

DISTILLED SPIRITS ASSOCIATION SUBMISSION ON THE TRADE MARKS (INTERNATIONAL TREATIES AND ENFORCEMENT) AMENDMENT BILL

I write on behalf of the Distilled Spirits Association Inc in response to the Foreign Affairs, Defence and Trade Committee's call for submissions on the Trade Marks (International Treaties and Enforcement) Amendment Bill.

THE ASSOCIATION

The Distilled Spirits Association is the national trade organisation representing New Zealand's leading producers and marketers of premium quality spirits (eg Brandy, Whisky, Rum, Gin, Vodka) and liqueurs.

The Association's members include: Anchor Ethanol Limited, Bacardi Martini Asia Pacific Ltd, Brown Forman Beverages Worldwide, Diageo (New Zealand) Ltd, Lion Nathan Wines and Spirits Ltd, Beam Global (NZ) Ltd, Pernod Ricard New Zealand Limited, The Rum Company (New Zealand) Ltd, and Vintage Wines and Spirits Ltd.

The Association's members trade in a global market and increasingly find that their highly and successfully branded goods, and their associated intellectual property, are often targeted by counterfeiters and parallel importers. The Association's remit is to seek strong legal protection for members' intellectual property.

INTRODUCTION

The Trade Marks (International Treaties and Enforcement) Amendment Bill seeks to amend the Trade Marks Act and the Copyright Act.

The Bill proposes several major reforms including empowering the Ministry of Economic Development's National Enforcement Unit (NEU) and the New Zealand Customs Service (NZCS) to investigate and prosecute importers and traders of counterfeit goods.

The Association considers that this is a solid step and believes that it will go far in helping to reduce the trade in counterfeit goods and provide deterrence to offenders.

In this submission we ask the Committee to consider the following points of specific interest to the Association:

1. Counterfeiting Issues within the Spirits Industry
2. Tax and Revenue Implications
3. Protecting Public Health
4. Other IP Laws

1. COUNTERFEITING ISSUES WITHIN THE SPIRITS INDUSTRY

Distilled spirits can be highly attractive to counterfeiters and fraudsters. This is due in part to the cachet of international brands and prestigious premium products which generate value for producer and consumer alike. The counterfeiter commits a fraud against both parties.

The recent concluding of free trade agreements could potentially mean New Zealand becomes an increasingly attractive market for counterfeiters.

There are two types of counterfeit distilled spirits:

- Counterfeit brands – eg a whisky purporting to be a well-known international brand when it is not
- Counterfeit product – eg a product calling itself 'Bourbon' when it was produced outside of the USA, or a 'Whisky' calling itself 'Scotch Whisky' when it has not been produced in accordance with the laws of the UK

Based upon our experience other common infringements include:

- The refilling of genuine brand bottles, once empty, with inferior low quality substitutes
- The mimicking of genuine labels through very subtle differences eg where a genuine product is marked "1 litre" the counterfeit might state "1 L"
- A counterfeit product having different alcohol content (usually lower) than the genuine product eg a genuine bottle may declare "43%/vol" whereas a fake might read "40%/vol"
- The deliberate obscuring or tampering with bar codes or lot codes (to prevent brand owner trace-back)
- Counterfeit product not conforming to labelling requirements eg the non declaration of a New Zealand distributor's name and address. This can create significant confusion and frustration for consumers when the product they purchase, does not meet their expectations, and has to be returned.

The actions of small transient producers or importers may sound insignificant, but left unchecked they can become an increasingly costly problem for legitimate spirit brand owners, producers and marketers. For example, industry has spent a considerable amount of money (in excess of \$250,000) over the years in monitoring and protecting spirits from infringers.

2. TAX AND REVENUE IMPLICATIONS

Counterfeit spirits traded in New Zealand at best are sub-standard, and at worst are harmful or even lethal to consumers.

Counterfeit spirits will also be excise tax-evaded and then often offloaded on the black market to small, independent off-licences or sold directly to the public privately, online or via on-premise outlets – eg bars, restaurants and clubs – at or near to the full tax-paid price. Less detectable, but potentially significant is that counterfeiting that extends from home distilling¹ and the "refilling" of proprietary bottles of spirits with

¹ "Thrifty of spirit brew their own tipple", 6/4/09 The Press

lookalike counterfeit product and inferior substitute. The public is thus defrauded on two counts.

