FIGHTING INTELLECTUAL PROPERTY FRAUD

Intellectual property frauds have become more and more organized and globalized. Developing innovative enforcement strategies and tactics through private-public partnership are essential to tackle the problem effectively. The presentation will uncover the latest challenges in fighting intellectual property frauds in the real world and cyber world under the current enforcement environment. Enforcement innovations, including the widening of the use of the forfeiture powers against racketeering, real-time exchange of intelligence and enhancing victim cooperation, will be discussed from both the private and public enforcement perspectives.

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In 1999, he was seconded to the Trade and Industry Bureau as Assistant Secretary for Trade and Industry, mainly involved in the formulation of policy in intellectual property including patents, trademarks and registered designs.

Between August and December 2005, he was involved in organizing the World Trade Organization 6th Ministerial Conference in Hong Kong. In 2010, he organized the 2010 International Law Enforcement Intellectual Property Crime Conference with INTERPOL in Hong Kong.

He has a keen interest in crime reduction and fraud prevention both professionally and academically. He is a Certified Fraud Examiner. He holds a bachelor and master degree in laws, and two other master degrees, one in criminology and one in technology management. He is a barrister of the Middle Temple of England and Wales, and the High Court of Hong Kong. He is also a member of the Chartered Institute of Linguists in the UK. In 2010, he was awarded a master’s degree in applied criminology and police management from the Wolfson College of the University of Cambridge, UK.
**Introduction**

Hong Kong government has been treating the protection of intellectual property very seriously. The Customs and Excise Department in Hong Kong (hereinafter termed as Hong Kong Customs) has been tasked to carry out criminal enforcement against trademark counterfeiting and copyright infringement under the Trade Descriptions Ordinance and Copyright Ordinance since 1973. Criminal law enforcement covers not only the boundary control points but also all the inland piracy and counterfeiting activities within the territory of Hong Kong. In 1998, the Hong Kong Customs set up a Special Task Force of 150 officers to target pirated optical discs outlets, which is in addition to the existing manpower of 250 officers in the Intellectual Property Investigation Bureau.\(^1\) Statistics showed encouraging enforcement results. Within two years, the number of pirate optical discs outlets was reduced by about 90 percent from 1,000 in 1998 to 110 in 2000. The daily stock of pirated optical discs kept by the outlets was also reduced by 99.6 percent from 4,500,000 in 1998 to 18,200 in 2004. In 1999, Hong Kong was removed from the 301 Watch List.\(^2\)

**Organized Intellectual Property Crime**

Intellectual property crime usually refers to the infringement trademarks, patents, copyright, designs and trade secrets. As intellectual property can be found everywhere — books, movies, music, paintings, brand-name goods such as watches and handbags — chances of faking them at low cost to make a huge profit is high, especially under the environment of a global economy. By

\(^1\) The Intellectual Property Investigation Bureau and the Special Task Force are the dedicated forces to enforce the laws against piracy and counterfeiting. The size of the two teams is about 400 officers or 9% of the manpower of the Hong Kong Customs.

\(^2\) Hong Kong Special Administrative Region (2004), *Hong Kong: a role model in intellectual property protection*, (Government Publication, Government of the Hong Kong SAR)
its nature, intellectual property crime can easily attract organized crime because counterfeiting and piracy is a high-profit but relatively low-risk offense, requiring organization rather than skill.³

**The OSCO, Cap 455**
In Hong Kong, the law governing organized crime is the Organized and Serious Crimes Ordinance, Cap 455 (OSCO), which was enacted to effectively tackle the then-growing problem of organized crimes in the 1990s in Hong Kong. Among other things, it created offenses relating to activities of organized crime groups. The OSCO is not confined to crimes that are organized and serious. It has provisions relating to organized crime, and provisions relating to serious crime. Under the OSCO, organized crime is not a criminal offense per se as there is no such crime punishable in Hong Kong without relating to a specific crime (e.g., copyright piracy). It is just a description of circumstances that are relevant to the exercise of powers of investigation, confiscation of proceeds of crime, and enhanced sentencing. The OSCO has four principal parts, namely, 1) powers of investigation; 2) restraint and confiscation of proceeds of crime; 3) money laundering offense; and 4) enhanced sentencing.

