

POSITION PAPER

UGANDA

Topic: Counterfeiting – Implications on Uganda’s Trademark Owners and possible remedies

1.0 Background/Introduction

Counterfeiting¹ is a fast growing phenomenon posing major threats to the growth of many economies around the world. Its origin is traced to China and several parts of Asia Pacific mainly because of their low cost labour, cheaper prices, size and proximity of markets. Despite its obvious importance, counterfeiting is given little attention especially in Uganda where trademark counterfeiting is the biggest peril to registered businesses and owners to trademarks.² As a member of the World Trade Organisation, Uganda is required to adhere to the provisions of the Trade Related Aspects of Intellectual Property Agreement (TRIPs)³ however; its trade laws and regulations still do not comply with the TRIPs and are out dated and ineffective in many respects.

Counterfeit business accounts for about 10% of international trade and Uganda’s market is one of the largest recipients of counterfeit products. This existence of this business is stifling the survival and future growth of local industries in Uganda mainly because of the unfair competition from the cheaper imported counterfeits although some are locally manufactured. Reports from Uganda National Bureau of Standards (UNBS) indicate that the majority of such products are sub-standard and therefore pose major threats to the lives of the consumers. Some of the companies they have listed as being greatly affected by this practise include; Cable Corporation, Nice House of Plastics and Unilever Uganda Ltd among others and counterfeiting is said to cut across all forms of goods and services some of which are listed in Appendix I attached herewith.

Uganda’s counterfeit problem is mainly aggravated by its lack of adequate enforcement of the trademark laws, weak punitive measures that instead encourage trade of counterfeit products, lack of a specific institution charged with incriminating offenders and irregularities in the companies’ registration office. More so, the institutions currently responsible for enforcing the Trademark Act lack adequate capacity, skills and resources to effectively contain counterfeiting. They are; UNBS, Uganda Revenue Authority (URA) and Uganda Police.

The rationale of this paper is to highlight the extent of the counterfeit crisis in Uganda. It also discusses the current national interventions and draws attention to key results attained by some international countries that have to a great extent contained the counterfeit problem. It is from this discussion that possible remedies to support the proposed intellectual property law that is currently with cabinet pending approval, will be suggested as a way of building stronger mechanisms to eliminate counterfeiting in Uganda. The major focus of this paper though is on trademark counterfeiting.

2.0 How Counterfeiting is affecting Uganda’s growth process

Uganda’s production growth has been shifting slowly towards the services and industry sectors from the main agriculture. As a share of GDP, services increased from 36.6% in 1991 to 41.8% in 2003 while industrial production rose from 12.4% to 19.5% over the same period. [MoFPED] In view of this positive growth, Uganda needs to protect its services and manufacturing industries if the country is to realise continued growth in the said sector although this is only achievable by effectively addressing the major barriers to this growth. Private Sector Foundation Uganda (PSFU) in its wide consultations with the private businesses has noted that counterfeiting is one of the major obstacles to the growth of local industries because, counterfeit products stifle domestic production and sales and, they also pose major health and safety problems on the consumers because most do not meet the required safety standards.

¹ This is a term widely used to refer to manufacturing of a product which so closely imitates the appearance of the product of another to mislead a consumer that it is the original product....It may include trademark infringing goods, service marks and copyright infringement. [OECD, 1998, pg3]

² A Trademark is a sign used or proposed to be used to indicate, a connection in the course of trade between the goods and a person having the right either as proprietor or registered user. [See ULRC Publication No.15 of 2004 for a detailed description]

³ This is the international instrument for protection of trademarks [See www.wto.org for details on the TRIPs and other Trade Treaties that apply]

2.1 *Effect On Domestic production and sales*

Nice House of Plastics recorded a loss of revenue equivalent to 2million toothbrushes in 2004, which nearly led to closure of the toothbrush factory. This resulted from an influx of counterfeit toothbrushes on the local market that were being sold for the same price as the genuine Nice toothbrushes. Effects pointed by other local manufacturers are;

- Loss of market share by the registered local manufacturers as a result of counterfeits.
- Lack of confidence by consumers in the product following announcement of counterfeits, which invariably affects future sales and survival of the firm.
- Loss of jobs and uncertainty of continued production and growth by affected industry as was the case with Nice House of Plastics.
- Extensive damage to the image of the legitimate brand and firm.

