

Office of the Minister of Customs

Office of the Minister of Commerce

Office of the Associate Minister of Commerce

Cabinet Economic Development Committee

CUSTOMS PROSECUTIONS RELATED TO IMPORTED COUNTERFEIT AND PIRATED GOODS

Proposal

1. This paper seeks approval for amendments to the Trade Marks Act 2002 and the Copyright Act 1994 to enable Customs to take prosecutions related to imported counterfeit and pirated goods.

Executive summary

2. New Zealand's system for protecting trade mark and copyright owners from the importation of counterfeit or pirated goods that infringe their rights is prescribed in the Trade Marks Act 2002 and the Copyright Act 1994. Acting under this legislation, the New Zealand Customs Service (Customs) is intercepting increasing volumes of imported counterfeit and pirated goods which is tying up a significant amount of Customs' resources. If well targeted prosecutions were taken against the importation of counterfeit and pirated goods, this would effectively increase the level of deterrence.
3. In August 2006 Cabinet agreed that the National Enforcement Unit (NEU) of the Ministry of Economic Development (MED) should be able to prosecute against all trade mark and copyright offences defined in the Trade Marks and Copyright Acts [CAB Min (06) 32/12]. This includes offences related to the importation of counterfeit and pirated goods. The Police is also able to take trade marks and copyright prosecutions, but rarely does so.
4. From government's perspective enabling Customs, in addition to the Police and the NEU, to take prosecutions related to imported counterfeit or pirated goods would be an efficient and effective use of available resources. In fulfilling its existing responsibilities, Customs is frequently in possession of information and evidence to take a prosecution. Enabling Customs to take prosecutions related to imported counterfeit and pirated goods would provide it with an additional tool to manage its existing trade mark and copyright responsibilities at the border. It is envisaged that these prosecutions would be funded from within Customs' existing baseline.
5. To enable Customs to undertake this role, it should have explicit powers to execute warranted searches, to retain certain goods and documents found during lawful inspections or searches, to copy information for use as exhibits, and by notice in writing to require information to be supplied and persons to be interviewed. Such

changes could be incorporated into the *Trade Marks (International Treaties and Enforcement) Amendment Bill* before its introduction.

6. Should Customs be given a mandate to take prosecutions related to imported counterfeit and pirated goods, it is intended that the respective roles of MED and Customs in trade mark and copyright enforcement would be clarified in a Memorandum of Understanding between the two agencies.

Background

Trade in counterfeit and pirated goods

7. International trade in counterfeit and pirated goods has grown significantly over recent years. The World Customs Organisation estimates that this trade accounts for between five and seven percent of all world trade. This issue is receiving increasing attention, with governments around the world considering new measures to tackle the issue¹.
8. New Zealand's border interceptions of counterfeit and pirated goods contribute to a global partnership aimed at reducing this trade. The quantity of counterfeit and pirated goods intercepted by Customs at the border has continued to increase. In 2005/06 some 260,000 items were detained by Customs, a forty percent increase on the previous year.
9. Almost all counterfeit and pirated goods in New Zealand come from overseas rather than being locally manufactured². Although various New Zealand government agencies have powers to tackle problems associated with counterfeit and pirated goods after they have been imported, it is undesirable to rely entirely on post-border measures.

Current New Zealand legislation and prosecution activity

10. Customs' current activities to reduce trade in counterfeit and pirated goods are based on measures prescribed in the Trade Marks Act 2002 and the Copyright Act 1994. This legislation is consistent with the internationally recognised *Agreement on Trade-related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods*. Under the Trade Marks and Copyright Acts, Customs' activities are predicated on rights owners lodging a notice requesting the detention of goods that appear to infringe their rights. Although rights owners can take civil prosecutions against importers of detained goods that appear to infringe their notice, they rarely do this. **Appendix 1** outlines the basic steps in this protection process.

¹ This is reflected in the fact that the World Customs Organisation chose *Counterfeiting and Piracy* as the theme for its 2007 International Customs Day. Another indication of the importance of the issue is that at the G8 Summit in June 2006 leaders affirmed their commitment to combating counterfeiting and piracy, and to working with the competent international organisations, including the World Customs Organisation. The European Union is currently implementing an Anti-Counterfeiting Customs Action Plan.

