

Pragmatic System for Consumer Protection from Trademarks Perspective

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1. Background

Compared to the Consumer Protection Act 1998, the new Consumer Protection Act 2018 significantly broadened consumer rights. In fact, the Constitution of Nepal 2015 has recognized consumer rights as one of the fundamental rights.¹ The Consumer Act 2018 has been incorporated four main objectives which are as follows:

- To protect consumer's constitutional rights on obtaining qualitative goods and services.
- To provide judicial remedy for the implementation of consumer rights.
- To streamline the compensation process.
- To provide greater protection to trademark.

A trademark is a distinctive sign used on or in connection with the marketing of goods which distinguishes the goods or services. Trade mark helps the consumers identify the goods of one manufacture from that of another. Trade mark serves to distinguish the goods of enterprise from those of another. Service mark is the same sort of mark as trademark but applies to services rather than goods. The Patent Design and Trademark Act 1965 ("PDTA") protects trademarks registered at the Department of Industries ("DOI"). This protection is based on the first-to-file principle. The PDTA grants protection only to the registered trademarks. What if the original owner of a product did

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¹ THE CONSTITUTION OF NEPAL, Art. 44, (2015)

not register his/her trademarks or any MNCs in Nepal, but the trademark is globally recognized is well known marks. A Nepali company registers the trademark in Nepal under its own name and sells goods under the brand and the consumers buy the goods under the assumption that it is original. Not surprisingly, the goods are of substandard quality. This trend poses a serious threat to consumer health and safety. When the original (foreign) well-known mark's owner enters Nepal and tries to take action against the Nepali company producing the counterfeit products, the owner does not get an effective remedy because his trademark is not registered in Nepal and Nepali companies continue to take advantage of a weak trademark protection regime. In addition, in many instances the Nepali company registers a company and a domain name under the name of famous brands and then registers a trademark which makes them strong from legal perspective. Consumers loose trust in well-established brands due to the counterfeit products that are available in market.

The first-to-file trademark protection scheme is not effective and instead rewards those who unfairly infringe on the intellectual property of others. Gaps in customs regulations also allow many Nepali companies to import and sell counterfeit goods in Nepali market. In the presence of these problems, it is difficult to exercise the consumer rights as guaranteed.

2. Consumer Rights under the Consumer Protection Act

The Consumer Act is more consumer-oriented. The main objective of the Consumer Act is to provide effective compensation to consumers in case of loss or harm. The Consumer Act defines consumer as an individual or institution consuming or using any goods or services.²The Consumer Act guarantees the following rights³ to consumers:

- 1) Easy access to goods and services;
- 2) Right to select qualitative goods and services in fair competitive price;
- 3) Right to be informed about the price, quantity, purity, quality, etc. of goods and services;
- 4) Right to know about the quantity, element and percentage of the ingredients of goods from the manufacturer, importer and seller;
- 5) Right to be secured from the sale and distribution of the goods and services that hampers the life, body and health;

² Consumer Protection Act, Chap. 1, Sec. 2, (2018)

³ Ibid Chap. 2

- 6) Right to take legal action against unfair trade and commercial practices;
- 7) Right to get compensated against the damage incurred from the use of goods and services;
- 8) Right to legal remedy; and
- 9) Right to have education on consumer's right.

The Consumer Act imposes obligations on manufactures including importers, suppliers, depositor, seller and service provider. For example, the Consumer Act states that the manufacturer should not produce defective product.⁴ Defective product has been defined as a product that is different from the original product manufactured by the company, which owns the intellectual property over the product, or which is produced by theft or is copied.⁵ This makes a reference to the counterfeit products as a defective product. Even after production is complete and is already available in the market, if the manufacturer finds that the product is defective, the manufacturer is responsible for recollecting and destroying such products.⁶ The Consumer Act prohibits sale of a product by mislabeling it or misleading the consumer as to its quality.⁷ The Consumer Act also arranges for emergency market inspection for protecting consumer rights. Consumer Protection Act provides for the establishment of Consumer Courts to proceed and decide the cases specified in the Consumer Act. If anyone has a complaint regarding a good, a complaint can be filed in written, oral, or in an electronic form. The provision of the Consumer Act seems progressive and inclusive.

