for prosecutions of criminal offences under that Act and provides the Commerce Commission with investigative and prosecution powers.
- 20 The Police are considered to be the only government agency to possess necessary powers to undertake prosecution of the criminal offences provided for under the Trade Marks and Copyright Acts. Limitations on their resources, however, means prosecutions for the sale of counterfeits must be given a low priority. This in turn has led to the infrequent and ad hoc prosecutions under the criminal offences in the Trade Marks and Copyright Acts and, therefore, the criminal offences are not having the deterrent effect originally intended by government and the TRIPS Agreement.

Other government enforcement activity

- 21 While the Commerce Commission has previously followed up on complaints about the sale of counterfeits and taken action under the misleading and deceptive conduct and false representations provisions of the Fair Trading Act, such action is rare when considered in the context of the Commission's overall enforcement activities. Before the Commission takes action under the Fair Trading Act it needs to be satisfied that it will be acting in the wider public interest, rather than just in the interests of the right holder. The Commerce Commission therefore has a standard set of criteria to assess every complaint against before determining whether it will investigate the complaint.
- 22 The Censorship Compliance Unit of the Department of Internal Affairs ("DIA") plays a significant role seizing and destroying pirated movies under the Films, Videos, and Publications Classification Act 1993. All films and restricted computer games supplied to the public must have an official censorship label issued by the Film Labelling Body or the Office of Film and Literature Classification. One of the functions of the Censorship Compliance Unit is to ensure that the decisions of the Office of Film and Literature Classification are adhered to by the film and video industry and the computer gaming industry, and retail outlets. Pirated movies and restricted computer games offered for sale either without official censorship labels or with counterfeit censorship labels in breach of the Films, Videos, and Publications Classification Act 1993 can be seized by the Censorship Compliance Unit. The Censorship Compliance Unit, however, may not seize pirated movies and restricted computer games if they are supplied to the public with official censorship labels.
- 23 As noted previously, Customs administers the border protection measures under the Trade Marks and Copyright Acts within the extent of their powers, but is not considered to have any power to prosecute.
- 24 Other laws related to the importation, manufacture and sale of foodstuffs, cosmetics and pharmaceutical goods can sometimes be used by other government agencies to address the sale of these types of counterfeits.
- 25 The sale of counterfeited rugby merchandise is of concern to the New Zealand Rugby Union, especially in relation to the hosting of the Rugby World Cup in 2011. This issue was briefly discussed in the Cabinet paper *Major Events Management: Ambush Marketing and Other Related Issues*. In that paper Cabinet agreed in principle for the Ministry of Economic Development's *National Enforcement Unit* (the "NEU") to be responsible for the enforcement of the criminal offences under the Trade Marks and Copyright Acts against the manufacture, importation and sale of counterfeits, subject to consultation and establishing the feasibility of such a role for the NEU. Cabinet directed officials to report back to Cabinet's Economic Development Committee by 30 November 2006 (CAB Min (06) 32/12 refers).
- 26 This paper therefore reports back on the feasibility of the NEU playing a role in the enforcement of the criminal provisions under the Trade Marks and Copyright Acts.

COMMENT**Impact of no enforcement action**

- 27 The absence of prosecutions under the criminal offence provisions of the Trade Marks and Copyright Acts may be a factor leading to the increase in volume of counterfeits being sold in New Zealand.
- 28 The impact of counterfeiting goes beyond being merely a problem for rights holders, as greater volumes of counterfeits being offered for sale can lead to an entrenchment in society of the acceptance and consumption of counterfeits, which is likely to result in health and safety risks, a disregard for the law and have a wider negative economic impact.
- 29 Increasing international concern and attention is being focused on preventing the growth in trade in counterfeits within different international fora, such as the Group of Eight, WTO, APEC, World Customs Organisation and World Intellectual Property Organization. Particular attention is being paid to the ineffectiveness of enforcement efforts in some countries, such as China. This in turn is translating into political pressure for countries to take action. For example, it appears that the US is considering initiating a WTO dispute settlement with China over its ineffective enforcement. As these tensions assume a greater profile, it is in our best interests to seek tailored solutions to combating the sale and consumption of counterfeits in New Zealand before the international community seeks to impose its solutions upon us.

