

# THE SALE OF CONTERFEIT GOODS VIA THE INTERNET AS A CONTEMPORARY SECURITY CHALLENGE – LEGAL ASPECTS

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**Abstract:** The sale of counterfeit goods via the Internet is considered to be a contemporary security challenge. Using e-commerce platforms (such as eBay) allows consumers to globally search, locate and buy goods from anywhere in the world. This new mode of trade has increased opportunities for infringements of Intellectual Property Rights, especially Trademark Rights. Counterfeit products pose threats to the health and safety of consumers and to security. Since Internet users have access to websites created and edited abroad, the limits of national regulations have been breached. Therefore, it is an additional challenge for all legislators to agree on international legal framework for fight against the online sale of counterfeit goods. Existing binding sources of international law, treaties and state-to-state agreements (so-called hard international law), have nothing much to say regarding this issue. However, non-binding instruments (so-called soft international law) offer some effective solutions, such as Memorandum of Understanding on the Sale of Counterfeit Goods via the Internet.

**Key words:** counterfeit goods, trade, Internet, international legal framework, security.

## INTRODUCTION

The expansion of the Internet and technologies based on it has enabled the development of the digital economy and the emergence of new and innovative business models. The Internet has transformed how goods and services have been produced, delivered and consumed. Using Internet platforms (such as eBay, Alibaba and Google Search) allows consumers to globally search, locate and buy goods from anywhere in the world (Maltzer, 2015). Simultaneously with the rapid development of technology, there was a need for regulatory intervention in various area of law, including the Intellectual Property

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Law. Increasingly diverse ways of using Intellectual Property works on the Internet have contributed to the frequency and extent of their abuse. The sale of counterfeit goods via the Internet is a mode of abuse of Intellectual Property Rights (IPR). Moreover, it is estimated that the trade of counterfeit goods via the Internet is the fastest growing area of illegal trade. Thus the sale of counterfeit goods via the Internet is considered to be a contemporary security challenge.

A strong economic future, including sustained job growth, will only be achieved when coupled with aggressive protection of Intellectual Property (IP) globally. Likewise, this is not solely an economic or business issue. Counterfeit products, such as fake pharmaceuticals, electrical devices and critical technology components, pose serious threats to the health and safety of consumers and to national security.

The proliferation of counterfeit and pirated goods, as well as of services that distribute infringing material, undermines legitimate trade and sustainable development of the world economy, causes significant financial losses for right holders and for legitimate businesses, and, in some cases, provides a source of revenue for organized crime and otherwise poses risks to the public (Rimmer, 2011).

The Internet, a global computer network that provides communication among users around the world, is defined by technical and technological capabilities that are more or less balanced globally. In such an environment, different and even more imprecise regulations, which allow for uneven interpretations, contribute to legal uncertainty. The primary common interest of all participants in interactive communication is to establish normative frameworks for the harmonization of regulations at the global level.

As Internet users have the access to websites created and edited in other countries, the limits of national regulations have been breached. Therefore, it is an additional challenge for legislative subjects of the most developed countries to regulate the sale of counterfeit goods via the Internet on international level. The aim of the paper is to examine the international legal framework for fight against the sale of counterfeit goods via the Internet. Existing binding sources of international law, such as international treaties and state-to-state agreements (so-called hard international law), do not regulate this issue. However, non-binding international legal instruments (so-called soft international law) offer very interesting and effective solutions, such as Memorandum of Understanding on the Sale of Counterfeit Goods via the Internet.

## BINDING SOURCES OF INTERNATIONAL LAW – HARD INTERNATIONAL LAW

The problem of the sale of counterfeit goods via the Internet became topical only with the phenomenon of the advent of the Internet and the beginning of its massive use. Accordingly, neither the Paris Convention of 1883 nor the 1994 Agreement on Trade Related Aspects of Intellectual Property – TRIPS regulate this issue.

Nonetheless, Intellectual Property Rights holders have advocated the establishment of higher standards of Intellectual Property protection through international treaties (hard international law). There were two attempts in that direction, both of which ended in failure. Those are: the Anti-Counterfeiting Trade Agreement (ACTA) and the Trans-Pacific Partnership Agreement (TPP).