3. Trademarks and functions of trademarks

A trademark provides protection to the owner of the mark by ensuring the exclusive right to use it to identify goods and services or to authorize another to use it in return for payment. The period of protection varies, but can be renewed indefinitely on payment of corresponding fees. Trademark protection is enforced by the courts. The mark embedded in the production speaks recognition, trust & quality production. Trade mark as brand name, is an identification symbol which may be a word, device, label or numeral etc. A trademark is any word, name, symbol or device or any combination thereof, adopted and used by a manufacturer or merchant to identify his goods and

⁴ Consumer Protection Act, Sec. 7, Cl. 1(d) (2018)

⁵ Ibid Sec. 2

⁶ Ibid Sec 7

⁷ Ibid Sec.18

distinguish them from those manufactured or sold by others.⁸ A trademark can be a word or a logo. Trademark acts as a sign which helps to trace the origin of goods. The PDTA defines trademark as a word, symbol, or picture or a combination thereof to be used by any firm, company or individual in its products or services to distinguish them with the product or services of others.⁹ Trademark helps to increase the goodwill of a company as it is one factor that is known everywhere by its quality product and popularity and assists consumers in identifying goods. Trademark is registered for 7 years and renewal every 7 years for indefinite period.

Functions of trademarks are to distinguish the goods & services of various enterprises from one to another, to protect the interest of owner against unfair competition, to establish the owner's right in case of infringement, confusion, deception, to increase the scale of business, to facilitate the consumers in selection of goods & services and to ensure the quality of goods & services. Some of the trademarks and service marks such as "Coca-Cola", "Nescafé" "Facebook" are widely known among consumers which make them well-known marks. Well-known marks represent company's goodwill & reputation. Generally, well-known marks are entitled to additional stronger protection by government agencies compared to the ordinary trademarks. Well-known marks are famous marks and have passed various phases and condition to gain such status and reputation. Hence, such marks are protected even if they are not registered or have not been used in a particular jurisdiction. Counterfeiting is imitation of a product. It gives the impression of being the genuine product. The most known examples of counterfeit goods are the false Louis Vuitton bag, the false Rolex, Cartex, other luxury watches, the false Puma the Reebok sport shoes etc. Counterfeiting is criminal activity and civil aspect of counterfeiting is to obtain payment of consequent debt

4. Nexus between Consumers and Trademarks

Trademarks serve to assist consumers in identifying the specific product they are looking for and may have already purchased for years, and/or in finding a branded product that is intended to deliver a certain level of quality, service and consumer satisfaction, which is backed up by a reputable manufacturer and local distributor and appropriate warranties. Safety issues may also play a role in a consumer's decision to acquire the respective

⁸ ANTHONY A D'AMATO & DORIS E LONG, INTERNATIONAL INTELLECTUAL PROPERTY LAW (1997)

⁹ Patent, Design and Trademark Act, Ch. 1, §2, Cl. c (1965)

product. Consumers around the world have specific wishes and needs based on cultural, language, environmental and other market conditions. Trademark owners design their products, packaging, sales and distribution networks to meet such specific wishes and needs.¹⁰ From the consumer's perspective, trademark plays an important role in assisting buyers to identify the quality of goods that they are buying. This will obligate manufacturers to comply with the promises they make about the quality of their goods through various advertisements and to fulfill the expectation of consumers.

The trademark first presents the consumers with the initial information regarding the origin of goods and services. It tells them that that the trademark is made by a particular producer and by no one else. That brand itself is a seal of authenticity, a practical method for consumers to appreciate the quality of goods by simply viewing the mark rather than inspecting each product.¹¹ In economic terms, trademark contributes to economic efficiency by reducing consumer search costs.¹²

5. Counterfeit and Infringing Products

The World Trade Organization (WTO) defines product counterfeiting as: "Unauthorized representation of a registered trademark carried on goods identical or similar to goods for which the trademark is registered, with a view to deceiving the purchaser into believing that he/she is buying the original goods" (WTO, 2011). According to Section 2(a) of Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007 of India "goods infringing intellectual property rights" means any goods which are made, reproduced, put into circulation or otherwise used in breach of the intellectual property laws in India or outside India and without the consent of the right holder or a person duly authorized to do so by the right holder. Manufacturing counterfeit and infringing products is a breach of intellectual property laws. The Consumer Act also makes a reference to the counterfeit products as a defective product which is produced in violation of intellectual property laws. The situation is straight forward if a trademark is registered. If a person tries to imitate and copy the registered trademarks and produce goods under such trademarks, legal actions can be taken against the infringers and counterfeiters by initiating an infringement action at the DOI.

