E

WIPO

WIPO/ACE/5/5
ORIGINAL: English
DATE: August 26, 2009

WORLD INTELLECTUAL PROPERTY ORGANIZATION
GENEVA

ADVISORY COMMITTEE ON ENFORCEMENT

Fifth Session
Geneva, November 2 - 4, 2009

POLICY RESPONSES TO THE INVOLVEMENT OF ORGANIZED CRIME IN INTELLECTUAL PROPERTY OFFENCES

Document prepared by Professor Michael Blakeney, Queen Mary Intellectual Property Research Institute and Faculty of Law, University of Western Australia[*]

[*] The views expressed in the Study are those of the author and not necessarily those of the Secretariat or of the Member States of WIPO.

I. INTRODUCTION

Recommendation 45 of the Development Agenda adopted by WIPO, in October 2007 enjoined an approach to intellectual property enforcement "in the context of broader societal interests and especially development-oriented concerns". In the Memorandum of the Director General setting out the Vision and Strategic Direction of WIPO in the medium term, he identified in paragraph 3 of his Vision statement that **t**he main objectives of the Medium-term Plan remained the "maintenance and further development of the respect for intellectual property throughout the world", explaining that this included preventing "any erosion of the existing protection" and that the enforcement of intellectual property rights "should be simpler, cheaper and more secure." As part of the Policy Framework to realize this vision the Director General stated that in transforming WIPO's vision into reality, one of the strategic goals is the promotion of an IP culture which nurtures "greater respect by the public for IP rights and assets."

In the Revised Program and Budget for the 2008/09 Biennium, Strategic Goal VI is: International Cooperation on Building Respect for IP. Program 17 of this Strategic Goal seeks to meet the challenge of the need "to put in place and continually improve mechanisms for the respect of intellectual property, including in the online environment, is at the heart of IP policy debates and initiatives in countries and regions around the globe." An indication of the difficulty in meeting this goal is that in spite of the efforts at the international, regional and national levels, there has been a significant increase in counterfeiting and piracy activities in recent years, with consequential harmful effects upon economic growth, consumer welfare, social and cultural well-being and upon public order.[1]

In the context of analyzing the question of respect for intellectual property, this paper addresses the involvement of organized crime in the burgeoning international trade in infringing products. It addresses the role which criminal confiscation measures may play in removing the profit motive for intellectual property crime and the role which they can play in subsidizing the criminal enforcement of intellectual property rights. Brief mention is also made of the potential for extradition to be used in dealing with intellectual property criminals.

II. METRICS

Concern about the scale of the trade in intellectual property infringements was taken as the principal justification for conferring an intellectual property jurisdiction upon the GATT. In 1988, following the launch of the GATT Uruguay Round, the US International Trade Commission estimated losses to the U.S. economy in revenue and jobs due to IPR violations to be in the region of $US 60 billion.[2] In 1998, following a more than a decade of TRIPS enforcement, the International Chamber of Commerce (ICC) estimated that from 5 to 7 per cent

---

1 See M. Blakeney, 'International Proposals for the Criminal Enforcement of Intellectual Property Rights: International Concern with Counterfeiting and Piracy' [2009] *Intellectual Property Quarterly* 1; BASCAP *Global Survey on Counterfeiting and Piracy*, January 20, 2007, *http://www.iccwbo.org/bascap*; Global Anti-Counterfeiting Group, *Economic Impact of Counterfeiting in Europe* (June 2000).; The Economic Impact of Counterfeiting in Selected Industries of the EU Economy, CEBR, 2000, *http://europa.eu.int/comm/internal market/en/indprop/piracy/final-report-cebr en.pdf* .OECD, *The Economic Impact of Counterfeiting* (Paris: OECD, 1998);

2 *See Foreign Protection of Intellectual Property Rights and the Effect on U.S. Industry and Trade*, Report to the United States Trade Representative, Investigation No. 332-245, Under Section 332(g) of the Tariff Act of 1930 (USITC Publication 2065) at App. H (February 1988).