## ANTI-COUNTERFEITING TRADE AGREEMENT

The initiators of the negotiations for the adoption of the Anti-Counterfeiting Trade Agreement were two economically very strong countries: the United States and Japan. The official negotiations began in 2006. In addition to these two states, representatives of several other countries, including the European Commission, took part in negotiations. The Anti-Counterfeiting Trade Agreement was finally concluded in 2011 between seven countries: the United States, Canada, Australia, South Korea, Morocco, Singapore and New Zealand. In January 2012, the European Union joined the seven. The Agreement was expected to enter into force upon the ratification of at least six signatories.

The adoption of the ACTA took place in the light of two specific circumstances. First, from the very beginning, the negotiators did not have ambition to make an agreement that would be widely accepted. Its territorial scope was limited to a “club” composed of a small number of states. In this sense, the ACTA does not belong to any of the existing institutional frameworks for regulation of IP protection at international level. However, the ACTA establishes its own body (ACTA Committee) to supervise the implementation of the Agreement. The Agreement is open for accession only to the Member States of the World Trade Organization (WTO), under conditions on which all of them must agree (Marković, 2012). Second, the negotiations were mostly conducted in secret. Indeed, the negotiators did not consider it necessary for the public of their countries to be informed about what their diplomatic representatives were working on. The closed nature of the negotiations has raised concerns at different levels.

„There has been much concern about the closed, secretive, and selective nature of the negotiations over ACTA. There have been fears that the agenda has been driven by lobbyists from Intellectual Property industries; and that e-commerce, consumer, and competition interests have had little say in the development of the proposed agreement.” (Rimmer, 2011). However, by virtue of information leakage in the period from 2008 to 2010, several working drafts appeared, and the world campaign against the adoption of the ACTA began. The campaign was led by the numerous non-governmental organizations and intellectuals (Ćeranić Perišić, 2020).

The Anti-Counterfeiting Trade Agreement contains 46 articles divided into six chapters: 1) Initial Provisions and General Definitions, 2) Legal Framework for Enforcement of Intellectual Property Rights, 3) Enforcement Practices, 4) International Cooperation, 5) Institutional Arrangements and 6) Final Provisions. The core of ACTA is certainly the second chapter, more precisely articles 6–27, which refer to enforcement of IPR. This chapter prescribes minimum standards of civil, criminal and administrative law protection (so-called border measures), as well as special measures for the protection of IP in the digital technological environment.

Regarding the content of the ACTA, it is based on the provision of Article 1 (1) of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which stipulates that member states may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement. Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice. In this sense, ACTA is considered a “TRIPS plus” Agreement in the field of standards of judicial and administrative protection of Intellectual Property. Therefore, the ACTA can only be considered, understood and evaluated in conjunction with TRIPS (Marković, 2012).

From the point of view of developed countries, Chapter 3, Enforcement Practices, was a weak point of TRIPS. Therefore, ACTA’s mission was to address these weaknesses and create a stronger legal framework for the international fight against IPR infringements.





Three types of provisions of ACTA's draft attracted special attention and thus became the subject of the sharpest criticism. First, the provisions proposing the criminalization of all intentionally taken actions of infringement of IPR on commercial basis, with the obligation of criminal prosecution *ex officio*; then, the provision proposing an obligation *ex officio* to implement border measures in the case of import, export and transit of goods, including goods in hand luggage; and, finally, provisions proposing to encourage Internet service providers to establish some form of monitoring of Internet traffic in order to detect IPR infringements, as well as those proposing an obligation for providers to provide right holders with information about service users infringing IPR and to stop providing them further services.

Public opinion was mobilized against the adoption of ACTA. One of the arguments against ACTA was that its application could endanger the privacy of Internet users, lead to the misuse of their personal data and endanger the freedom of communication. It is assumed that the strength of the negative reactions contributed to the omission of all maximalist provisions from the final document, reducing it to a measure that envisages protection above the level prescribed by TRIPS, but still without exceeding the already achieved level of protection in the EU and the U.S. Comparing the final version of ACTA with the previous working versions, some legal scholars called it "ACTA lite" (Ermert, 2010).