¹⁰ International Trademark Association, International Trademark Association Position Paper On Parallel Imports 2(2015)

¹¹ Mostert, Frederick, *Authenticity: The Timeless Quest*, TRADE MARK WORLD, 156 (22-24) (2003)

¹² WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW P167-8 (2003)

The main problem arises in the context of Nepal as to whether a person can claim trademark protection only if their trademarks are registered in Nepal. What if the original owner of the product did not register their trademarks in Nepal but is a well-known or a famous brand all over the world? For example a famous trademark “A” that is known all over the world is not registered in Nepal by the actual owner. A Nepali company registers the famous trademark in Nepal and produces goods under the trademark “A”. Consumers are also consuming goods under the trademark “A” assuming that it is the original one. If actual owner of “A” tries to initiate any action against the Nepali company that is producing the fake goods under trademark “A”, Nepal’s laws are insufficient to protect such well-known brands. Granting protection to only registered trademarks poses difficulty and makes the actual owner’s claim baseless. Given some Nepali companies are using the famous brands by registering first, the question remains unanswered as to whether such goods can also be considered as a counterfeit and infringed products.

What are the reasons behind increasing counterfeiters and infringers in Nepali markets?

There are various reasons due to which counterfeit products are increasing day by day. The counterfeit products are either produced in the territory of Nepal or are imported from neighboring countries. *First-to-file system in trademark laws*: The PDTA is based on first to file system. Under the PDTA, a person may acquire title/ownership to a trademark upon registration at the DOI.¹³ The PDTA was enacted with an objective to make legal arrangements for trademarks for the convenience and economic benefit of the general public. But it is still a question that if the PDTA is being able to fulfill its objectives. This is creating problems to many multinational companies and their well-known brands which are not registered in Nepal. When they enter Nepal to register their trademarks, they receive objection to such marks as various Nepali companies had already registered such mark in Nepal and have been producing goods under such trademark. This will create a doubt whether the goods are safe and original enough to satisfy the consumers with the expectation they have from such goods.

A case¹⁴ decided by the Supreme Court of Nepal has established a precedent that Nepali laws will provide protection only to registered trademarks. It states that “Trademarks which have been in use for a long period of time but not

¹³ Patent, Design and Trademark Act, Chap. 4, Sec.16, (1965)

¹⁴ Madan Prasad Lamsal v. Repsona Publication Pvt. Ltd., N.K.P Issue 9, Decision No. 8686(2011)

registered at the DOI shall not be entitled to exclusive protection only on the basis of use. If a trademark is being used or is claimed to be used by two firms, person or company, the person who has duly registered such trademark shall only be entitled to its protection. No person can claim exclusive right over a trademark only on the basis of its use.” This type of judgments and practice is creating difficulties in complying with the standards laid down by international conventions to which Nepal is a party. The Paris Convention for the Protection of Intellectual Property 1883 imposes obligation upon its member states to protect well-known brands. Various grey areas in laws and failure of promptly enact the new trademark laws to deal with the changing time is creating problems to consumers in exercising their consumer rights to consume qualitative goods. *Non-use in Nepal*: Many foreign brands are not used in Nepal which deprives them of protection. This has created a kind of monopoly to produce counterfeit goods under such foreign brands and sell in Nepali markets. The consumers will never know about the original products to differentiate it with the fake and duplicate one.