of world trade comprised counterfeit goods, a market which it estimated to be worth USD 350 billion.[3] This statistic was repeated in a 2004 report by *Union des Fabricants* on *Counterfeiting and Organised Crime*[4] which stated that: "Globally, an OECD report published in 1998 estimated that counterfeiting was generating €250 billion in illegal earnings annually and represented 5 to 7% of world trade".[5] This group of statistics was repeated so often that it they have almost become factual.[6] Whatever their veracity, they were undoubtedly influential in precipitating the TRIPS Agreement into existence.[7]

The principal novel feature of the TRIPS Agreement was the enforcement machinery which it contained, with a view to stemming the trade in infringing goods and services. Subsequent statistics seem to suggest that this objective has been a signal failure. In ascending order,in 2007, the OECD published the first part of a detailed study on *The Economic Impact of Counterfeiting and Piracy.*[8] It concluded that international trade in counterfeit and pirated products could have been as high as USD 200 billion in 2005[9] and that 'counterfeiting and piracy are taking place in virtually all economies'[10] and that the magnitude of this trade 'is larger than the national GDPs of about 150 economies around the world'.[11]

This OECD estimate was described as representing "only a preliminary assessment for a portion of the world's economies" as it did "not include the significant value of counterfeit and pirated goods that are produced and consumed domestically, and it does not include digital goods that are transferred over the Internet."[12] In May 2005, the International Chamber of Commerce had reported that the global trade in counterfeits had reached $US600 billion.[13] In the same month the Gieschen Consultancy reported the size of counterfeiting to exceed $US3 trillion.[14]

There is inevitably a good deal of imprecision in the metrics of counterfeiting and piracy. One reason for this is that because it is a clandestine and criminal activity the true extent of counterfeiting and piracy is impossible to calculate with accuracy.

---

3 See Countering Counterfeits: Defining a Method to Collect, Analyse and Compare Data on Counterfeiting and Piracy in the Single Market, Final Report for the European Commission (15 July 2002), p. 18 (citing OECD, International Chamber of Commerce, The Economic Impact of Counterfeiting (1998)).

4 Union des Fabricants pour la protection internationale de la propriété industrielle et artistique, *Counterfeiting and Organised Crime Report* (2nd edn) (Paris, UdeF, 2004).

5 Ibid., p. 4.

6 Eg see Testimony of Francis Gary White Unit Chief Commercial Fraud Division Immigration and Customs Enforcement Department of Homeland Security, before The Senate Governmental Affairs Committee Subcommittee on Oversight of Government Management, The Federal Workforce and the District of Columbia, April 20, 2004, *http://www.ice.gov/doclib/pi/news/testimonies/White_042004.pdf*

7 Eg see Frederick M. Abbott, *Protecting First World Assets in the Third World: Intellectual Property Negotiations in the GATT Multilateral Framework*, 22 Vand. J. Transnat'l L. 689, 701 (1989).

8 OECD Doc, DSTI/IND(2007)9/PART4/REV1, 4 June 2007.

9 Ibid., p. 2.

10 Ibid., p. 11.

11 Ibid., p. 13.

12 Statement from U.S. Coordinator for International Intellectual Property Enforcement on the OECD Executive Summary of its Global Study on Counterfeiting and Piracy, June 5, 2007. http://www.stopfakes.gov/pdf/Israel_OECD_Statement.pdf.

13 Maria Livanos Cattaui, ICC Secretary, 'Counterfeiting is out of control' 13 May 2005, http:*//www.iccwbo.org/bascap/iccfaca/index.html*

14 DOPIP Security Counterfeit Intelligence Report , *http://www.goldsec.com/Security_Research.htm*

The statistics of industry associations since they are intended to highlight the extent of the problem of the trade in infringing products, are inevitably biased upwards.[15] Similarly, the statistics of enforcement authorities, such as police and customs are also likely to be exaggerated with a view to securing favourable future budget allocations if the problems with which they are dealing are magnified.