Initial drafts of the ACTA had a whole section devoted to online infringement. However, the final version of the ACTA contained only Article 27 (4) which might be considered as "almost a benign remnant of what was once negotiated" (Marković, 2012). According to the Article 27 (4) a party may provide, in accordance with its law and regulations, its competent authorities with the authority to order an online service provider to disclose expeditiously to a right holder information sufficient to identify a subscriber whose account was allegedly used for infringement, where that right holder has filed a legally sufficient claim of trademark or copyright or related rights infringement, and where such information is being sought for the purpose of protecting or enforcing those rights. These procedures shall be implemented in a manner that avoids the creation of barriers to legitimate activity, including electronic commerce, and, consistent with that party's law, preserves fundamental principles such as freedom of expression, fair process, and privacy. Nevertheless, there have been concerns that the obligations could have an adverse impact upon consumers' privacy, free speech, innovation, competition and the digital economy (Rimmer, 2012).

However, in its Opinion on the negotiations on the ACTA, the European Data Protection Supervisor refers to the provision of Article 27 (4) only in one paragraph. At the same time, the essence of the provision, i.e. possible obligation of Internet service provider to, upon the order of the competent state body, provide the holder of IPR with information on the identity of subscriber due to the suspicion that the subscriber is infringing his right, is not disputed. It was only stated that specification of guarantees for the protection of privacy was missing (Marković, 2012).

Article 27 (4) provides that any measure under the ACTA must be "implemented in a manner that (...), consistent with the Party's law, preserves fundamental principles such as freedom of expression, fair process, and privacy". Therefore, with regard to the guarantees, ACTA refers to national legislation, which means that national provisions are guarantees. In this regard, the fear that ACTA could derogate the high standards of protection of privacy of personal data and communication, which already exist in the EU, was not founded. The problem could arise with its application in countries which have a lower level of protection of human rights standards. In countries where there are no legal mechanisms guaranteeing the protection of the privacy of personal data and communication, the ACTA could be a basis for the violation of these rights.

Despite the fact that the final version of ACTA contained almost nothing that the Internet community was afraid of, the EU sought the opinion of the European Court of Justice on the compliance of the



provisions of the Agreement with the EU fundamental rights, primarily with the freedom of speech, expression, data protection and IPR. It is unprecedented in the history of European integrations that an agreement attracted so much attention. The parliamentary debate was followed by the lobbying of thousands of EU citizens, including mass street demonstrations (Radovanović, 2015). Finally, in July 2012 the European Parliament refused to ratify the ACTA and thus ended a multi-year debate over its compatibility with the *acquis communautaire*.

## TRANS-PACIFIC PARTNERSHIP AGREEMENT

The Trans-Pacific Partnership (TPP), also called the Trans-Pacific Partnership Agreement, is a trade agreement signed on 4 February 2016 between Australia, Brunei, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States.

The Trans-Pacific Partnership Agreement began as an expansion of the Trans-Pacific Strategic Economic Partnership Agreement, signed in 2005 by four countries: Brunei, Chile, New Zealand and Singapore. In 2008, additional countries joined the discussion for a broader agreement: Australia, Canada, Japan, Mexico, Peru, the United States, and Vietnam. Thus the number of negotiators increased to twelve.

The original version of TPP contained measures to lower both non-tariff and tariff barriers to trade and establish an investor-state dispute settlement mechanism. Opinions of legal scholars and professional public regarding this Agreement were divided. One part, including, the U.S. International Trade Commission and the World Bank, found that the final agreement would, if ratified, lead to net positive economic outcomes for all signatories. The other part, using an alternative methodology, found that the Agreement would adversely affect the signatories. Many observers have argued the TPP would have served a geopolitical purpose, namely to reduce the signatories' dependence on Chinese trade and bring the signatories closer to the United States (McBride, Chatzky, 2019).

The well-known American Electronic Frontier Foundation was very critical of the draft chapter on IP covering copyrights, trademarks and patents. The Foundation stressed that the TPP Agreement would limit the ability of the United States Congress to engage in domestic law reform in order to meet the evolving needs of the U.S. citizens to protect IP and advance the innovative technology sector. The provisions of the Agreement regarding the introduction of greater liability of Internet intermediaries were particularly controversial.<sup>2</sup>

In January 2017, the United States withdrew its signature from TPP. Thus the Agreement could not be ratified and did not enter into force.

A few months later, in May 2017, the remaining eleven countries agreed to revive the Agreement. The new free trade agreement, called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership contains most of the provisions of the TPP Agreement. In March 2018, eleven countries signed a revised version of the Agreement. After being ratified by six countries (Australia, Canada, Japan, Mexico, New Zealand and Singapore), the Agreement entered into force on December 30, 2018 (McBride, Chatzky, 2019).