² The exception to this appears to be some screen printed T-shirts, and optical discs that are burnt in New Zealand.

11. Although Customs charges rights owners for some of its trade mark and copyright border activities, some costs associated with this activity are met by the Crown. While it would be possible to charge more costs back to rights owners, this would probably be seen as discouraging rights owners from lodging notices and therefore counter to the global partnership in reducing trade in counterfeit and pirated goods. These broader issues are due to be considered as part of a wider strategic review of trade mark and copyright enforcement.
12. The Police has the power to prosecute against the full range of trade mark and copyright criminal offences under the Trade Marks and Copyright Acts. However it rarely gets involved in such prosecutions. This is because it does not see this as high priority. The Police rarely receives complaints about the importation of counterfeit or pirated goods.
13. Under the Medicines Act 1981 the Ministry of Health can prosecute against counterfeit pharmaceuticals. The Commerce Commission can take prosecutions in cases where counterfeit goods breach the Fair Trading Act 1986.
14. Customs already has an ability to take prosecutions against a number of other types of imports, such as objectionable material and offensive weapons. Although it does not currently take prosecutions related to imported counterfeit or pirated goods, in many other countries Customs agencies have this power. For example Customs agencies in Japan, China (including Hong Kong) and Australia can take prosecutions against the importation of counterfeit and pirated goods.

Recently approved enforcement measures

15. On 28 August 2006 Cabinet agreed in principle that the NEU would be responsible for enforcing the criminal offence provisions of the Copyright Act 1994 and Trade Marks Act 2002 [CAB Min (06) 32/12].
16. On 6 December 2006 Cabinet agreed to amend the Trade Marks and Copyright Acts to enable the NEU to:
 - a. share information and co-ordinate with other government agencies, such as Customs and the Police, to identify offenders who manufacture, import or sell counterfeit or pirated goods;
 - b. apply for, be granted and execute search warrants to seize evidence;
 - c. undertake searches of any place (other than a private residence) without a warrant in special circumstances set out in EDC (06) 161; and
 - d. seize goods, during a search conducted without a warrant, where the enforcement officer has reasonable grounds to believe that the goods breach, or are evidence of a breach of, criminal offences under the Trade Marks or the Copyright Act, and to use the seized goods as evidence in criminal prosecutions [EDC Min (06) 22/16 and CAB Min (06) 46/6].

17. In considering the NEU's specific enforcement powers, the Committee was made aware that Customs was reviewing its existing trade mark and copyright border protection measures, and that Customs and MED would work together in developing any new initiatives that came from this review [EDC (06) 161].
18. It is intended that the *Trade Marks (International Treaties and Enforcement) Amendment Bill*, which is likely to be introduced and passed in 2007, will provide NEU with its new enforcement powers³. Customs and MED are working on legislative provisions that will allow the two agencies to cooperate in the prosecution of offenders, such as the sharing of Customs information with NEU about importers and imported goods. It is intended that these provisions will be backed-up with a Memorandum of Understanding.

Comment

Efficiency of Customs taking certain prosecution

19. From government's perspective, it is desirable that trade mark and copyright protection is undertaken efficiently. It would be efficient for Customs, in addition to the Police and the NEU, to be able to take prosecutions in respect of the offences of the Copyright Act 1994 and Trade Marks Act 2002.⁴ This is because, as a result of Customs' existing trade mark and copyright role, its officers often have specialist knowledge relating to offending importers, and may be in possession of counterfeit or pirated goods they have tried to import.
20. For instance in the course of Customs' existing trade mark and copyright role at the border, it may suspect there are counterfeit goods in an imported container. In this situation the container is unpacked and its contents are sorted into categories. Frequently such containers are found to have several types of counterfeit goods, relating to different rights owners' notices. Each type of good is investigated to determine whether it appears to infringe a rights owners' notice. In the process of doing this specialised knowledge is developed, including knowledge of whether a particular importer has a history of attempting to bring infringing goods into the country.