Improving enforcement of criminal offences

- 30 The NEU is a business unit of the Ministry of Economic Development. It investigates and, where appropriate, prosecutes offences under a number of Acts⁵ on behalf of the Official Assignee, the Registrar of Companies and the Registrar of Motor Vehicle Traders. The NEU also prepares banned director reports on behalf of the Registrar of Companies.
- 31 The NEU appears to be the most appropriate unit to enforce the criminal offences in the Trade Marks and Copyright Acts. These Acts are the primary responsibility of the Ministry of Economic Development and the NEU is a unit established within this department. The NEU has a wide range of experience investigating and prosecuting various forms of regulatory crime. Furthermore, the NEU also has established links with other government agencies with existing roles enforcing legislation against the manufacture, importation and sale of counterfeits.

⁵ Insolvency Act 1967, Companies Act 1993, Securities Act 1978, Securities Act (Contributory Mortgage Regulations) 1988, Financial Reporting Act 1993, Crimes Act 1961, Superannuation Schemes Act 1989, Electricity Act 1992, Motor Vehicle Sales Act 2003, Radio Communications Act 1989.

- 32 The nature and extent of enforcement activity undertaken by the NEU will ultimately depend on funding for that activity. However, I would expect the NEU to take a strategic approach to any enforcement of the criminal offences under the Trade Marks and Copyright Acts. Rather than attempting to enforce all possible offences, I would prefer the NEU to target its efforts on high-level and high-profile offending. In doing so the NEU could co-ordinate and cooperate with the activities of other government agencies (such as Police, Customs, Commerce Commission and DIA) and right holders.
- 33 The role to be undertaken by the NEU would therefore complement the existing efforts of other government agencies to combat the sale of counterfeits, rather than negate the need for them to continue to have a role.
- 34 Furthermore, criminal enforcement by the NEU would also not be a substitute for civil enforcement by right holders. Since right holders would be the primary beneficiaries of any criminal enforcement activity by the NEU, a key consideration for determining whether the NEU acted on a complaint from a right holder could be the extent to which a right holder has previously taken, or is willing to take, civil enforcement.

Investigative powers

- 35 In order to carry out investigations and bring prosecutions for criminal offending under both the Trade Marks Copyright Acts, I recommend that both the Trade Marks and Copyright Acts be amended to provide the NEU with suitable investigative and prosecutorial powers to enforce the criminal offences in both Acts. These powers should include the ability to apply for, be granted and execute search warrants; and the ability to require other relevant agencies, such as New Zealand Customs and New Zealand Police, to provide information to assist in identifying persons involved in the commission of a criminal offence.
- 36 There are, however, a range of circumstances where applying for and executing a search warrant would be impractical, because of the transient and itinerant nature of offenders and the nature of some counterfeits that can pose a public health and safety risk. These offenders usually trade “out of the back of a vehicle” and at locations within public areas. For example, it is common for offenders to set up a temporary stand or stall inside, outside or near a major event venue; tourist attraction; transport hub; market or fair; or on the footpath within the central business district of a town or city.
- 37 In order to address this type of offending, I propose that the NEU be given some limited powers to undertake search and seizure of counterfeits without a search warrant for the purposes of preventing the offender from continuing to trade in counterfeits and in order to bring a criminal prosecution against the offender. In this respect, I propose that entry to a place (other than a private residence) where goods are being offered for sale or publicly displayed without a search warrant would be possible but limited to when the:

- occupier of the place consents to entry;
 - place is in a public area and the entry is made when it is open to the public;
or
 - place is a place of business and the entry is made when it is open for carrying on business and the enforcement officer enters only the parts of the place that are open to the public.
- 38 The enforcement officer would have the power to seize property, including documents, without a search warrant where the enforcement officer has reasonable grounds to believe it breaches, or is being used, or is evidence of a breach either the Trade Marks Act or the Copyright Act. Seized property would be held by the NEU for use as evidence in a criminal prosecution. Property that is seized and not used as evidence would be returned to the person from whom it was taken.
- 39 Before the enforcement officer exercised these limited powers, he or she would be required to show an appropriate identity card or warrant of appointment to any person who may be interested in, or affected by, the exercise of those powers and take all steps that are practical in the circumstances to ensure that as little damage as possible is caused. During the exercising of these limited powers, the enforcement officer would not be authorised to search any person or enter any place, except as described above in paragraph 38.
- 40 The Trade Marks and Copyright Acts would also need to identify a statutory officer who would hold these powers and then delegate them to the NEU. I propose therefore that the enforcement powers would be conferred on the Chief Executive of the Ministry of Economic Development, or his delegates.
- 41 Very similar non-search warranted powers are proposed for enforcement officers under the draft Major Events Management Bill. It is envisaged that this legislation would provide a useful model for amendments to the Trade Marks and Copyright Acts. Furthermore, it appears highly likely that the NEU will be responsible for enforcement under the Major Events Management Bill. Because traders in counterfeits are attracted to major events, it is appropriate that the investigative and prosecutorial power for the NEU under the Trade Marks and Copyright Acts should be consistent with those under the Major Events Management Bill.