III. THE ROLE OF TERRORISTS AND ORGANISED CRIMINALS IN COUNTERFEITING AND PIRACY

Bill S.522, the Intellectual Property Rights Enforcement Act was introduced to the US Senate in 2007, reaching the Judiciary Committee in November of that year. Finding 8 in the preamble to the Bill was that "Terrorist groups have used the sale of counterfeit goods to finance their activities". Finding 9 was that "Funds generated from intellectual property theft have financed acts of terrorism." To date, there is no publicly available information to support these findings. In June 2003, the International Anti-Counterfeiting Coalition issued a white paper *Terrorism and Terrorist Organizations*, which was updated and released again in January 2005, as a White Paper: *The Negative Consequences of International Intellectual Property Theft: Economic Harm, Threats to the Public Health and Safety, and Links to Organized Crime and Terrorist Organizations*.[16] In the White Paper, the IACC asserted its belief that "there is ample evidence to support and confirm the litany of suspicions, allegations and anecdotal accounts that terrorist organizations are currently exploiting America's valuable intellectual property and profiting from the manufacture and sale of counterfeit and pirate products."[17] At p.20 of the paper, the IACC states that it "has been active in tracking the increasing influx of terrorist organizations into the lucrative underworld of criminal counterfeiting and piracy and is convinced that genuine and credible links exist" and that "there is ample evidence to support the notion that terrorist organizations are currently exploiting America's valuable intellectual property and profiting from the manufacture and sale of counterfeit and pirate products." This statement carries the following footnote:

The IACC does not know with absolute certainty whether proceeds from the sale of counterfeit or pirated goods have actually funded specific acts or incidents of terrorism. The IACC does, however, believe that ample evidence exists to confirm the litany of suspicions, allegations and anecdotal accounts that terrorist organizations are indeed involved with and profiting from the selling of counterfeit/pirated goods.[18]

Mr. Timothy P. Trainer, President, IACC provided a statement to the US House Committee on the Judiciary's inquiry into *International Copyright Piracy: A Growing Problem With Links To Organized Crime And Terrorism* on March 13, 2003.[19] He referred to the White Paper mentioned above and explained that the IACC initiated the White Paper

---

15 See D. Bosworth, 'Counterfeiting and Piracy: the State of the Art', Intellectual Property in the New Millenium Seminar, Oxford Intellectual Property Research Centre, St. Peter's College, 9 May 2006, p. 14.

16 *http://www.iacc.org/resources/IACC_WhitePaper.pdf*

17 Ibid., at i.

18 Footnote 79.

19 *http://commdocs.house.gov/committees/intlrel/hfa88392.000/hfa88392_0f.htm*

"because we are concerned that product counterfeiting and piracy are very low enforcement priorities after September 11, 2001."[20]

In relation to the question "where all the money from the trade in counterfeit and pirated goods is going", Mr. Trainer explained that

> The IACC White Paper explores the possible link to terrorism. I say possible link because industry is not empowered to make a concrete link. The primary objective of IP owners is to offer new and better products to consumers, not to undertake criminal investigations.[21]

At the same Hearing, Under Secretary Asa Hutchinson, Border and Transportation Security Directorate, U.S. Department of Homeland Security deposed that although "there has been media coverage alleging links between counterfeit and pirated merchandise and funding of terrorist groups. Neither BICE (Bureau of Immigration and Customs Enforcement) nor BCBP (Bureau of Customs and Border Protection) have established a direct link between profits from the sale of counterfeit merchandise and specific terrorist acts."[22]