Managing Customs' existing trade mark and copyright responsibilities

21. Customs' review of its trade mark and copyright activities (referred to in paragraph 17 above) found that deterrents against importing counterfeit or pirated goods are weak. This is particularly the case because trade mark and copyright owners are often reluctant to take court action against importers. The weak level of deterrence contributes to a small number of importers repeatedly tying up significant Customs resources.

³ The Bill has been allocated category 3 in Government's 2007 legislative priorities.

⁴ These offences relate to sections 120 to 124 of the Trade Marks Act 2002 and sections 131, 198 and 226 of the Copyright Act 1994

22. This situation, along with the global increase in trade in counterfeit and pirated goods, has created some operational pressure points for Customs. For example there is a backlog of about six months in its investigations of possible trade mark and copyright infringements. The backlog impacts on the availability of Customs to undertake other types of work, such as investigations relating to drugs and objectionable material. It has also precipitated a shortage of secure storage facilities for detained goods.
23. Enabling Customs to take prosecutions related to imported counterfeit and pirated goods would provide it with an additional tool to manage its existing trade mark and copyright responsibilities at the border. Potentially it would also enable Customs to play a more active role in preventing the importation of counterfeit and pirated goods.

Respective roles of Customs and the NEU in trade mark and copyright enforcement

24. If Customs were able to take prosecutions related to imported counterfeit and pirated goods, its enforcement role would be complementary to the NEU's. Unlike the NEU, Customs would not be involved in enforcing offences post border, such as the sale of counterfeit or pirated goods within New Zealand. Customs would be most likely to prosecute in situations where:
- as a result of its existing activities, it has already accumulated most of the evidence required to support a prosecution; and
 - there was an element of public interest in taking the prosecution (for example where counterfeit goods pose a risk to public safety).
25. Customs would be more likely to proceed with a prosecution related to goods covered by rights owners' border notices (because it is likely to already be in possession of evidence in such cases). However there may be situations where it is efficient for Customs to take action against an importer in respect of a range of counterfeit or pirated goods, not all of which are covered by a border notice. For example within an imported container some infringing goods (such as footwear) may be covered by a border notice, while others items (such as cell phone batteries or chargers) that are not covered by a notice pose a safety threat to the public. In this sort of situation Customs may wish to include within the scope of its prosecution all the items suspected of being counterfeit or pirated. However the legislative amendments enabling Customs to prosecute importers of counterfeit and pirated goods would clarify that an importer cannot be prosecuted by both the NEU and Customs for the same offence.
26. Should Customs be given a mandate to take prosecutions related to imported counterfeit and pirated goods, the respective roles of MED and Customs (in this respect) would be clarified in a Memorandum of Understanding. The Memorandum would, for example, make it clear that Customs would not prosecute an alleged offender without being sure they were not already under investigation by the NEU. It would also ensure that NEU's and Customs' communication with

stakeholders (right holders and importers) is consistent, and clear about the responsibilities of both agencies.

27. Over time the respective roles of the two agencies may be further refined, as both organisations gain experience in this area of work.

Generic Customs powers that would assist with initial investigations

28. Customs already has some generic powers under the Customs and Excise Act 1996 that could be helpful in the initial investigation of importers of counterfeit and pirated goods. For example it has the power to examine all goods being imported into the country, and to withhold delivery of items until satisfied as to their nature, value and origin. As part of the importing process certain documents have to be produced by the importer, including invoices, packing lists, shipping bills and money transfer documents. It is also possible to interview, without notice, anybody crossing the border, or who is an employee of a shipping company.

Further powers sought by Customs

29. There is, however, some uncertainty about whether certain other powers under the Customs and Excise Act 1996 would be available to Customs to support prosecutions against imported counterfeit and pirated goods⁵. To put the matter of their application beyond doubt, the Trade Marks or Copyright Acts should provide Customs with those powers (detailed below), suitably modified to serve the purposes of those Acts. These powers should be the minimum necessary to do the job, and should only be available for the purpose of investigating and prosecuting criminal importing offences of the Trade Marks or Copyright Acts.

