

SECTION 3 - BEST PRACTICES

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**CUSTOMS BODIES ACTIONS AGAINST  
COUNTERFEIT PRODUCTS MOVEMENT**

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**Abstract**

*The article discusses issues related to the activities of Customs authorities in connection with protection of intellectual property rights. Single legal and practical issues of Customs activities in this sphere, taking into account establishment of the Customs Union and Russia joining the World Customs Organization, are considered.*

*Keywords: intellectual property, Customs register, administrative infringement, Customs documents, mails, Customs border, Customs Union.*

**Introduction**

The function for the protection of intellectual property rights for the Customs bodies of Russia is rather new. The Customs Code from 2004 first empowered the Customs an authority to identify and suppress its importation. Nowadays the normative-legal base and the Customs register of intellectual property objects have been formed; cooperation with copyright holders and foreign services that face the similar tasks is undergoing. In Russia the Customs authorities prevented the damage to rights holders in the amount of 1.7 billion rubles in 2011 whereas in 2012 in the amount of nearly 3 billion rubles. However, the issue remains relevant due to objective reasons – Russia’s entry into the World Customs Organization (further – WCO) and the establishment of a Customs Union and due to ongoing schemes and individual unlawful operations that target the legal relationship in the sphere of intellectual property. We will focus on a few aspects of the illicit activities of the counterfeit market and the effectiveness of measures to counteract them on the part of the Customs authorities, although we will specify that the Customs service finds it difficult to cope with this problem on its own. There must be active and constant law-enforcement activities of other bodies (executive and judicial), which face the tasks of intellectual property protection to a greater or lesser extent.

**1. Risk analysis**

The system of risk management (further – the SRM) plays the main role in the sphere of combating Customs offences. The importance of implementing the Customs

control on the basis of the SRM is obvious and we will focus only on some versions of offences to which the application of the SRM is not as effective. Despite its official purpose the risk profile is known to a very wide range of people and knowing about possible examination which will be only for 20% of the goods, you can place the goods in a van or a container in such a way that only genuine goods will be examined. Countries from which infringing goods come from are well known: Thailand, Malaysia, Pakistan, Turkey, and Poland. But, as we think, the risk as for a probable regional source of counterfeit goods should be applied not just in relation to a particular country. The history of deliveries should be reviewed in order to identify excessive transportation costs that do not correspond to the season route. At the destination consignee's form of activity is analyzed, whether it goes with the commercial name of the delivered goods, whether there were earlier contracts for similar or other goods from that country, whether they always use the same type of transport and go through the same checkpoints across the Customs border. If spare parts, components and assemblies are delivered, to what extent they comply with the company's production activities.

The existing risks profiles applied in the sphere of protecting intellectual property with reference to the countries that are traditionally considered manufacturers of counterfeit can be evaded if the goods go through the complicated route – through the Europe. In this case the counterfeit goods can be unloaded in one of European ports where there is an infrastructure with a special legal status – for example free port, a free zone. They perform operations within the limits of the procedures connected with processing of the goods that are necessary for the target Customs (in Russia) to regard the goods as those manufactured in the country where it was initially made. For example, to move fake Chanel production there will be a stop in France, and to move fake Gucci production – accordingly, in Italy. In this case, the Customs will have neither reasons nor motivation to use intuitive risks whereas the risks as for the manufacturing country are likely to aim at traditional producers of fake goods.

What will evade the SRM is the tactics of mingling genuine and counterfeit production in one party hoping for Customs officer's inattentiveness during examination. However, delivery and clearance of undoubtedly genuine production at a reasonable Customs value with full pay of all Customs payments are likely to precede this tactics.

Does this mean that it is more rational to search in the sector of expensive articles? No. In fact, the illegal market requires different products, moreover, the high price of the genuine items forces the manufacturers of fake goods to spend expense for reproducing packing, accessories, holograms, color press, etc. The use of the imitation method when fake is claimed as genuine articles suggesting, in expert's view, "similarity up to degree of mixture" can be long enough until the arbitration court or the Chamber for Patent Disputes makes the decision. To identify such goods at the border is easy even if to mingle packages of genuine and fake articles looking quite similar to the genuine ones. An experienced inspector can easily define a fake packaging even with a high coincidence degree of print, background, and color of letters.

Moreover, if consignors do not change the volume of delivery, Customs value and continue to send goods through the same checkpoint, on the one hand, it will enable them to take advantage of the "habituation effect" which will accordingly lead to the fall of due

attention on officials' part. On the other hand, due to objective reasons based on some components of the system of risk management, you can reduce the probable taking such measure from risk profile as Customs examination by carrying the genuine articles or a few times. Probably we need to consider the following option when applying the SMR: how to classify articles which are mostly faked basing on economic expediency in producing fakes both in luxury and in low price segment.