**Power of Investigation**
The power of investigation permits the Department of Justice in Hong Kong to apply to the court⁴ for an order that compels a person to provide information to an

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⁴ Unless otherwise stated, the court under the OSCO means the Court of First Instance (or the equivalent to Crown Court in the United Kingdom) or the District Court (a hybrid level of judicial jurisdiction which is higher than the Magistrate’s court but lowered than the Court of First Instance).
authorized officer in relation an investigation of an organized crime.\(^5\) It also permits the court to make a production order, which requires a person in possession or control of material in Hong Kong or elsewhere, to produce to an investigation of an organized crime, proceeds of an organized crime, or proceeds of a specified offense.\(^6\) It further permits the court to issue search warrants in relation to the same investigation.\(^7\)

**Confiscation**

Regarding confiscation of crime proceeds, the court is empowered to make an order in relation to a person’s proceeds of a specified offense that exceeds US$13,000.\(^8\) If the court determines that the specified offense is an organized crime and the proceeds exceed US$13,000, the court can order the confiscation of the value of all the person’s proceeds from organized crime. It also permits the court to make a confiscation order against a defendant who died or absconded after the proceedings were instituted. There are also provisions to permit the court to make restraint and charging orders against a defendant’s or third person’s property in order to preserve the property to satisfy a future confiscation order that might be made against a defendant.

**Money Laundering**

To prevent money laundering, the OSCO makes it an offense for a person to deal with a person’s proceeds from an indictable offense, or conduct elsewhere that would amount to an indictable offense if committed in

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\(^5\) Section 3 of the OSCO, Cap 455, Laws of Hong Kong.  
\(^6\) Section 4 of the OSCO, Cap 455, Laws of Hong Kong.  
\(^7\) Section 5 of the OSCO, Cap 455, Laws of Hong Kong;  
\(^8\) Section 8 of the OSCO laid down the threshold of HK$100,000, which is about US$13,000 equivalent. For the sake of a better appreciation of the value, the US dollars equivalent has been used throughout this paper.
Hong Kong. It also imposes a duty upon a person to report his or her suspicion that property may be related to an indictable offense.

Enhanced Sentencing
The OSCO permits prosecuting counsel to present information in sentencing proceedings in the court in respect of a person convicted of a specified offense for the purpose having the court impose a greater sentence than it would otherwise impose. The information may relate to such matters as: impact of the offense on the victim, prevalence of the offense, benefit to the person or others from the offense, and harm to the community from the offense. In addition, an enhanced sentence may be imposed if the court determines that the specified offense is an organized crime.

Organized Intellectual Property Crime
The OSCO was enacted principally to enable greater punishment of organized criminal activity. The broad area of law can be used to sanction certain types of intellectual property crime under the Copyright Ordinance, Cap 528, and Trade Descriptions Ordinance, Cap 362, that involved substantial planning and organization. It covers offenses under the Trade Descriptions Ordinance related to the infringement of trademark rights, and offenses related to making and dealing in infringing copies of copyrighted works in Hong Kong and outside Hong Kong under the Copyright Ordinance.

Solving Intellectual Property Crime
Like most other crimes, the process of investigating intellectual property crime involves the collection of

\[\text{Section 24 of the OSCO, Cap 455, Laws of Hong Kong.}\]
evidence and the use of the evidence, investigation, detection and prosecution. If the case is not prosecuted, then it involved the disposal of the goods — either confiscated or returned to the rightful owner.

The main difference of investigating intellectual property crime versus other crime is the involvement of the copyright and trademark owners. They are required to furnish proof on their intellectual property to the Hong Kong Customs for verification. The purpose of the verification is to confirm the subsistence of the copyright or trademark and those rights belong to the victim. As presented in Figure 1, the involvement of the intellectual property rights owner occurs in all important stages in the workflow of investigation: proof of the subsistence of the intellectual property rights, investigation, detection and prosecution.