New Zealand Customs Service

- 42 Customs administers the border protection measures provided in the Trade Marks and Copyright Acts. While Customs is required to detain suspected infringing goods in respect of all border protection notices lodged by right holders, it is considered outside Customs' power to prosecute importers. The onus of legal action falls on the right holder.

- 43 Customs is faced with increasing volumes of infringing goods each year and, as noted above, has detained over 260,000 items in 2005/06. This places a significant workload on Customs and without a greater deterrent from prosecution this trend is expected to continue. It is expected that a specific enforcement agency with a strategic overview would have a significant impact on the long term trend of increasing volumes of infringing goods being imported into New Zealand.
- 44 Customs is considering options to assist with the enforcement of the Trade Marks and Copyright Acts at the border, including a review of the existing border protection measures and an expansion to the existing powers available to it under the border protection measures. Customs and Ministry of Economic Development will work closely together in developing any further initiatives, as the agencies believe complementary efforts are necessary to effectively address the problem of counterfeits being imported into New Zealand over the short term.

CONSULTATION

- 45 In developing this proposal the Ministry of Economic Development has consulted with following government departments and agencies: the Treasury; the New Zealand Customs Service; the Ministry of Justice; the Department of Internal Affairs, the New Zealand Police, the Ministry of Consumer Affairs; the Commerce Commission, the Ministry for Culture and Heritage; Te Puni Kokiri; and the Ministry of Foreign Affairs and Trade. The Department of the Prime Minister and Cabinet has been informed.
- 46 The Minister of Commerce agrees to the submission of this paper.

FISCAL IMPLICATIONS

- 47 Agreement to the proposals in this paper for legislative change to enable the NEU to take enforcement action under the Trade Marks and Copyright Acts does not require the government to fund enforcement activity.
- 48 It is, however, anticipated that in order to implement the enforcement strategy identified in paragraph 32, the NEU would need to employ extra investigators and cover investigation expenses such as cost of storage of evidence, hiring an interpreter where necessary and the use of forensic specialists where necessary (such as to obtain evidence from computer hard drives).
- 49 It is estimated that the total cost to the NEU for enforcement during year one will be \$664,050 (based on a team of one team leader and two investigators). It is anticipated that the investigative team would increase in size with the addition of an extra investigator in year two, increasing the cost to \$840,263. Another two investigators in year three and outyears would increase the costs to \$964,465.
- 50 Options for funding the NEU, including the option of third party funding, will be examined as part of the 2007 Budget process. Regardless of the outcome of that process, I consider that it is important to make the legislative changes now while there is a legislative vehicle available. Enforcement activity could be picked up in the future years if funding is not obtained for 07/08.

HUMAN RIGHTS

- 51 Some of the proposals set out in this paper could infringe upon section 21 (security against unreasonable search and seizure) of the New Zealand Bill of Rights Act 1990. In particular, search and seizure powers without a warrant could be considered unreasonable unless there are strong grounds for creating such a power. A final view as to whether the proposals comply with the Bill of Rights Act will be possible once the legislation has been drafted, and justificatory material is provided and considered. Officials from the Ministry of Justice and the Ministry of Economic Development will work together on this issue to ensure consistency with the Bill of Rights.

LEGISLATIVE IMPLICATIONS

- 52 The Government has categorised a proposed Trade Marks (International Treaties) Amendment Bill as category 5 (drafting instructions to be given to Parliamentary Counsel Office in 2006) on the legislative programme [CAB Min (06) 6/1A refers].
- 53 It is now anticipated that the trade marks treaties legislation will be ready for introduction in the first quarter of 2007. I propose to seek a priority in the 2007 legislative programme for a Bill that would include both the trade marks treaties changes and the changes needed to both the Trade Marks Act 2002 and Copyright Act 1994 in order for the NEU to play the enforcement role outlined in this paper.