2.2 *Effect On Consumers*

Counterfeit foods and beverages are on the increase in the Ugandan market and most have failed the quality and health tests of the UNBS and not fit for human consumption. Worse still, many of these products are packaged in ways that consumers are unlikely to differentiate the counterfeit from the genuine product. Also, while Uganda may be recording high positive growth in the construction sub-sector, indubitably, there is need to question the quality of the buildings being constructed in and around the country especially those that do not employ services of professional contractors in the process of construction. This is because the UNBS quality and safety tests have found some construction cement and many electric cables to be counterfeit and predict future catastrophes such as buildings collapsing and catching fire as a result of poor construction materials.

In recent market surveillances to curb counterfeit electric cables, the UNBS conducted quality and safety tests on 17 electric cables found on the local market and only 10 passed these tests. The other 7 did not meet the standard requirements to transmit electricity. For instance, the counterfeits wires were not made of 100% copper, which is the standard element required for transmission of electric current. These cables had 30 wires as opposed to the standard 50 wires in each and were poorly insulated to handle high voltages of power. Despite the above findings, all the counterfeit electric cables are still being sold to the public and most of them possess counterfeit trade names such as AEI, Emkay England and Everlast Italy to deceive buyers into thinking they are the genuine cables. [See Appendix II for further details on UNBS test results]

2.3 *Effect On Uganda's Domestic Resources Mobilisation*

Uganda continues to be a dumping ground for counterfeit goods especially from China, India and Taiwan. Despite this influx, the Uganda Revenue Authority continues to battle with measures of raising domestic revenue through its limited tax base. More so, Uganda's local industry is greatly undermined by these products given the fact that they seem to be cheaper and better to the consumer although costly in the long-run. Some of the key implications of these goods to the economy are listed below;

- Loss of domestic revenue which would have otherwise been earned from VAT and Income Tax
- Loss of confidence in genuine products whose trademark right has been infringed
- Deterrent to local investors
- Undermining of the East African Customs free trade area benefits

3.0 Legal Framework on Trademarks in Uganda

Trademarks in Uganda are governed by the Trademarks Act Cap 217 of 1964 and the Penal Code Act Cap 120. The Trademarks Act provides for grant, registration and remedies for Trademark Infringement⁴ and it extends protection to individuals and corporation companies registered under the said Act. In 1994, the Trademark law was amended to ensure further trademark owner protection however, the amendments have not rendered an effective law because, the Act is still out dated and ineffective in combating the counterfeit problem and, it excludes vital features of protection of trademarks as highlighted in section 3.1 below;

3.1 *Anomalies in the current Trademark Laws of Uganda*⁵

- The definition of ‘trademark’ does not cater for other forms of marks other than a sign;⁶
- The law does not clearly define what amounts to infringement and how affected parties may effectively get remedies or enforce their rights;
- The criminal provisions for enforcement of the trademarks and penalties to offenders are not punitive enough to deter infringement and;
- Some of the institutions that are charged with the duty of enforcement of the law are not equipped with skills to identify counterfeits that are very similar to the real products. For example the Uganda Police, which makes it more difficult to effectively address counterfeiting.
- The fees and fines levied on charged criminals are very low and despite an increase in 2000, the current fees of UGX 1million are not punitive enough to discourage counterfeit trade;
- Overlaps between trademarks and other intellectual property rights are not provided for in the register and the law is also not clear on which marks satisfy the registration requirements;
- The Trademark Act does not clearly state what is to be done with goods that are impounded as counterfeits and;
- The trademark offences found in the Trademark Act do not provide for falsification of registered marks and service marks.

4.0 Interventions to-date

As part of a plan to support the private sector, the Government of Uganda dedicated itself to review the commercial laws in 2001. With the expertise of the Uganda Law Reform Commission, the following legislations have been reviewed to date; the Copyrights Act, Cap.215, Patents Act, Cap.216, Penal Code Act, Cap.120, Trademarks Act, Cap.217, and the United Kingdom Designs (Protection) Act, Cap.218. However, the reviewed trademark laws still did not propose a specific institution to be charged with the duty of enforcing and managing counterfeiting and previous reports show that action against offenders is not expeditiously carried out owing to the procedures that are time wasting and costly to the trademark owners.

On the other hand, the UNBS conducts regional market surveillances to control counterfeiting as well as regular quality and safety tests on goods to identify sub-standard products. It also regularly advertises impounded counterfeit products through the media as part of its awareness plan. However, the bureau only has three qualified personnel to conduct market surveillance and only employs staff at 16 entry points out of the 52 around the country owing to the limited resource capacity, which has encouraged counterfeit trade at unmanned border posts. UNBS also lacks adequate equipment to effectively test all goods. That notwithstanding, the penalties are still not punitive enough to act as a deterrent to future counterfeiting.