Customs Record System: Even if a trademark is registered at the DOI, this will not grant automatic protection if counterfeit goods bearing the same trademarks are imported into Nepal and are sold in Nepali markets. The trademark owner needs to record the trademarks at the customs in order to get effective protection against the infringers and counterfeiters. Customs record is one of the legal measures that intellectual property owners can employ for enforcement at the borders.¹⁵ Customs record system is a system where the trademark owner has an option to register its trademark right at the customs. This will prohibit the import of counterfeit and infringing goods into the territory of Nepal. Customs Act, 2007 provides that if a person is going to export or import any goods in violation of another person’s intellectual property rights, such as trademark acquired by another under prevailing laws, the latter may submit an application, accompanied by evidence, to the concerned Customs Officer for withholding such export or import.¹⁶ This is entertained in very few cases. There is no provision on recording the trademarks with the Customs Offices.

The introduction of customs record system can stop the counterfeit from border and will prevent from spreading the products into the market. The

¹⁵ Le Thi Hong Tuyen and Nguyen Thi Phi Nga, *OCTOBER 2009 Vietnam: Using the Customs recordal system*, TILLEKE (March 15, 2019), https://www.tilleke.com/sites/default/files/VN_oct09_customs_recordal_system.pdf

¹⁶ Customs Act, Chap. 14, Sec. 68, (2007)

Department of Customs must maintain a database of trademarks which are lawfully registered at the DOI which will help the concerned customs office to monitor the import of goods and detain and seize the products which are in violation of trademark laws. This will provide powerful shield against the counterfeiters and will assist consumers in getting the original products. In this system the trademark owners will provide a product identification guide which will assist the customs officer in locating the original product. The aim of recording IP rights with the Customs is to prevent trade in counterfeit or infringing goods. In the neighboring country India, the Customs Department of India has adopted the Customs Record system in furtherance of its aim to forestall the cross-border movement of counterfeit or infringing goods. In exercise of the powers conferred by sub-Section (1) of Section 156 of the Customs Act, 1962 (Act 52 of 1962), the Central Government formulated the Intellectual Property Rights (Imported Goods) Enforcement Rules, 2007 consonance with the TRIPS and World Customs Organization Model.¹⁷

Parallel Import : In simple terms, parallel import means the import of non-counterfeit goods from another country without the consent of the trademark owner of the country in which the product is being imported. National Economic Research Associates (NERA) defines parallel import as Parallel trade: sometimes referred to as the “grey market”, consists of trade in genuine trademark (or other intellectual property) protected goods that takes place without the consent of the trademark owner. Official channel goods reach the final customer through the intermediaries and distribution networks that are designed by the trademark owner. Parallel traders acquire goods, typically without the consent of the trademark owner, from some layer of the authorized channel. This can either be directly from the manufacturer from an intermediary (wholesaler or middleman) or from authorized retailers.¹⁸ In addition to that there is a difference among the goods which are imported in a parallel manner. The differences can occur in prices, quality and needs of that particular place consumer. This will create confusion among consumers which leads to disappointment.

¹⁷ Selvam & Selvam, *India Customs Recordal in India: Averting the Cross Border Movement of Infringing Goods*: MONDAQ CONNECTING KNOWLEDGE & PEOPLE (March 20, 2019), <http://www.mondaq.com/india/x/709438/Trademark/Customs+Recordal+In+India+Averting+The+CrossBorder+Movement+Of+Infringing+Goods>

¹⁸ National Economic Research Associates, *The Economic Consequences of the Choice of a Regime of Exhaustion in the Area of Trade Marks*, Final Report for DGXV of the European Commission (1999).

In a case decided by Joint Bench of Supreme Court of Nepal in an injunction¹⁹ the Supreme Court restricted parallel import. Hindustan Lever had registered its LUX trademark in Nepal and Section 16 of the PDTA provides that no one shall copy or use or cause to use in the name of the others without transforming the ownership or written ownership or written permission from the owner of the trademark which is registered at the DOI. The case further stated that no one shall confuse public by copying such trademark and using it. Hindustan Lever was producing LUX soap through its Nepali subsidiary Nepal Lever and its trademark was protected under the PDTA. The Defendant was importing LUX soaps from Indonesia and Malaysia which affected Nepal Lever Limited directly and was against the PDTA. Hence, the court confirmed the decision of the High Court (former Appellate Court) stating to issue injunction in the name of defendant to handover the soaps to the applicant.