Warranted searches

30. In December 2006 the Cabinet agreed, *inter alia*, that to support trade mark and copyright prosecutions the NEU will be able to apply for, be granted and execute search warrants [EDC Min (06) 22/16 and CAB Min (06) 46/6]. This power should also be provided to Customs.
31. The Cabinet paper EDC (06) 161 indicates that NEU's warrantless searches should only occur for the purposes of preventing an offender from continuing to trade in counterfeits. Given that Customs' investigations will not be focused on places where goods are being sold, NEU's power to make post-border unwarranted searches, and to seize goods during these unwarranted searches, is not relevant to Customs.

Ability to take possession of and retain documents and goods found in a lawful search or inspection, and to make visual or sound recordings

32. For the purpose of collecting evidence to support a possible prosecution Customs needs, subject to any Court order to the contrary, to be able to take possession of

⁵ In particular the powers provided under sections 160, 161, 165, 166, 167(1), 168(2), 185 and 188 would be relevant, but their application for the purpose of supporting investigations of importers of counterfeit and pirated goods is in doubt.

and retain relevant documents and imported goods found during a lawful search or examination (e.g. an examination of an imported container under Customs' control). Additionally, Customs officers should be able to take photographs or records of images and sounds in the places searched and of anything found during a lawful search or examination.

33. Subject to any Court order, seized perishable goods would be disposed by the Chief Executive of Customs, and seized non-perishable goods disposed of at the discretion of the Court.
34. Although Customs can already detain items suspected of infringing a border protection notice (referred to in paragraph 10), it would require the power to retain goods to support its trade mark and copyright prosecutions because:
 - Customs may want to include some items not covered by a border notice within the scope of a prosecution (as referred to in paragraph 25); and
 - Under the border notice system, if a rights owner does not take a civil court action against the importer of goods that appear to infringe their intellectual property rights, and if the goods are not voluntarily forfeited by the importer, then they are released. In this situation, in the absence of provisions to retain material to support a criminal prosecution, the goods would not be available as evidence.

Ability to require relevant information, and copy documents supplied

35. Customs has found suitable information gathering powers to be vital to the success of its investigations of other offences, such as those associated with the importation of objectionable material. For example information gathering powers are very useful when offending items are sent to a post office box but the identity of the owner of the post office box is unknown. Similarly, financial information from banks can be critical to an investigation.
36. Because of the special considerations that apply at the border, for the purpose of determining whether goods should be retained or released, Customs should be able, without seeking judicial authority, to require any person believed to have imported, or have been involved in the import (e.g. an agent), of goods to:
 - appear at a reasonable time and place, specified in writing, to answer questions about goods that are still under Customs' control ; and
 - supply within a reasonable time, upon notice in writing, documents and other recorded information related to those goods that are still under Customs' control.
37. The Law Commission and the Ministry of Justice consider that although an examination power is appropriate to enable speedy decisions about whether to retain or release goods that are still under Customs control, it is not appropriate that Customs should be able to require someone to be interviewed (with or without judicial authority) about suspected criminal offending related to goods that are no

longer under Customs' control. In relation to the types of prosecutions envisaged in this paper, where information is provided by a suspect, it would be contrary to the privilege against self-incrimination to use it as evidence. In any case, generally where information is sought that is contrary to self-interest, the answers will often be unreliable or untruthful. It is therefore generally better for enforcement agencies to proceed on the basis of cooperation rather than coercion.

38. In relation to the types of prosecutions envisaged in this paper, the Law Commission and the Ministry of Justice consider that judicial authority should be obtained before Customs is able to require someone to supply documents and information related to goods that are no longer under its control. Other enforcement agencies generally require judicial authority before they can exercise similar powers.
39. There needs to be a provision that makes it an offence to, without reasonable excuse, refuse to be interviewed when a person is legally obliged to be, or to deliberately withhold information (including documents) when they have a legal obligation to do so. Without such a provision someone could subvert a potential prosecution with impunity. It seems reasonable that the penalty for deliberately withholding information or refusing to be interviewed is made equivalent to the penalty for deliberately providing a Customs officer with any document that is not genuine or is erroneous⁶. The penalty for this is:
 - a. imprisonment for a term not exceeding 6 months or to a fine not exceeding \$10,000 for an individual; or
 - b. a fine not exceeding \$50,000 in the case of a body corporate.