By virtue of its network coverage, the URA has been able to impound and destroy some counterfeit products. However, in cases where counterfeit goods are very similar to the genuine products, they have not been able to identify such products and as a result, they have been certified, taxed and released on the market.

⁴ This is the act of violating a registered trademark by adopting elements of the mark by the infringer so as to benefit from its market reputation and consumption. This may be through copying a word, a design, elements of the brand, font, colour, scheme, layout, name and label.

⁵ See ULRC Publication No.15 of 2004 for a detailed analysis of the intellectual property rights and recommendations for amendment.

⁶ A mark may be any word, symbol, slogan, logo, sound, colour, brand, label, name, signature, letter or numeral, product configurations commonly used to identify the source of a product or service and any combination.

5.0 Interventions by other countries

In Kenya, some affected trademark owners have designed strategic action plans to curb the problem of counterfeits. One of these is BIC which formed the BIC anti-counterfeiting campaign with route maps and key actions on how to tackle the problem. Their plan involves the Kenyan Government that is customs, police, health protection unit and ministry of Trade; the private sector; the judiciary; local intellectual property offices; world wide Trademark Protection units and the respective distribution companies.

Some of the actions that have registered success for BIC include, establishment of a database for authorities to share information; set up of a customs surveillance application, which allows immediate seizure after controls; a counterfeit goods Act that with strong penalties to discourage offenders; training of customs officers, police and the Kenya Bureau of Standards to equip them with sufficient skills to easily identify counterfeits and international surveillance of countries suspected to be exporting counterfeit products.

The European Union on the other hand has taken stringent measures through establishment of an intellectual property rights policy that encompasses all matters regarding counterfeits, patents and copyrights. This has led to expeditious instigation of violation of the law. Other measures that have been put in place include; anti counterfeit technologies that help identify such products, networks across the region that carry out intensive surveillance to control counterfeiting, collective surveys to assess the performance of the policy, regular public awareness to remind them of the penalties involved as well as the danger in consumption of counterfeit products, advocacy and lobbying at various levels of society.

6.0 Recommendation(s)

Our first recommendation is to have a policy framework put in place that will effectively address the problem of counterfeiting. Therefore, we propose to cabinet to expeditiously consider the Trademark and Service Mark bill that was submitted by the ULRC for approval in 2004. The following recommendations should also be incorporated into the bill to further strengthen the proposals before they can be passed as law in Uganda.

1. Fast track the intellectual property rights bills currently with cabinet for approval to ensure effective trademark laws.
2. Charge a specific institution with the responsibility of enforcement and management of intellectual property laws to ensure effective performance.
3. Government through the UNBS should increase public awareness on the danger of consuming and purchasing counterfeit products.
4. Government should increase budget allocations to the UNBS to facilitate capacity in market surveillances and at borders as well as in training of personnel and acquisition of equipment to conduct quality and safety tests on all goods.
5. The penalties for all intellectual property rights law should be amended to completely discourage violation of the same. The fine should be increased from 50 currency points (1million UGX) to 500 currency points (10 million UGX) and the prison sentence should be increased two to five years minimum. Also, offenders should be exposed to the public to deter them from further trade or production of counterfeits.
6. The East African Community should harmonise its intellectual property laws in order to collectively eliminate the problem of counterfeiting. The community should also look into establishment of an anti-counterfeiting policy.

7.0 Conclusion

The above discussion clearly illustrates the problems emanating from counterfeiting to Uganda's economy in general and particularly to the trademark owners. As mentioned earlier, unless measures to discourage the practice are effectively implemented, counterfeit products will continue to flood the local markets and to distort the growth process of our trade industry. Therefore, immediate interventions to contain the problem of counterfeits are required in order to ensure protection of registered trademark owners.

APPENDIX I

List of Counterfeit Cases and Products on Uganda's Market

- Kanta hair dye Vs Kanta dye;
- Kiwi shoe polish Vs Kiiwi polish;
- Super glue Vs Super Glue;
- Vim scouring powder Vs Vimu;
- Jik stain remover Vs Jik;
- Fair & Lovely Vs Fair & Fairy
- Sleeping Baby Vs Sleeping Baby
- Nice toothbrushes Vs Nice toothbrushes;
- Close Up Toothpaste Vs Fresh Up Toothpaster;
- Jolly Jus Vs Jolly Jus flavoured drink;
- Davita Vs Davita sweets;
- Royco Muchuzi Mix Vs Royco Muchuzi Mix;
- Other counterfeits include most of the electric cables on the Ugandan market; Construction Cement; Medicine; Eveready, Panasonic and Duracell dry cells. [UNBS, Unilever Uganda]