The proof of the subsistence of the intellectual property rights is the crucial first stage on whether a case warranted further attention. This is a stringent process where the intellectual property rights owners have to furnish legal documents such as affidavits for copyright infringement and trademark certificate for trademark counterfeiting. If the intellectual property rights cannot be proved to the satisfaction of the Hong Kong Customs at the initial stage, further investigation is unlikely.
Figure 1: Intellectual Property Crime Investigation Processes

Notes:

- The * indicates the stages of the case processing where the intellectual property rights owners are involved either in furnishing proof of the subsistence of the intellectual property rights or examination of the seized items to confirm whether they are offending goods.

- The percentage in Figure 1 is presented for illustration purposes only and is based on professional estimation of experienced Customs officers of the Hong Kong Customs for cases made in 2007 and 2008.

- The 40% of cases for “hot spot” enforcement refers to the enforcement against cases in which the copyright and/or trademark proof have been verified previously and repeated verification is not necessary, and involved the blatant violation of the law by openly selling fake goods. See Sherman, L.W. et al. (Eds.) “Preventing Crime,” in Evidence-Based Crime Prevention, Routledge: 2002, for detail on “hot spot” policing.

- “Prosecuted” means prosecution of the case in court in which more than 90% of the defendants are convicted, and “goods disposal” means the confiscation of the goods or the return of the goods to the rightful owner after removal of the offending marks or unconditionally, if the goods are found not offending.
**Victim Cooperation**

Victim cooperation is particularly important in the criminal prosecution of intellectual property cases. The proof of the subsistence of the copyright or trademark is the prerequisite of a successful prosecution in court. Then, victims of intellectual property crime also have to examine the seized items suspected of violating the copyright or trade to provide details on the difference of the legitimate goods and offending goods. Later, the evidence has to be presented in court in the case of a challenge by the defendant.

In fact, not all the seized items can be confirmed by the victims as fake goods for a number of reasons (for instance, the trademark registration has not been completed yet, the goods are parallel imports or the intellectual property right owners have shown no interest in providing evidence to Hong Kong Customs). For items in these categories, the case cannot be further investigated. These items are called *unactionable* items. The proportion of unactionable items may affect the case seriously.

**Application of the OSCO to Intellectual Property Cases**

Apart from satisfying the basic criteria of two or more persons, two or more charges and the US$13,000 value threshold, there are large-scale cases, involving large values of seizures and frozen assets and involving substantial planning and organization.

**Complicated Investigation Processes**

As presented in Figure 1, the processes of investigating intellectual property crimes are complicated by the need to involve the victims who are the intellectual property rights owners. During several key stages of investigation, their support is crucial. First of all, the victims have to provide proof of their intellectual
property rights, accompany the Customs officers to
investigate the case (including differentiate the genuine
from the fake at the crime scene) and then meet with
Customs officers to examine the seized items.\(^{10}\)
Resources, mainly the Hong Kong Customs officers’
time spent with the victims, are enormous and
estimation of the cost involved is at present unavailable.
Such resource investment is in addition to the
investigation and detection of the crime, follow-up
verifications and trial preparation for the prosecution of
the cases. If the investigation processes can be
streamlined, valuable resources on the handling of the
victims and the work on those cases that do not yield
any enforcement results can be saved. In the study
conducted by the National White Collar Crime of the
National Institute of Justice (2004), the majority of
enforcement officers interviewed in the United States
(74\%) considered that the required case resources that
are not available might create obstacles to the
intellectual property crime enforcement.

**Restricted Enforcement Focus**
The application of the OSCO to the most serious
organized intellectual property crime, however, is
inconsistent with the original objective of the law. The
objective of the OSCO is to “deal more severely with
infringers”\(^{11}\) but not just deal with the most serious
infringers. To achieve this objective, the momentum of
the deterrent effect should be sustainable and widened
to deter more people from engaging in similar illegal

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\(^{10}\) Information obtained from personal communications with
experienced Customs officers who had been working in the criminal
enforcement of intellectual property.

\(^{11}\) Press release of the Information Services Department of the
Government Region of the Hong Kong Special Administrative Region
of the People’s Republic of China on “Piracy and counterfeiting to be
included under Organized and Serious Crime Ordinance” dated 14
October 1999.
activities. In Hetzer’s (2002) study, piracy and counterfeiting had become more organized. A diverse strategy targeting different levels of organized intellectual property crime is more desirable.