## 2. Customs Value Issue

The high price of goods, insurance costs, haulage cost and quality of transport services have to assure the Customs officials that these articles are genuine. Since the main objective of the Customs remains fiscal, namely evading the full payment of Customs duties makes up the majority of Customs offences in this sphere, and the psychological constituent can be fully justified.

How much damage, in such a case, is prevented by the Customs officer? Oddly enough, in relation to counterfeit there is no evasion of Customs duties. As we have already mentioned, the goods and documents are likely to be perfect in terms of the Customs value of goods and payment of fees. Perhaps, the owners of counterfeit will overestimate its value and even overpay Customs duties to avoid the risk and to give value resemblance to the genuine goods. Making sure that there are no risks with regard to the payment of Customs duties, a Customs officer extrapolates his attention to all goods and their properties, including genuineness and legality of using the trademark.

To import cheap counterfeit products can be disadvantageous for violators due to two reasons. Firstly, cheap goods can cause the cost risk and a thorough inspection, and possible (which is even more dangerous for a declarant) sampling. Professional inspection will reveal the discrepancy of low-quality packaging of the high reputation products, reveal carelessness or errors in graphic, alphabetic and numeric information on the packaging, in the content of the certificate, instructions, label. Secondly, the low price makes the production of counterfeit goods cost-effective in large quantities, which requires an appropriate infrastructure, human resources and increases the probability of their detection at the stage of production.

Moreover, using an effective instrument of numerous agreements on Customs cooperation around the world (Russia has several dozens of such agreements), it is possible, having identified the manufacturer and having applied the control delivery method, to identify a network of carriers and a structure of warehouses of dealers, and a mechanism of counterfeit selling in remote parts of Russia. Thus, we talk not only about destroying a large consignment of counterfeit goods but also about discrediting the supply chain and eliminating the shadow logistics chain.

Risks related to the selection of Customs procedures, for example, destruction or refusal in profit of state, should be assessed more carefully. In our view, an effective way of the Customs authorities actions against the intellectual property infringement is post clearance control which is set forth in the Customs Code of the Customs Union (further – CC CU) in the form of Customs inspection. In fact, the Customs authorities are not bound by a duty to ask prosecutors for the sanction in cases specified by the law. Moreover, the combination of different forms of Customs control allows detecting even those goods and

documents that are not submitted by the subject of an inspection voluntarily. In addition, these actions taken by Customs will be considered neither as search nor as Customs inspection.

In their work Customs officers can use the so-called intuitive risk profiles in cases when they do not have any information from the owner, but the essential features of the product or timely information can help to identify and prevent illegal movement of goods. The signs, which, at least, force the Customs to pay attention to the supply and take a decision concerning the need for applying the SRM are the following: mismatching of the country of origin stated on the container or packaging with the country of exportation (especially if the shipping documents provide the whole chain of countries during all the route of goods movement and none of the countries is related to the declared place of production or transaction, and can be recognized as the country of origin) as well as a defective packing of goods, a photocopy of instructions for use. In case the carrier moves textiles, lack of information on the fabric composition or fabric care instructions can also be such a sign. Goods may be transported randomly, in a dismantled form, without labels, tags, stickers. When moving data media consignments, no labeling on the back of the CD, or lack of license agreements, is another sign which affects the decision-making as for applying the SRM.

There are options when counterfeit products become not a target of the illicit foreign trade operation but a tool to cover the more complex scheme. Let us imagine a situation when the consignment of genuine textile products of a significant value arrives at the Customs. Advanced payment has already been made or is being made while the goods are in the bonded warehouse. Having the right to inspect the goods, the declarant, “unexpectedly”, discovers that the goods are counterfeit and refuses to declare them. During the investigation (in this case a person who committed the offense cannot be found on the territory of Russia, it is difficult to prove the declarant’s guilt, as it was he who first discovered the counterfeit and gave the alarm) it turns out that the actual exporting firm is difficult to find and, probably, the actual owner and the sender will not be detected even in the offshore. The consignee will declare the re-exportation procedure but payments under a contract will not be reimbursed.

So what happened? There was illicit export of capital with the considerable external evidence proving that the consignee is not involved in this scheme. Now it is simple to imagine a scheme consisting of a group of companies-consignors which send the genuine expensive goods and the same group of companies-consignees which receive the goods; these companies are owned by the same people who will move the same consignment under various contracts via different Customs, every time being “indignant” at the delivered fake goods.