Mr. Ronald K. Noble, Secretary General of Interpol's testimony to the same Hearing, was unfortunately vague. He stated that "We know that al-Qaeda supporters, and I cannot go into detail, but we know that al-Qaeda supporters have been found with commercial size volume of counterfeit goods."[23] In his prepared statement, Mr. Noble said that "much of the information about terrorist financing is highly classified or strictly controlled at a national security level due to its sensitivity" and that "Terrorist financing is difficult to investigate due to the complex flows of money often in cash form and often laundered. This is facilitated by complicated associations of individuals through which the money transits before becoming available to the relevant terrorist group."[24] Consequently, Mr. Noble explained that Interpol would "welcome the support of U.S. law enforcement and law enforcement around the world to make international intellectual property crime a high priority crime and to try to expose the connection it presents to terrorist financing and organized crime activity."[25]

A key feature of the evidence, which was presented to the Hearing, was that the trade in infringing products is a possible source of funding for both criminals and terrorists. Mr. Hutchinson explained that "criminals involved in manufacturing, distributing and selling of counterfeit and piratical products, reap large profits with relatively low risk of prosecution. As a result, this type of crime could be attractive to organizations seeking lucrative and low risk funding mechanisms to support terrorist activities."[26]

Although, as was mentioned above, further work needs to be done in quantifying the size of the trade in counterfeit and pirate products, it is unquestioned that very large profits are available to criminals at a very low risk. It is for this reason that the various bodies that are concerned with organized crime have identified this trade as a growing interest for organized

---

20 Ibid., at 83.
21 Ibid.
22 Ibid at 47.
23 Ibid. at 24.
24 Ibid at 27
25 Ibid at 24
26 Ibid., at 47

crime. The UN's Millennium Project has been exploring the world's greatest challenges and publishing its annual *State of the Future* report since 1996.[27] In its 2008 review, it identified Transnational Organized Crime as one of the 15 global challenges stating that "organized crime networks are growing, in the absence of an effective global counter-strategy and that of the illicit trade conducted by organized crime estimated at more than $US1 trillion a year, counterfeiting and piracy accounted for more than a half: $533bn.[28]

IV. COUNTERFEITING , PIRACY AND THE CRIMINAL ECONOMY

The most serious consequences of the trade in counterfeit and pirate products are the stimulation of organized criminal activity and the consequential effects upon the public. Profits from this trade are appropriated by organized crime, which uses them as a means of recycling and laundering the proceeds of other unlawful activities. Counterfeiting and piracy have become almost industrial-scale activities offering criminals the prospect of large economic profit without excessive risk. With the advent of eCommerce, the rapidity of illegal operations and the difficulty of tracking the operations further reduce the risks for the criminal. Counterfeiting and piracy thus appear to be a factor in promoting crime, including terrorism.

Organized criminals often combine counterfeiting and piracy with smuggling. The trade routes which were developed for the smuggling of drugs and arms have provided an existing infrastructure for the trade in counterfeit and pirate products.

In a communication in October 2005 by the European Commission, compiled from the reports which EU Member States' customs administrations transmitted to it on their interception of fakes at Community borders over the previous five years,[29] the EC noted the following *qualitative* changes:

- Large increase in fake goods which are dangerous to health and safety;
- Most products seized are now household items rather than luxury goods;
- Growing numbers of sophisticated hi-tech products;
- Production is on an industrialized scale; and
- High quality of fakes often makes identification impossible without technical expertise.

The EC surmised that among the reasons for the large increase in trade in fakes were (i) the high profits and comparatively low risks involved, particularly when it comes to penalties in some countries; (ii) from a general global growth in industrialized capacity to produce high quality items; and (iii) by the growing interest of organized crime in taking a share of these high profits. Because of the latter, the EC has identified serious public health and security risks particularly involving seizures of dangerous goods include counterfeit pharmaceuticals, foodstuffs, washing powder, and unsafe toys.