REGULATORY IMPACT AND COMPLIANCE COST STATEMENT

- 54 A Regulatory Impact Statement ("RIS") has been attached in accordance with Cabinet Office requirements. There are unlikely to be any material changes in any business compliance costs arising from proposals in this paper.

PUBLICITY

- 55 Should Cabinet approve these proposals, I will issue a media statement announcing the role of the National Enforcement Unit in intellectual property enforcement. This Cabinet paper is to be published on the Ministry of Economic Development website, subject to any necessary deletions justified in accordance with the Official Information Act 1982.

RECOMMENDATIONS

- 56 It is recommended that the Committee
- 1 **Note** that there is a growing problem around the world related to the manufacture, distribution and sale of counterfeits and that New Zealand is experiencing a similar steady growth in the sale of counterfeits;
 - 2 **Note** that greater volumes of counterfeits being offered for sale can lead to an entrenchment in society of the acceptance and consumption of counterfeits, which is likely to lead to health and safety risks and a wider negative economic impact;

- 3 **Note** that the Trade Marks Act 2002 and Copyright Act 1994 provide criminal offences against the manufacture, importation and sale of counterfeited goods and pirated works, but there is infrequent and ad hoc prosecution of these offences by any government agency;
- 4 **Note** that on 28 August 2006 Cabinet agreed in principle for the Ministry of Economic Development's *National Enforcement Unit* to be responsible for the enforcement of the criminal offences under the Trade Marks Act 2002 and Copyright Act 1995 against the manufacture, importation and sale of counterfeits, subject to consultation and establishing the feasibility of such a role for the NEU, and directed officials to report back to Cabinet's Economic Development Committee by 30 November 2006 [CAB Min (06) 32/12 refers];
- 5 **Agree** to amend to the Trade Marks Act 2002 and the Copyright Act 1994 to provide the Chief Executive of the Ministry of Economic Development or his or her delegate with the investigative and prosecution powers enable the NEU to:
 - 5.1 share information and co-ordinate with other government agencies, such as New Zealand Customs Service and New Zealand Police, to identify offenders;
 - 5.2 apply for, be granted and execute search warrants to search for and seize evidence for prosecutions; and
 - 5.3 undertake searches of any place (other than a private residence) without a warrant in limited circumstances set out in paragraph 37 of this paper, where obtaining a warrant would be impractical in the circumstances (for example because a transient person is found selling counterfeits at a market or from the back of a vehicle); and
 - 5.4 seize property, during a search conducted without a warrant, where the enforcement officer has reasonable grounds to believe that it breaches, or is being used or is evidence of a breach of the criminal offences of the Trade Marks Act or Copyright and to use such property as evidence in a criminal prosecution;
- 6 **Invite** the Associate Minister of Commerce to issue instructions to the Chief Parliamentary Counsel to give effect to the amendments recommended to the Trade Marks Act 2002 and the Copyright Act 1994;
- 7 **Note** that agreement to the proposals in this paper for legislative change to the Trade Marks and Copyright Acts does not require the government to fund enforcement activity, but in order to implement the enforcement strategy outlined in this paper, the National Enforcement Unit would need to employ extra investigators and cover investigation expenses;

- 8 **Note** that it is estimated that the total cost to the National Enforcement Unit for enforcement during year one will be \$664,050, increasing to \$840,263 in year two and to \$964,465 in year three and outyears, and any proposal for funding will be forwarded for consideration in the Budget 2007 where it will be considered alongside all other priorities;
- 9 **Note** that if funding is not received as part of Budget 2007, enforcement activity could be picked up beyond 2007/08 subject to receiving funding in future budgets (or from internal savings);
- 10 **Direct** officials to investigate the option of third party funding as part of any budget initiatives; and
- 11 **Note** that this Cabinet paper is to be published on the Ministry of Economic Development website, subject to any necessary deletions justified in accordance with the Official Information Act 1982.