### **3. Why is Counterfeit?**

Why spend money on purchasing expensive machinery and household appliances that have features helping to identify the consignment in different deliveries to different Customs. Slightly similar scheme was used in the 1990s for illegal VAT refunds. Delivery of goods and spare parts produced only in one country and transported to the Customs territory may indicate an attempt to establish a counterfeit production in Russia or any

other country of the Customs Union. We do not exclude the possibility of using the re-importation procedure, for example, when producing medicines of the well-known European manufacturers in Russia and thus, certifying forged and counterfeit products at the domestic market after their return to the Customs territory.

#### **4. Protection of Intellectual Property Rights**

The important role of the Customs lies in preventing damage to the international obligations of the country, to copyright owners and trademarks owners as well as damage to human health or the environment. Although as for the damage to the copyright owners, it is known that not all of them are willing to be registered and cooperate with the Customs authorities of the Customs Union. However, Customs may detain those goods which are not included in the Customs register or do not have an owner, that is “ex officio”, in case there are serious suspicions about the appropriate risk profile regarding the illegal use of intellectual property.

Nevertheless, the significance of protecting the rights using the registers is hard to overrate (Chikin, Kirilchenko 2012). The Customs register of intellectual property as a basis to apply the order stipulated in the Article 311, CC CU (basing on owner’s claims, to take measures in order to suspend the release of goods), together with the administrative investigation, is one more anti-counterfeiting instrument (Customs Code of the Customs Union 2009). The copyright owner, in case of Customs’ decision to suspend the release of goods, can extend the period of custody and participate in the process of inspecting goods: to take samples, to investigate and to examine the goods. The Customs authorities can give the owner the information about the consignor or producer. In order to start the administrative proceedings the Article 14.10 (Code of Administrative Proceedings of the Russian Federation 2013) requires the official statement of the owner who has the full information about the goods.

#### **5. Custody in Accordance with Administrative Proceedings**

A great number of fake goods seized by the Customs in Russia include tobacco, alcohol beverages, sportswear, footwear, confectionery products, perfumery products, and baby products. If the goods simply imitate the genuine products, perhaps, they do not comply with quality characteristics and safety requirements. If the goods comply with all the standards and their quality is equal to the quality of the genuine products, the trademark owner still has the right to release the goods. According to the Articles 14.10 and 7.12 of the Code of Administrative Proceedings (further – the CAP), the maximum penalties amount to 40 thousand rubles including possible seizure of the goods with illegal reproduction of a trademark, service mark, appellation of origin of goods (Customs applies these articles to initiate administrative proceedings) (Code of Administrative Proceedings of the Russian Federation 2013). The penalty does not depend on statistical or Customs value stated in the declaration, and will not be too much for parties to a deal, especially if they move large quantities of goods. Oddly enough, custody of the counterfeit goods and administrative proceedings does not give a guarantee of withdrawing the counterfeit goods from circulation.

The list of obligatory sanctions stipulated by law says nothing about destruction of

goods. However, the Article 51 in one of the significant agreement of the WCO (the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement 1994) stipulates that counterfeit goods are subject to an arrest and should be prevented from free circulation within and out the territory of the WCO member countries. The court decisions on administrative infringement stipulated by the Article 14.10 of the Code of Administrative Proceedings of the Russian Federation 2013 give facts when actions were withdrawn due to their insignificance or due to lack of evidence to prove guilt, but the most important thing is that judges do not always take decisions as for destructing the confiscated goods.

Confiscated goods through the Federal Property Management Agency or Court Bailiffs Service are put up for an auction. The scheme of a possible infringement looks simple. Those who arrange deliveries provide consignment with some indicators in the shipping documents or on the packaging or even with the information which direct the Customs and help to identify the fake goods. It is then followed by public disclosure, the whole process of administrative proceedings: trial – seizure – putting up for an auction and further purchase of the goods by a company-mediator established by those who arranged the counterfeit movement, or purchase from a company, non-participating in the operation. The goods appear at the market and they are cleared not in a Customs order, but in the administrative and legal order, without payment of Customs duties (Customs duties shall not be paid when confiscated). Of course, with single delivery the amounts of transaction costs (including corruption) are too high. But if there is a flow scheme, a kind of logistic chain, in which regulations of public authorities or single proceedings are a kind of transshipment or presales preparations, the costs will be acceptable. The author has investigated a similar scheme, though the object of the scheme was not the counterfeit goods it was alcohol and tobacco, but it does not change the algorithm of illegal actions.