Resource implications for Customs

40. Although taking occasional trade mark and copyright prosecutions may impact on Customs' ability to take other types of prosecutions, such resource allocation decisions are already made on a regular basis.
41. It is possible that taking the sorts of prosecutions described in this paper will result in a net reduction in Customs' trade mark and copyright work because it would tend to reduce subsequent offending. It may therefore help to relieve the current backlog of investigations of goods suspected of being counterfeit or pirated.

Consultation

42. The Commerce Commission; the Department of Internal Affairs; the Ministry of Consumer Affairs; the Ministry for Culture and Heritage; the Ministry of Economic Development; the Ministry of Foreign Affairs and Trade; the Ministry of Justice; the New Zealand Police, and the Treasury have been consulted in the development of this paper. The Department of the Prime Minister and Cabinet, and Te Puni Kōkiri have been informed. In addition to government departments, the Law

⁶ This offence is specified in section 204(4) of the Customs and Excise Act 1996.

Commission has been consulted and its suggestions have been incorporated into this paper.

Financial implications

43. Customs would not be obliged to take any particular prosecution, and the costs of any prosecution it did take would be met within its baseline. Therefore the approval sought in this paper does not have fiscal implications.

Human rights

44. The proposals contained in this Cabinet paper appear to be consistent with the New Zealand Bill of Rights Act 1990, and the Human Rights Act 1993. A final view on whether the proposal is consistent with the Bill of Rights Act 1990 will be possible once the legislation has been drafted.

Legislative implications

45. The proposed changes can be incorporated into the *Trade Marks (International Treaties and Enforcement) Amendment Bill*, which is scheduled for introduction in 2007. This Bill is almost ready for introduction.

Regulatory impact analysis

46. The attached Regulatory Impact Statement (RIS) concerning enforcement powers for Customs under the Copyright and Trade Marks Acts was prepared by Customs. Customs confirms that the RIS complies with the principles of the Code of Good Regulatory Practice, and regulatory impact analysis requirements, including the consultation requirements. The final RIS was circulated with the Cabinet paper for departmental consultation. MED's Regulatory Impact Analysis Unit decided not to review this RIS because this paper's proposals would not have a significant impact on businesses.

Gender implications

47. This paper has no gender implications.

Disability perspective

48. This paper has no disability implications.

Publicity

49. Trade mark and copyright owners are likely to support Customs having the power to prosecute offenders. If this measure is approved we intend to:
- issue a low-key press statement to say it will be included in the Trade Marks (International Treaties and Enforcement) Amendment Bill before its introduction; and
 - direct officials to publish the Cabinet paper and RIS on the internet, subject to any appropriate deletions under the Official Information Act 1982.

Recommendations

50. The Minister of Customs and the Associate Minister of Commerce recommend that the Committee:

1. **note** that Cabinet has agreed that the Ministry of Economic Development's National Enforcement Unit (NEU) would be responsible for enforcing the criminal offence provisions of the Copyright Act 1994 and Trade Marks Act 2002 [CAB Min (06) 32/12 and CAB Min (06) 46/6];
2. **note** that legislative changes to enable the NEU to undertake this role (referred to in the previous recommendation) are expected to be made in the *Trade Marks (International Treaties and Enforcement) Amendment Bill*, which is almost ready for introduction;
3. **note** that in many situations it would be more efficient for Customs to prosecute an importer of counterfeit or pirated goods, rather than the NEU, on account of Customs existing role at the border;
4. **note** that if Customs was able to prosecute importers of counterfeit or pirated goods it would not be obliged to take any particular prosecution, and the costs of these prosecutions would be met within its baseline;
5. **agree** that Customs should be empowered to take prosecutions against a person importing or possessing any imported goods which would constitute a breach of the criminal offence provisions of sections 120 to 124 of the Trade Marks Act 2002 and sections 131, 198, and 226 of the Copyright Act 1994;
6. **agree** that for this purpose (referred to in recommendation 5) the Trade Marks and Copyright Acts should be amended to enable Customs to:

Investigative powers specific to goods under Customs' control

- 6.1 without a warrant, seize any goods subject to the control of Customs that a Customs officer has reasonable grounds to believe is evidence of, or has significant relevance to, an investigation of an offence under the statutory provisions referred to in recommendation 5;
- 6.2 require, by notice in writing, any person (other than an officer of a central government department) believed to have imported goods or to have been involved in their import as an agent to supply (within a reasonable time) documents and other recorded information related to goods that are still under Customs' control for the purpose of determining whether the goods should be retained or released;
- 6.3 require any person (other than an officer of a central government department) believed to have imported goods or to have been involved in the import as an agent to appear at a reasonable time and place, specified in writing, and to answer questions relevant to an investigation of goods that are still under Customs' control for the purpose of determining whether the goods should be retained or released;

Other investigative powers

- 6.4 apply for a judicial order authorising the production of documents and other recorded information believed to be evidence of, or to be material of significant relevance to, the investigation of an offence in respect of imported goods, under the statutory provisions referred to in recommendation 5;
- 6.5 apply for a search warrant to search any place or thing believed to contain evidence or material of significant relevance to an investigation of an offence in respect of imported goods, under the statutory provisions referred to in recommendation 5, at any reasonable time of the day or night and in doing so use any assistance and any force that is reasonable in the circumstances;
- 6.6 seize any goods specified in the warrant;
- 6.7 retain lawfully seized goods, subject to a Court order for return of the goods, for the purpose of investigation or prosecution of an offence;
- 6.8 dispose of perishable seized goods at the discretion of the Chief Executive, subject to any order of the Court;
- 6.9 take photographs or sound or video recordings of the place or thing searched, and of any thing found in that place, if the person executing the warrant has reasonable grounds to believe that the photographs or sound or video recordings may be relevant in any proceedings arising from the execution of the warrant;
- 6.10 copy a document or part of a document where there are reasonable grounds to believe that it may be seized under the search power;
- 7. **agree** that all seized goods that are not perishable will be disposed of at the discretion of the courts;
- 8. **agree** that it will be an offence to, without reasonable excuse, deliberately withhold information requested under the provisions of recommendations 6.2 and 6.4, or to refuse to be interviewed under the provisions of recommendation 6.3;
- 9. **agree** that the penalty for the offences referred to in recommendation 8 will be:
 - a. imprisonment for a term not exceeding 6 months or to a fine not exceeding \$10,000 for an individual; or
 - b. a fine not exceeding \$50,000 in the case of a body corporate;
- 10. **invite** the Associate Minister of Commerce to issue instructions to the Chief Parliamentary Counsel to give effect to the above recommendations through the *Trade Marks (International Treaties and Enforcement) Amendment Bill*; and

11. **note** that this Cabinet paper is to be published on the internet, subject to any appropriate deletions in accordance with the Official Information Act 1982.

Hon Nanaia Mahuta
Minister of Customs

Hon Judith Tizard
Associate Minister of Commerce

Hon Lianne Dalziel
Minister of Commerce

APPENDIX 1: CURRENT MEASURES AT THE BORDER

1. Customs' activities to reduce the importation of counterfeit and pirated goods are predicated on rights owners lodging a notice requesting the detention of goods that appear to infringe their rights. These notices require Customs to act on imported goods suspected of infringing notices. The basic steps of the process are:
 - a. Rights owners lodge notices (as prescribed in legislation) with Customs identifying their rights and requesting that goods covered by them are detained at the border;
 - b. When Customs officers encounter consignments that may contain goods covered by a rights owner's notice, the goods (or samples of them) are referred to the Customs Investigations section;
 - c. The Investigations section determines whether goods "appear" to infringe a rights owner's notice. (This process includes seeking advice from the importer, and obtaining information from the relevant rights owner);
 - d. If the goods do not appear to relate to a trade mark or copyright notice they are released. If they appear to infringe a notice they are detained for a further ten working days;
 - e. In the latter case (i.e. when the goods appear to infringe a notice) the matter is resolved by:
 - o the importer voluntarily forfeiting the goods (in which case Customs destroys them); OR
 - o the rights holder initiating an action at the High Court; OR
 - o the goods being released (if they have not been forfeited and no High Court action has been initiated within the ten day period, and there are no other outstanding issues).
2. The importer may also voluntarily forfeit goods prior to Customs determining whether goods appear to infringe a rights owner's notice.