Hon Judith Tizard
Associate Minister of Commerce

APPENDIX A: REGULATORY IMPACT STATEMENT

STATEMENT OF THE NATURE AND MAGNITUDE OF THE PROBLEM AND THE NEED FOR GOVERNMENT ACTION

There is a growing problem around the world related to the manufacture, distribution and sale of counterfeited goods and pirated works (“counterfeits”). For example, the World Customs Organization estimates counterfeiting and piracy accounts for five to seven percent of global merchandise trade, estimated to be equivalent to lost sales of as much as US\$512 billion dollars. The World Health Organization estimates that up to ten percent of medicines sold worldwide are counterfeit.

Goods typically targeted by counterfeiters are those items sold at “premium” prices and well in excess of the cost to manufacture. Counterfeits can provide a ready source of income for terrorist organisations and organise crime. Typically fashion clothing, footwear, fashion accessories like perfume, sun glasses, hand bags, caps, watches and jewellery), movies, music and software are usually counterfeited. Many other types of goods, however, are also being counterfeited such as auto parts, motorcycles, cigarettes, cosmetics, medicines, sports equipment such as golf clubs, toys, and foodstuffs. Many of these items can pose serious health risks.

New Zealand is not immune to the problem of counterfeits, although New Zealand does not yet appear to face problems associated with counterfeits that pose a risk to public safety such as medicines, foodstuffs and auto and machinery parts. The New Zealand Customs Service (“Customs”) has reported that the volumes of counterfeited goods they have detained have risen by over 400 percent since July 2000 with over 260,000 items detained by them last year as suspected of being counterfeits. Since Customs works on an intelligence and risk assessment basis, and cannot inspect every shipment of goods entering New Zealand, the true volume of counterfeits will be substantially higher than detention statistics suggest.

The Trade Marks Acts 2002 and Copyright Act 1994 provide criminal offences against the manufacture, importation and sale of counterfeits to deter the trade in counterfeits. The Ministry of Economic Development (“MED”) has determined that the infrequent and ad hoc prosecutions by government agencies of these criminal offences is contributing to the growth of counterfeits being offered for sale in New Zealand. Greater volumes of counterfeits being offered for sale can lead to reduced profits by trade mark owners and copyright holders (“right holders”), an entrenchment in society of the acceptance and consumption of counterfeits, whilst ignoring the law, the potential health risks and the wider impacts on the economy as a whole.

STATEMENT OF THE PUBLIC POLICY OBJECTIVE(S)

The public policy objective is to reduce the trade in New Zealand of counterfeits and to deter people becoming involved in that trade through increased prosecution of the criminal offences provided under the Trade Marks and Copyright Acts by a government agency.

STATEMENT OF FEASIBLE OPTIONS (REGULATORY AND/OR NON-REGULATORY) THAT MAY CONSTITUTE VIABLE MEANS FOR ACHIEVING THE DESIRED OBJECTIVE(S)

Status Quo

Under the Trade Marks Act 2002 it is a criminal offence for a person who with the intention of obtaining a gain for himself or herself or any other person or of causing loss to any person to counterfeit a registered trade mark; to falsely apply a registered trade mark to goods or services; to make or oppose an object for making copies of a registered trade mark; or to import or sell goods with a falsely applied registered trade mark.

The Copyright Act 1994 provides that it is a criminal offence, other than under a copyright licence, to:

- make for sale or hire;
- import (other than for private and domestic use);
- possess in the course of business with a view to committing any act of infringing the copyright;
- In the course of business sell or let for hire, offer or expose for sale or hire, exhibit in public, or distribute otherwise than in the course of business to such an extent as to affect prejudicially the copyright owner;

an object that is, and the person knows is, an infringing copy of a copyright work.

It is also an offence to make an object specifically designed or adapted for making copies or a particular copyright work or to have such an object in that person's possession, knowing that the object is to be used to make infringing copies for sale or hire or for use in the course of business.

Both Acts provide that every person who commits such an offence is liable on summary conviction to a fine of up to \$150,000 or imprisonment for a term of up to 5 years. Neither Act, however, provides any government agency with any investigative and prosecution powers to facilitate enforcement of these criminal offences. The Police are considered to be the only government agency with the necessary investigative and prosecutorial powers to undertake enforcement action under the Trade Marks and Copyright Acts.

Lack of resources and expertise within the Police prevents them prioritising the enforcement of the criminal offences. The level of enforcement activity is not sufficient to achieve the policy objective.