As the illegal outlets for selling pirated optical discs have been shrinking substantially, such illegal activities might have been displaced to other locations, online for instance. New areas, such as illegal uploading and downloading of digital copies of music, movies and computer software, are a possibility for developing potential organized crime cases or selling counterfeit goods on auction sites. The reduction of the illegal pirated optical discs sales outlets might be due to a number of reasons but the shift of the market from physical transactions to online transactions might be among them. A diverse strategy on different types of organized intellectual property crime could send a message to the society that no illegal activities on intellectual property are immune from prosecution as organized crime. It seems therefore that more flexibility should be built into the enforcement and prosecution policy of Hong Kong Customs for the application of the OSCO.

Widening the Application of the OSCO
While there seems to be a need to apply the OSCO more frequently to a variety of intellectual property cases, a valid question to ask is whether there are potential cases for doing so by the Hong Kong Customs.

**Potential Cases**
One of the requirements of the OSCO is that at least two or more persons have been involved in the intellectual property crime. It appears that such large amount of cases and arrests both in copyright piracy
and trademark counterfeiting should provide a great deal of potential for the application of the OSCO. The prosecution of organized intellectual property crime cases is, of course, dependent on whether other requirements under the OSCO can be satisfied, such as the level of organization and the number of illegal acts involved.

Victims’ Cooperation
To enhance the chance of bringing more potential cases for prosecution as organized intellectual crime, the obstacles to organized crime enforcement have to be removed. Greater cooperation from the victims may help. Victims who are the intellectual property right owners can improve the quality of evidence, for example, on the subsistence of the intellectual property rights and the accuracy of the examination of the seized items, so as to reduce the proportion of the unactionable items and the unsuccessful cases.

To be justified as organized intellectual property crime under the OSCO, the case has to satisfy certain requirements, and one of them is the value threshold — value of seizure exceeding US$13,000. This is a guideline but not a legal requirement. This value threshold performs the role of filtering trivial cases from being classified as organized crime when the financial background of the offenders involved is not so clear at the beginning of the investigation. For large amounts of seizure, this may not be essential as the overall value of the seized goods already go well beyond the US$13,000 value threshold. For cases only marginally meeting the value threshold but that satisfy sufficiently the other requirements of an organized crime (two or more people involved, two charges, etc.), the proportion of unactionable items is critical. The
proportion of unactionable items may result in some promising cases falling outside the OSCO merely because support from victims is unavailable. This finding is consistent with the result of the study of the National White Collar Crime of the National Institute of Justice (2004), which revealed about half of the respondents considered uncooperative victims as one of the obstacles in organized intellectual property crime enforcement.

Conclusion
The use of the crime proceeds recovered as a cost effective means to fund more “unwilling-to-pay” victims to come to Hong Kong to provide evidence should be an area for further serious deliberation for the Hong Kong Customs. This will not only enhance the success rate of prosecution of organized intellectual property crime but also demonstrate the determination of Hong Kong in the protection of intellectual property rights.

A more effective strategy should be considered to tackle the problem. Such an enforcement strategy should aim to control the situation as well as prevent harm. The adoption of a dynamic and proactive approach is one of the viable options for improving the enforcement against intellectual property crime in Hong Kong. The Hong Kong Customs may consider looking further than the intellectual property crime committed and adopt a problem-oriented approach. At present, the organized intellectual property prosecutions have been concentrated on illegal activities related to pirated optical discs. There may be a need for Hong Kong Customs to consider alternative responses instead of the existing approach of just focusing on pirated optical discs and related illegal activities for organized crime investigation. A more proactive strategy or tactic against organized intellectual property crime should be developed.
to contain the problem as well as prevent the crime from recurring. The focus of enforcement, as advocated by Goldstein (1979), is the problem rather than a single incident. The problem should be tackled from the root cause, which is possibly the strong support of organized syndicates particularly in running the illegal outlets in selling pirated and counterfeit goods. Enforcement effort should be focused on strengthening victims’ cooperation as their evidence is critical in securing a successful prosecution, and investing more resources in pursuing organized intellectual property crime investigation because of its cost effectiveness and likely strong deterrent effect.