Counterfeit products found in Small Markets: The brand owners often do not have knowledge or proper resources to inspect remote areas where the counterfeiters and infringers take advantage by selling the counterfeit and substandard goods. Sale of counterfeit products in places far from central region makes it difficult for the owners to locate the products. As consumers are not aware enough in those areas, the counterfeiters take advantage and establish their market in such areas. The trademark owners need to use innovative methods to be ahead of counterfeiters and protect their brands.

Profitable business and less risk: The counterfeiters find this business as a profitable business with very little risk. This has increased in more number with the increase of online business. As we buy many products online which does not guarantee if the product is an original one or a duplicate and even if the product is duplicate, it becomes difficult to trace the counterfeiter which spreads quickly from the producers to consumers. Counterfeit products are cheaper and look similar to the original one even though the quality is different. This similarity will allure the consumers to buy the counterfeit goods in low price.

What should be done to effectively enforce the consumer rights?

Reform in sole consumer law is not sufficient to address the problems and challenges being faced by consumers. There are many factors, which are

¹⁹ Romi RatnaTuladhar, Chief Marketing Manager of Central Departmental Store vs. Rajiv Sharin, Regional Legal Manager of Hindustan Liver Limited and Ambar BahadurThapa on behalf of Nepal Liver Limited, Appeal Number 7856 (2004).

directly and indirectly linked with the consumers that are often neglected. Some of the major steps to be taken to effectively enforce the consumer rights are.

6. Conclusion

This is the era of globalization. Many foreign companies including foreign well-known brands are entering Nepal. Filing of trademarks is also increasing day by day. Current market offers various products ranging from price to consumers. Along with the entry of various trademarks in Nepal, counterfeiters are also increasing day by day. Counterfeiters have a network which makes it difficult for agencies to locate the actual counterfeiters and provide qualitative goods to consumers. With the increase in relationship between brand and consumers, effective trademark protection regime plays an effective role in providing consumers with the rights they are entitled to. The revision of PDTA must take place by integrating consumer rights as well.

With the increase in liquor business in Nepal, many infringement cases on liquors are emerging day by day. In addition, counterfeiting in clothing and luxury brands is also prevalent. Reforms in intellectual property law, especially trademarks law, are significant to cope up with the problems that are being faced by consumers due to infringed and counterfeit goods in market.

A strong trademark protection system is necessary to ensure and guarantee consumer rights. Intellectual Property Rights regime is necessary to ensure full rights to consumers. Nepal is enjoying the benefit provided to it as a least developed country under the WTO regime and has been extending its deadline to amend laws in consonance with the international conventions. The PDTA must be amended at the earliest to include the necessary provisions such as protection of well-known brands. The counterfeit products will affect the business and the consumers in large. The availability of substandard products will pose risk to consumers from health and economic perspective. The counterfeit products can be life threatening as well.

It may be suggested to develop Proper Connection between different agencies. All government agencies namely, Ministry of Industry, Commerce and Supplies, DOI, Office of Company Registrar, Department of Customs, Department of Commerce, Supplies and Consumers Protection must work together to enforce the consumer rights to the fullest. As described above, the Department of Customs needs to work from their side to ensure in every

possible way that the counterfeit products are not entered into Nepalese market. The Department of Customs must take an initiative to amend its laws and to introduce customs record system in Nepal to stop the counterfeit activities from the border. Similarly, the Office of Company Registrar must also be aware when registering a company that sounds similar to a famous brand.

It is expedient to ensure duties of trademark owners. Trademark owners should take steps on ongoing basis to educate public and consumers about their trademarks and effectively monitor the market place in Nepal to find the possible infringers and counterfeiters.

Awareness among Consumers is necessary. Raising awareness among consumers to be aware about the products they have been consuming, informing them about the negative impacts, which can be resulted in their health and safety due to the use of counterfeit products, can also play an important role in ensuring the consumer rights more effectively. Consumers should also be smart enough to identify what they are buying. Thus, even after the introduction of the Consumer Protection Act 2018, as long as laws relating to trademarks and customs are not revised, the guarantee of consumer rights cannot be effective.