Non-Regulatory Option(s)

Option 1 - Provide Police with additional resources.

Under this option Police would be allocated an additional \$664,050 of government funding to prioritise enforcement of the criminal offences under the Trade Marks and Copyright Acts.

This option was rejected because there was no guarantee that the additional resources provided would be used by Police to prioritise enforcement of the criminal offences under the Trade Marks and Copyright Acts over all other forms of criminal offending.

Option 2 – Made another government agency with funding for enforcement

Under this option another government agency with an existing enforcement role and experience, such as the Commerce Commission, Department of Internal Affairs, New Zealand Customs Service or the Ministry of Economic Development's National Enforcement Unit (the "NEU") would be made responsible for enforcement action under the Trade Marks and Copyright Acts and provided an additional \$664,050 of government funding for such enforcement activity.

This option was rejected because none of these other government agencies have available to them any investigative and prosecutorial powers to undertake any enforcement of the criminal offences under the Copyright and Trade Marks Acts. Enforcement action would still be dependent on the availability of Police resources to, for example, obtain and execute search warrants to obtain evidence for a prosecution.

Regulatory Option(s)

Option 3 – Provide another government agency with investigative and prosecutorial powers under the Trade Marks and Copyright Acts

Under this option the Trade Marks and Copyright Acts would be amended to give either the Commerce Commission, New Zealand Customs Service or Department of Internal Affairs with suitable investigative and prosecutorial powers to take enforcement action.

This option is not preferred. While these agencies have an indirect interest in preventing the trade in counterfeits under other legislation, making any one of them responsible under the Trade Marks and Copyright Acts would not be a good fit to their existing activities and legislative responsibilities. For example, making Customs responsible for prosecutions would require expanding their role to post-border activities.

Option 4 (preferred option) – Provide the National Enforcement Unit of MED with additional resources and investigative and prosecution powers under the Trade Marks and Copyright Acts to enable the National Enforcement Unit to play a role enforcing the criminal offences

Under this option the National Enforcement Unit (the "NEU") would be provided with an additional \$664,050 in government funding and the Trade Marks and Copyright Acts would be amended to provide the NEU with the powers to:

- apply for, be granted and execute search warrants to:
 - enter and search a place;
 - use any assistance that is reasonable in the circumstances, including the use of right holders as technical experts;

- use any force for gaining entry and for breaking open any article or thing that is reasonable in the circumstances;
 - search for and remove documents, objects, articles or thing that the person executing the warrant believes on reasonable grounds may be relevant;
 - take copies of documents, or extracts from documents, that the person executing the warrant believes may be relevant::; and
 - require a person to reproduce, or assist any person executing the warrant to reproduce in usable form, information recorded or stored in a document or computer.
- use information from other government agencies, such as New Zealand Customs and New Zealand Police, to determining whether a person is complying, or has complied, with either Act and for detecting contraventions of either Act;
 - Undertake in limited circumstances non-search warranted search and seizures to:
 - Enter to a place where:
 - the occupier consents to entry;
 - the place is a public place; or
 - the place is a place of business and is open for carrying on business and the NEU officer only enters parts of the place that are open to the public; and
 - seized property and documents where the NEU officer has reasonable grounds to believe it breaches, is being used in breach, or is evidence of a breach of the either the Trade Marks Act or the Copyright Act for both evidential purposes and to deprive the person of property which is counterfeit in nature for use in a criminal prosecution.

Any person from whom any property has been seized without a search warrant would be able to apply to the District Court for an order directing that the property be returned to that person. The person applying for such an order would need to satisfy the court that there no grounds for the property to be continued to be held, such as that the seized goods where not counterfeits.

This option would not alter the responsibilities of other government agencies, such as Customs administration of the border protection measures under the Trade Marks and Copyright Acts or the Commerce Commissions responsibilities under the Fair Trading Act 1986, nor would it substitute or otherwise negate the responsibilities right holders have to take civil action to enforce their trade mark or copyright rights.