Counterfeiting and piracy has an adverse effect upon public order, where profits from this trade are appropriated by organized crime, which uses them as a means of recycling and

---

27 *See www.stateofthefuture.org*

28 See *http://www.futuresfoundation.org.au/content/view/505/1/*

29 European Commission, Communication to the Council, the European Parliament and the European Economic And Social Committee on a Customs Response to Latest Trends in Counterfeiting and Piracy Brussels, 11.10.2005, COM(2005) 479 final.

laundering the proceeds of other unlawful activities (arms, illegal drugs, *et cetera*).[30] Counterfeiting and piracy, which were once craft activities, have become almost industrial-scale activities offering criminals the prospect of large economic profit without excessive risk. With the advent of eCommerce, the rapidity of illegal operations and the difficulty of tracking the operations further reduce the risks for the criminal. Counterfeiting and piracy carried out on a commercial scale are even said to have become 'more attractive nowadays than drug trafficking', since high potential profits can be obtained without the risk of major legal penalties.[31]

The trade routes which were developed for the smuggling of drugs and arms have provided an existing infrastructure for the trade in counterfeit and pirate products. Indeed, the profitability of infringing products is now beginning to exceed that of drugs and arms, on a profit/weight basis,[32] and often with lower penalties should the perpetrator be identified.[33] The structure and commercial strategies of these organized crime groups is similar to those of licit enterprises. In response to market forces, participants in each are equally intent on being profitable. But the key difference between legitimate commercial enterprises and criminal ones involves the manner in which commercial disputes are settled, contracts enforced and dealings with the authorities regulated. As those of criminal enterprises have to occur outside the court system, violence, coercion and corruption are a pronounced feature of this trade. Because manufacture is illegal, labour standards are often not observed, reducing labour costs; nor are employee taxes paid (or any other on-costs such as health or other mandated unemployment insurance or superannuation contributions and so forth) for those employed in such illicit manufactures. This minimizes outlays for the employing manufacturer. Illegal immigrant labour may also be involved in the manufacture or distribution of counterfeit products.[34] Thus those involved in illicit trading in infringing products have a number of economic advantages over legitimate manufacturers, wholesalers and retailers.

---

30 See, e.g., International Intellectual Property Association (IIPA), 'Special 310 Letter to USTR', from IIPA President E.H. Smith to J. Mendenhall, Assistant US Trade Representative, 11 February 2005, p. 10–14 in the IIPA, *2005 Special 301 Report on Global Copyright Protection and Enforcement* (2005) <*http://www.iipa.com/special301_TOCs/2005_SPEC301_TOC.html*>, 5 May 2009; 'The links between intellectual property crime and terrorist financing', Testimony of Interpol Secretary General, R. Noble, before the House Committee on International Relations Hearing, 16 July 2003, quoted in H. Nasheri, 'Addressing Global Scope of Intellectual Property Law' (2004); European Parliament, *Declaration on the Fight against Piracy and Counterfeiting in the Enlarged EU*, 5 June 2003, Strasbourg. P5_TA(2003)0275. <*http://ec.europa.eu/internal_market/indprop/docs/piracy/piracy_en.pdf*> , at 7 May 2009.

31 Commissioner Byrne in debate on a measure before the European Parliament: quoted in UK Office of European Parliament, 'Intellectual Property Rights: European Parliament combats counterfeiting and piracy' Press Release, 12 March 2004, <*http://www.europarl.org.uk/section/ep-news/march-12th-2004-no-158*>, 3 May 2009. See also European Commission, *Final Report on Responses to the European Commission Green Paper on Counterfeiting and Piracy* (June 1999), p. 5 and para 5.1.2 (p. 13); Centre d'Études Internationales de la Propriété Industrielle (CEIPI), 'Impacts de la contrefacon et la piraterie en Europe. Rapport final' pp. 28–29.

32 Commission of the European Communities, 'Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee on a Customs response to the latest trends in Counterfeiting and piracy' Brussells, 11 October 2005. COM(2005) 479 Final, p. 5. source?