Anecdotal evidence suggests that the above practices have been carried out on a small scale and sometimes involve and fund organised crime.

Perversely, current government tax policies and in particular high excise tax settings could in some way incentivise counterfeiting. A high tax component such as the \$17 of taxes and duties on a standard bottle of spirit makes the final retail price of the product much more expensive and in turn profitable to counterfeit.

3. PROTECTING PUBLIC HEALTH

It is well known that counterfeit beverages are not produced to the same quality and safety standards as legitimate alcohol brands and could contain potentially harmful ingredients such as methanol or bacteria. Counterfeit spirits can therefore pose a severe health risk for consumers as well as severely undermining the reputation of legitimate domestic and international spirit brands. Quite simply, counterfeiters do not care about health and safety issues or consumer welfare. We note that the Secretariat to the World Health Organisation has recently referenced the impact of non-commercially produced alcohol, which would include counterfeits. The problem was stated as “Fatal mass poisonings following the drinking of illegally or informally produced alcohol beverages have been reported from several countries”².

4. OTHER IP LAWS

The Association considers that the Bill is an important complement and component in relation to several other jurisdictions concerned with the protection and enforcement of intellectual property rights (IPR). The **Anti-Counterfeiting Trade Agreement (ACTA)** which New Zealand is a party to is one example. Amongst other things, the agreement focuses on providing enforcement and effective legal frameworks to combat counterfeiting. The Association enthusiastically supports the agreement.

Also, complementary in the continuing improvement in overall IP protections, we note that the **Geographical Indications (Wine and Spirits Registration) Act 2006 (GI Act)** may also be considered part of the suite of IPR protections. The Act mandates a register for spirits (and wines) with geographical indications. According to the then Associate Commerce Minister the legislation was to “...meet(s) our obligations under the TRIPS agreement”³. We consider that when finally activated, this important piece of IPR legislation will also go a long way towards deterring counterfeiting practice and its effects.

Some 30 months, after the royal assent⁴ was given to the GI Act, spirit (and wine) Geographical Indication (GI) users can not use the registration system as the MED has not promulgated the regulations which have been blocked by an unrelated process involving international negotiations (which have nothing to do with spirits). It sends a

2 Strategies to reduce the harmful use of alcohol. Report by the Secretariat. A61/13 20 March 2008

3 Hon Judith Tizard, 13 December 2005, Parliamentary Debates Hansard

4 Royal assent given on November 2006

mixed message to our overseas trading partners that it is a ‘claytons law’. It also indicates that the New Zealand Government is letting down the spirits industry and is not serious about protecting IPR. This is likely to reduce confidence in our legal framework.

Ironically, the New Zealand Government recognises spirit GIs under the trans-Tasman Food Standards Code (Standard 2.7.5 “Spirits”) yet it continues to stall the implementation of a domestic register. Quite simply, a register aids the legal and evidential requirements proving the meaning and description of a GI spirit.

New Zealand is regarded as one of the most developed and secure countries to trade with. Consistent with moves to protect against counterfeiting, we believe it is time for the Government to immediately order the promulgation of the Act’s regulations (if necessary - for spirits only), as must have been intended when the legislation was passed. This would further positively demonstrate to others that New Zealand is not dismissive but committed to strong IPR protections.

The current stalling of the GI Act and its registration system simply plays into the hands of fraudsters. This will continue to penalise legitimate distilled spirits producers and brand owners.

CLAUSE BY CLAUSE COMMENT

The following analysis provides specific comment on aspects of the Bill which impact on the Association and its members.

Clause 15 - New section 97A substituted

The clause proposes to further entrench the practice of parallel importation⁵ by preventing trade mark owners from assigning their trade mark registrations to local distributors. The Association opposes this clause as parallel importation has and continues to be extremely damaging to trademarks and costly to our members. In spite of this, it is acknowledged that parallel importing has been made legal but only when products are genuine.