### **6. International Mail as a Subject of the Customs Control**

On 12.08.2008 in Geneva at the Congress of the Universal Postal Union, the Universal Postal Convention with the final protocol was adopted, having identified a ban on the inclusion of counterfeit and pirate (non-authorized) goods in all categories of mail (Universal Postal Convention 2008). But in accordance with the Article 328 of the CC CU the measures to protect intellectual property rights are not taken by the Customs authorities with regards to the goods transported across the Customs border by individuals for personal use, including those sent to their address by international mail (Customs Code of the Customs Union 2009).

Detention of goods in the post turnover could be difficult for certain reasons:

1. Minimum amount of information about goods in the shipping documents.
2. Just a suspect concerning the movement of the counterfeit goods does not give a basis for the inspection.
3. There are difficulties in determining the destination of the goods.

In fact, the issue of the goods classification as intended for personal use has always remained one of the disputing issues. If we find several hundreds or thousands of stickers or labels with the brand of a well-known company in the mail, we can easily prove that they are intended for commercial use.

Although in this case it will be more appropriate to establish the real destination of the goods in cooperation with the police. Searches would probably lead to the illicit storage of the finished counterfeit goods (or possibly “legal” from a little-known manufacturer) moved across the Customs border, or to the place of manufacture, located on the territory of Russia. And in any case, there is still a possibility of taking into custody, administrative proceedings and subsequent trial. Further, according to the court, it will be possible either to destroy the goods, or having agreed with the copyright holder to place them under the re-exportation procedure.

Other options are possible as well. For example, the consignee of several dozens or hundreds of product samples in single copies will declare that it is his/her hobby to collect samples. The purpose goes well with the concept of personal needs. Despite the fact that this statement sounds absurd, it is almost impossible to interpret these doubts as opposed to the consignee of the goods. The refusal of a consignee from the goods cannot be excluded. A consignee states that he/she was waiting for other goods (which is not counterfeit) and his statement cannot be disclaimed. Bags or packing boxes, e.g. with a brand of LOUIS VUITTON, can be needed by a consignee “exclusively for personal household needs”. There can also be other explanations, allowing a consignee to keep the goods or, at least, to evade the responsibility.

The order of the Federal Customs Service (further – the FCS) dated March 25, 2014, No.626 “On Approval of the Procedure for the Actions of the Customs Authorities of the Russian Federation in Taking Measures to Protect Intellectual Property Rights” allows suspending the release of goods included in any register, including the Customs register, but there arises a complication as for reliable contacts with the legal owner of trademarks registered in the World Intellectual Property Organization (further – WIPO), where the term of protection of their rights is provided for 10 years.

The special regulation, determining the order of intellectual property inclusion, the order of rejection or exclusion from the register, was established and approved by the Decree of the Customs Union Commission No.290 dated 18.06.2010 to unify the actions of the Customs authorities of the Customs Union member states. Essential condition is to provide an insurance contract with the insurance of no less than 10 thousand Euros. Though the registration procedure of is free of charge, the insurance payment makes some copyright holders abstain from registration. On the other hand, the Customs services, acting in such an indefinite sphere of activities as the protection of intellectual property, cannot risk losses for the budgets of their countries in the case of failure to confirm the nature of counterfeit goods transported.

Single Customs Register and the registers of the member states of the Customs Union are applicable within the territory of the Customs Union. There is a list of special bodies that declare the goods and carry out special control of goods, containing objects of intellectual property. The Customs authority can provide the copyright holders with additional information, which can be useful in protecting their rights, then they can photograph such goods, take samples, and conduct research.

### **Summary and concluding remarks**

Thus, our analysis revealed the current problems associated with importing the

counterfeit goods into the CU and the protection of intellectual property rights. It should be noted that establishment of the Customs Union radically changed the situation in the sphere of protection of intellectual property rights. In our opinion, further active position of the copyright holder will help to identify and prevent the infringement in respect of the goods not included in the Customs register. In addition, a notification about suspension of the release of goods should take a significant place in the list of actions taken by the Customs.

It should also be emphasized that one of the obstacles in the effective fight against infringement in the sphere of copyright protection are differences between the national laws of member states. In Kazakhstan, for example, the “exhaustion of entitlement” of the trademark owner happens upon their entering the economic turnover in any country of the world, which means that there is no such thing as “parallel imports”. Thus, cheap Chinese goods may enter the territory of the Customs Union from any CIS country, such as Kirgizia, and then, due to the absence of Customs borders, are distributed within a single Customs territory. At the same time, Belarus has its own experience concerning the concepts of actual counterfeit (real fakes) and legal counterfeit (parallel imports). Therefore, coordinated action of the Customs Union member states through the mechanism of the Eurasian Economic Commission is an important and effective tool for anti-counterfeiting.

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