33 COM(2005) 479 Final, p. 5; CEIPI, 'Impacts de la contrefaçon et la piraterie en Europe' pp. 28–29.

34 See, e.g., Union des Fabricants, *Counterfeiting and Organised Crime* (2003) pp. 14–15 <*http://www.interpol.int/public/financialcrime/intellectualproperty/publications/UDFCounterfeiting.pdf*> , 11 May 2009; Guardia di Finanza General Headquarter II Departement Counter Fraud and International Cooperation Office, *Guardia de Finanza's fight against counterfeiting and product piracy* (Bruxelles, 30 January 2003), p. 5

[Footnote continued on next page]

This penetration by organized crime of otherwise lawful economic sectors also has a pernicious impact on public morality. As a contraband market develops, it puts significant pressure on retailers to either participate or go out of business. If they decide to participate, they may be forced to do other kinds of business with organized crime.[35] Legitimate businesses see their prices undercut by cheaper contraband products and feel obliged to enter the black market to protect their businesses and their livelihoods. Once they have entered this trade, it becomes difficult to withdraw.

V. POLICY RESPONSES TO COUNTERFEITING AND PIRACY

The high estimates of both the volume and value of world trade that involves counterfeiting and piracy, as well as its implications for organized crime and terrorism, has resulted in the subject of counterfeiting and piracy assuming a greater importance within various organizations and being placed on the agenda of the annual meetings of the G8 group of countries.

The G8 meeting at Gleneagles, Scotland, in 2005, issued a Statement announcing that the participants would 'take further concrete steps' to:

- strengthen and highlight analysis of the underlying trends, issues and domestic and international enforcement actions;

- promote and uphold laws, regulations and/or procedures to strengthen effective intellectual property enforcement, where appropriate, in areas such as the seizure and retention of suspected counterfeit or pirated goods, the destruction of such goods and the equipment used to produce them, and the use of clear, transparent and predictable judicial proceedings, policies and guidelines related to intellectual property enforcement.[36]

This was reaffirmed by the statement issued by the St. Petersburg G8 meeting on 16 July 2006, *Combating IPR Piracy and Counterfeiting* at which the participants declared

---

[Footnote continued from previous page]

<*http://ec.europa.eu/justice_home/news/information_dossiers/forum_prevention_crime/doc/guardia_finanza_activities_en.pdf*>, 11 May 2009; IPC Crime Group [UK], Intellectual Property Crime Report, above n. 59, pp. 13, 20, 31–33, 37–38.

35 See, e.g., Union des Fabricants, *Counterfeiting and Organised Crime* (2003).

36 G8, *Reducing IPR counterfeiting and piracy through more effective enforcement* (G8 Summit, Gleneagles, 8 July 2005), pp. 1–2 (para 3) <*http://www.g8.utoronto.ca/summit/2005gleneagles/ipr_piracy.pdf*>, 11 May 2009. Other objects included enhancing 'detection and deterrence of the distribution and sale of counterfeit goods through the internet and combat[ing] online theft', strengthening legislation and building enforcement capacity, as well as improving coordination of anti C&P strategies and boosting cooperation among enforcement personnel; and raising general awareness of the negative impacts of such crime. A Meeting of Experts was also to be convened to 'lay out a work plan' to implement the desired strategies and review progress: [UK] Intellectual Property Office website, G8 (November 2007) <*http://www.ipo.gov.uk/policy/policy-notices/policy-notices-g8.htm*>, 11 May 2009.

that they 'consider it necessary to give priority to promoting and upholding laws, regulations and/or procedures to strengthen intellectual property enforcement'.[37]

Estimates advanced at the 2007 G8 Summit in Heiligendamm prompted the establishment of an Intellectual Property Rights Task Force focusing on anti-counterfeiting and piracy. This body was given the 'urgent responsibility … to determine measures to improve international IPR protection and enforcement, and, most importantly, produce immediate recommendations for future actions that can be reviewed at the next G8 summit'.[38]