The Association notes those unscrupulous parallel importers, occupying the lowest end of the market who, in a bid to usurp official brand distributor or brand owner detection and monitoring:

- Deliberately obscure or tamper with important batch or lot codes and
- Sell stock with best-before-dates that have expired or are close to expiry.

This typical market behaviour of parallel importers is never endorsed by official distributors or brand owners and is most certainly not normal industry best-practice behaviour. Combined with a lack of motivation within the New Zealand Food Safety Authority (NZFSA) to enforce breaches of the Food Standards Code labelling provisions, the above instances of parallel importing are harmful to industry and could pose a risk to consumer safety.

⁵ Parallel imports are products imported and sold without the permission or control of the brand or intellectual property owner

The Association considers that, if enacted, clause 15 further ingrains the practice of parallel importing and encourages the importation of counterfeit or dubious goods to the detriment of trade mark owners, authorised importers and consumers.

Moreover, the bill draws fresh attention to the overall parallel importation policy as it may need to be re-examined to address concerns held by New Zealand's major trading partners. It would be regrettable if a situation arose where New Zealand's allowing of parallel importation impeded the successful conclusion of free trade agreements.

In the context of the above, the Association recommends that clause 15 be removed from the Bill.

Clauses 17-40 – Enforcement provisions (various)

When counterfeit goods enter the market, brand owners will try their best to protect their brands however the Association and its members have limited means to police the marketplace. Therefore, the Association is fully supportive of clauses 17 to 40 that enable the NZCS, at the border frontline, and the NEU, post-border, proactive roles in identifying and prosecuting infringers of the Trade Marks Act and the Copyright Act.

The NZCS is well placed to identify problem importers and we are supportive of the NEU having a "post-border" function. The NEU is already established and has competence in enforcing and prosecuting regulatory crime.

Further, we note that the proposed enforcement provisions will reduce the work load on the NZ Police who generally see intellectual property crime to be of low priority status.

To further improve the bill, we would also recommend that the draft legislation provide legal instruments for dealing with counterfeit goods that may be in transit. This would further deter violators from using New Zealand ports to move counterfeit goods.

To assure the success of the new proposals, the Association suggests that sufficient resourcing be set aside or made available for the relevant authority's dedicated investigative and enforcement teams.

The Association is also fully supportive of the proposed offences specified at section 155J being a jail term of up to six months or a fine of up to \$10,000 for an individual or \$500,000 for a body corporate that withholds information requested by the NZCS.

Noting that penalties for a person convicted of importing and or selling counterfeits can incur a fine of up to \$150,000 or a jail term of five years, we recommend that the Bill include an amendment introducing monetary damages to be paid to the affected brand owner even if actual economic harm (to retail values and profits) cannot be accurately or easily quantified. This would further signal to counterfeiters that their criminal offending is not tolerated.

SUMMARY AND RECOMMENDATIONS

- The Association supports the Trade Marks (International Treaties and Enforcement) Amendment Bill and believes strongly the Bill is reasonable and that it would be a further deterrent to counterfeiters.
- The Association recommends that clause 15 which further entrenches parallel importation be removed from the Bill.
- The Association strongly supports enabling the lead enforcement agencies; the Ministry of Economic Development and the New Zealand Customs Service to investigate and prosecute importers of counterfeit goods.
- The Association recommends that the Bill be amended to enable the awarding of exemplary or pecuniary damages to brand owners, against importers who import or sell counterfeit goods.
- And consistent with the protection of IPR, we encourage the new Government to recognise the importance of a geographical indications register for spirits (and wine) and the need for its immediate activation.

The Association would be happy to provide clarification or further information on any aspect of its submission.

DISTILLED SPIRITS ASSOCIATION OF NEW ZEALAND

15 May 2009

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Foreign Affairs & Trade Select Committee
Parliament Buildings
Wellington

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Dear Peter

**DISTILLED SPIRITS ASSOCIATION SUBMISSION ON THE TRADE
MARKS (INTERNATIONAL TREATIES AND ENFORCEMENT) AMENDMENT
BILL**

Please find attached the written response of the Distilled Spirits Association of New Zealand Inc to the call for submissions on the Trade Marks (International Treaties and Enforcement) Amendment Bill.

Yours sincerely

Thomas Chin
Chief Executive