<sup>2</sup> Trans-Pacific Partnership Agreement. Accessed on July 17, 2020. <https://www.eff.org/issues/tpp>.



## NON-BINDING SOURCES OF INTERNATIONAL LAW – SOFT INTERNATIONAL LAW

Although the European Commission participated in the drafting of the ACTA, the European Parliament refused to ratify it in July 2012. Accordingly, the question arises: what had happened in the meantime that influenced the EU to give up the idea of regulating this issue at the international level?

At least two reasons can be distinguished. The first reason has already been mentioned, and it is the opposition of public opinion, including mass demonstration against ACTA. Another reason is that for the last few years, the European Commission has superintended a dialogue among over thirty stakeholders consisting of brand owners and Internet platforms regarding their respective roles in tackling counterfeiting online. And, in 2011, this led to the adoption of a Memorandum of Understanding on the Sale of Counterfeit Goods via the Internet (MoU), which may now be the vehicle by which the EU seeks to universalize its approach to this question (Dinwoodie, 2014).

This Memorandum is considered an instrument of so-called soft international law

The European Commission has previously noted that such agreements can be more easily extended beyond the EU borders. Indeed, the U.S. administration had shown interest in the MoU in bilateral contacts with the EU.

### Memorandum of Understanding on the Sale of Counterfeit Goods via the Internet

One of the most significant aspects of the MoU is the fact that it arguably commits parties (which include Internet stalwarts such as eBay and Amazon, as well as brand owners) beyond obligations that might presently flow from the hard law secondary liability standards. The Memorandum makes explicit that it does not replace or interpret the existing legal framework, and it cannot be used in evidence in legal proceedings. However, it clearly has an eye to litigation. The exchange of information contemplated by the MoU is not to constitute actual or constructive notice. And the parties to the MoU agreed to a one-year moratorium on lawsuits against each other regarding matters within the scope of the agreement (Dinwoodie, 2014). This “moratorium” on litigation is an important provision that emphasizes the mutual obligation of the signatories of the MoU to work together in good faith (Čeranić, 2016).

The Memorandum was concluded on May 4, 2011 for a probationary period of one year. After the expiration of that period, every two years, a report on the results will be prepared. Based on that report, the extension of its application for the next two years will be decided. In 2016, the MoU was revised and signed again to include key performance indicators to track its impact and measure its success.

In respect of the scope of the MoU, it is limited both geographically and substantively. As a matter of geography, the MoU is limited to the provision of services in the European Economic Area. And as a matter of substance, it addresses only counterfeit goods, rather than disputes about parallel imports or selective distribution systems. Moreover, the MoU does not apply to all intermediaries, but only to providers whose service is used by third parties to initiate the trading of physical goods.

The Memorandum focuses on disrupting and deterring the supply side of counterfeit market, in other words, it seeks to eliminate online offers of counterfeit goods. It promotes a strategy based on three lines of defense. The Memorandum seeks to ensure that: 1) illicit offers do not appear on the Internet; 2) if





they do appear, they are taken down as quickly as possible; and 3) in any event, rapidly enough to prevent further transactions from taking place. The measures all operate simultaneously and in real-time.<sup>3</sup>

First of all, it is very important that customers, sellers and buyers, understand the counterfeiting phenomenon, its inherent risks to consumers and detrimental effects on IPR owners. Consumers can be active parties in the fight against counterfeiting. To this end, Internet platforms committed to making appropriate information available to potential sellers and buyers, in an easily accessible way and, where appropriate, in cooperation with rights owners. Internet platforms should explain that offering counterfeit goods is illegal and suggest precautions that buyers should take to avoid buying them (Ćeranić Perišić, 2020).

The second line of defense involves ‘Pro-Active and Preventive Measures’ (PPMs) as timely and adequate response to attempts to seek counterfeits, either before offer being made available to the public or shortly after. By taking such measures IPR owners and Internet platforms try to reduce online offers of counterfeit goods. Such measures may be technical and/or procedural. They often require human intervention. Those measures are often specific to the respective business models and the organizations of the IPR owners or Internet platforms. Effective PPMs are often sophisticated, requiring substantial resources and effective cooperation between rights owners and Internet platforms. PPMs seek to ensure that offers of counterfeit goods do not appear online.