STATEMENT OF THE NET BENEFIT OF THE PROPOSAL, INCLUDING THE TOTAL REGULATORY COSTS (ADMINISTRATIVE, COMPLIANCE AND ECONOMIC COSTS) AND BENEFITS (INCLUDING NON-QUANTIFIABLE BENEFITS) OF THE PROPOSAL, AND OTHER FEASIBLE OPTIONS

Government

There are several reasons why the NEU is the preferred choice for making responsible enforcement. The Trade Marks and Copyright Acts are the primary responsibility of the Ministry of Economic Development and the NEU is an established enforcement unit with the Ministry with a wide range of experience investigating and prosecuting various forms of regulatory crime. Furthermore, the NEU also has established links with other government agencies that have existing roles enforcing legislation against various forms of regulatory crime.

Having the NEU play a role in enforcing the criminal offences would be expected to result in an increase in the number of prosecutions by the Crown of the criminal offences under the Trade Marks and Copyright Acts, particularly against repeat and serious offenders. This in turn is expected to lead to a reduction in the trade counterfeits in New Zealand. Other benefits likely are:

- enhancement the deterrent effect of the criminal offences under the Trade Marks and Copyright Acts and therefore deter future offending;
- assist the New Zealand Customs Services to maintain the efficiency and effectiveness of its administration of the border protection measures provided under the Trade Marks and Copyright Acts;
- Allow the New Zealand Police having greater freedom to concentrate its limited resources in other areas of criminal offending;
- reduce in the chance that acceptance and consumption of counterfeits would become entrenched in society;
- lower of the risk of counterfeits that pose a health risk being be sold in New Zealand;
- send a clear signal to the international community that New Zealand does not tolerate trade in counterfeits and, therefore, reduction in the risk that New Zealand would be targeted by terrorist groups and crime gangs as a market for counterfeits and a ready source of income for them; and
- ensure that the law is not brought into disrepute from an absence of enforcement action.

The proposed powers outlined in the preferred option are very similar to the powers to be prescribed to the NEU under the draft Major Events Management Bill. Since major sports events are a popular target for the sale of counterfeits, consistency in the investigative powers between the proposed Major Events Management Bill and the amendments proposed to the Trade Marks and Copyright Act would ensure that the

NEU would be able to simultaneously discharge its responsibilities under the three separate legislations in an efficient and effective manner.

There would be a cost to government of \$664,050 dollars to fund the NEU's proposed enforcement role during the first year of enforcement activity rising to \$964,465 for the third and outlying years

Industry

Right holders are likely to benefit in a number of ways from enforcement action by NEU. While these benefits cannot be quantified, enforcement action by the NEU, is expected to lead to a reduction in manufacture, importation and sale of counterfeits in New Zealand through a deterrent effect. A reduction in the sale of counterfeits is likely to result in increased sales for right holders and increase their profits from the New Zealand market. A reduction in sales of counterfeits is also likely to increase the reputation of the quality of right holders' goods, since right holders would not have to compete against poor quality "knock off" items being offered for sale. This in turn may also assist to increase sales for right holders.

This in turn is likely to reduce right holders' costs of doing business in New Zealand.

There will still be some unquantified costs to right holders arising from the need to support the NEU's enforcement activity arising from for example collecting and sharing intelligence with the NEU to identify offenders and providing expert evidence to support prosecutions. No business compliance costs, however, are anticipated to arise from this proposal.

Society

The proposal is likely to increased consumer confidence in the quality and source of goods they purchase. In addition, there is likely to be a reduction in the risk that consumers would be affected by counterfeits that pose a health and safety risk.

STATEMENT OF CONSULTATION UNDERTAKEN

The proposal to create a role for the NEU to provide enforcement for the criminal offences and to amend the Trade Marks and Copyright Act to facilitate investigations such has been discusses with a range of right holders, their legal representatives and retailing bodies such as the New Zealand Retailers Association Inc. and the New Zealand Sports Industry Association Inc., who have expressed a particular interest in combating the sale counterfeits. Stakeholders are broadly supportive of the proposal for NEU to play a role in the enforcement of the criminal offences under the Trade Marks and Copyright Acts and the proposed investigative and prosecutorial powers.

In developing this proposal the Ministry of Economic Development has consulted with the following government departments and agencies: the Treasury; the New Zealand Customs Service; the Ministry of Justice; the Department of Internal Affairs, the New Zealand Police, the Ministry of Consumer Affairs; the Commerce Commission, the Ministry for Culture and Heritage; Te Puni Kokiri; and the Ministry of Foreign Affairs and Trade. The Department of the Prime Minister and Cabinet has been informed.