The third line of defense considers Notice and Takedown System. Despite customer information and PPMs, offers of counterfeit goods may still become available to the public on an Internet platform. In that case, IP right owners and consumers can notify the Internet platform concerned of the existence of such offers. This notification allows the platform to take appropriate action, including taking down the offer from the site. The purpose of Notice and Takedown System is to offer a simple, fair and expeditious procedure to remove online offers of counterfeit goods (Ćeranić Perišić, 2019).

Hence, the central part of the MoU is reserved for Notice and Takedown Procedures. This fact is not surprising at all: all platforms already use them (Mostert, Schwimmer, 2011). The parties commit to continue operating such systems, but also agree to details that differ from the type of system that arguably now flows from hard law secondary liability rules. In particular, in addition to item-based Notice and Takedown, the MoU allows trademarks owners to notify the platforms of sellers who are generally engaged in the sale of counterfeits. The platforms will “take this information into consideration as part of their proactive and preventive measures”. This is clearly an effort to move away from the specificity of notice that some case law may require to confer knowledge sufficient to establish secondary liability (Dinwoodie, 2017). The provision allowing trademarks owners to notify the platforms of sellers who are generally engaged in the sale of counterfeits is considered a revolutionary novelty of the MoU.

Abuse of the Notice and Takedown System is also regulated by the MoU. If a trademark owner makes notifications to an intermediary without exercising appropriate care, the owner may be denied future access to the system and must pay the platform any fees lost due to such notifications. And sellers should be informed where an offer has been taken down, including the underlying reason, and be provided with the means to respond including the notifying party’s contact details.<sup>4</sup> The aim of these provisions is to provide some balance within the system.

3 Report from the Commission to the European Parliament and the Council on the Functioning of the Memorandum of Understanding on the Sale of Counterfeit Goods via the Internet (2013, April 18). Accessed on July 18, 2020. <https://eur-lex.europa.eu/legal-content/HR/TXT/?uri=CELEX:52013DC0209>.

4 Memorandum of Understanding on the Sale of Counterfeit Good via the Internet (2011, May 4). Accessed on July 18, 2020. [https://ec.europa.eu/growth/industry/policy/intellectual-property/enforcement/memorandum-understanding-sale-counterfeit-goods-internet\\_en](https://ec.europa.eu/growth/industry/policy/intellectual-property/enforcement/memorandum-understanding-sale-counterfeit-goods-internet_en).





The Memorandum complements these measures by providing better consumer protection, including the possibility of receiving a replacement product or a refund under certain conditions. The MoU also includes dissuasive actions against repeat infringers. The signatories of the MoU have committed themselves to cooperate in the detection of repeat infringers. The Internet platforms undertake to implement and enforce deterrents according to their internal guidelines. Repeat infringer policies have to be objective and proportionate and take full account of the circumstances. Information-sharing on repeat infringers under the MoU fully respects data protection laws (Čeranić Perišić, 2020).

The Memorandum also includes a minimum set of consumer protection provisions. Compensation for economic or other harm depends on the policies of the individual signatories concerned.

## CONCLUSION

Counterfeiting phenomenon and the sale of counterfeit goods via the Internet present contemporary security challenges. Since the Internet is defined by technical and technological capabilities that are more or less balanced globally, the problem of the sale of counterfeit goods via the Internet should be resolved at the international level. However, hard international law does not regulate this issue, while soft international law offers some solutions.

Negotiation, adoption and implementation of the instruments of soft international law carries certain risks, but also has a number of advantages in relation to hard international law. On the one hand, since the MoU has mostly been operated by multinational companies, there is a risk that legal norms applicable to all actors grow up around the capacity and sophistication of large economic players – though this can also happen if litigation is the vehicle for development of principles. Again, public scrutiny is essential (Dinwoodie, 2014). On the other hand, the MoU reduces costs by limiting litigation expenses. Furthermore, experience shows that instruments of soft international law, such as the MoU, are much more suitable for the development of international legally binding norms than the negotiations of multilateral instruments of international public law character (Čeranić Perišić, 2020). Finally, on the international horizon, the MoU is expected to contribute both to a gradual harmonization of the signatories' legislations and a progressive unification of their case law.

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