At the Second Global Congress on Combating Counterfeiting and Piracy, hosted by Interpol and the WCO at Lyon in November 2005, Japan had proposed a Treaty on non-proliferation of Counterfeits and Pirated Goods, after earlier noting the need for such a measure at the Gleneagles G8 forum in July.[39] Its two central features were proposals for the confiscation of the proceeds of IP crimes and the extradition of IP criminals.[40]

The Japanese treaty proposal was superseded by the announcement, on 23 October 2007, by Japan, the USA and the EU of negotiations for a plurilateral Anti-Counterfeiting Trade Agreement (ACTA). No draft text of the ACTA has yet been published, but the USTR has identified some of the issues which are under discussion.[41] This includes most of the subjects proposed in the Japanese Treaty, including criminal sanctions such as confiscation of criminal profits.

VI. CONFISCATION AS AN ENFORCEMENT OPTION

1. International Developments

It has been recognized for some time at the international level that effective confiscation laws are an important measure to counteract crime, particularly organized crime. Recognition of the need for proceeds of crime laws for more general serious crime (including money laundering) came from the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime ratified by 46 Member States of the Council. This Convention, amongst other things, required States Parties to enact proceeds of crime laws and cooperate in the tracing and seizure of proceeds across national boundaries.

---

37 G8, *Combating IPR Piracy and Counterfeiting* (G8 Summit, St Petersburg, 8 July 2006) para 5 <*http://en.g8russia.ru/docs/15.html*>, 11 May 2009.

38 ICC, 'ICC asks G8 task force for concrete plan to fight counterfeiting' Media Release, 13 June 2007 (Paris), quoting ICC Secretary-General, Guy Sebban <*http://www.iccwbo.org/bascap/iccbedai/index.html*>, 11 May 2009.

39 Hisamitsu Arai, *Japan's Perspective on Combating Counterfeiting and Piracy*, Presentation to the Third Global Conference on Counterfeiting and Piracy, 30 January 2007, p. 8 <*http://www.wipo.int/export/sites/www/enforcement/en/global_congress/docs/arai.ppt#285,8,Chronology of New Treaty Proposal*>, 11 May 2009.

40 Hisamitsu Arai (Secretary-General Intellectual Property Strategy Headquarters, Cabinet Secretariat, Japan), *Japan's Strategy to Combat Counterfeiting and Piracy*, Presentation to the Second Global Conference on Counterfeiting and Piracy, 14 November 2005. See p. 9 *et seq* for PM Koizumi's Proposed Treaty on Non-Proliferation of Counterfeits and Pirated Goods, esp. pp. 15, 17, 19–20, avail Interpol website <*http://www.interpol.com/default.asp*>, 11 May 2009.

41 *http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2009/asset_upload_file917_15546.pdf*

More recently there has been the United Nations International Convention against Transnational Organized Crime. This Convention currently has 120 States Parties. Article 12.1 of the Convention provides:

> 1. States Parties shall adopt, to the greatest extent possible within their domestic legal systems, such measures as may be necessary to enable confiscation of:
>
> (a) Proceeds of crime derived from offences covered by this Convention or property the value of which corresponds to that of such proceeds;
>
> (b) Property, equipment or other instrumentalities used in or destined for use in offences covered by this Convention.

The Tampere European Council of 15 and 16 October 1999 expressed the determination that organized crime should be rooted out wherever it occurs and that it would take concrete steps to trace, freeze, seize and confiscate the proceeds from crime. The European Council also called in paragraph 55, for the approximation of criminal law and procedures on money laundering (e.g. tracing, freezing and confiscating funds).

Recommendation 19 of the 2000 action plan approved by the European Council on 27 March 2000 entitled 'The prevention and control of organized crime: a European Union strategy for the beginning of the new millennium'[42] required an examination of the possible need for an instrument which, taking into account best practice in the Member States and with due respect for fundamental legal principles, which introduced the possibility of mitigating, under criminal, civil or fiscal law, as appropriate, the onus of proof regarding the source of assets held by a person convicted of an offence related to organized crime.

A Council Framework Decision no. 2001/500/JHA[43] formulated provisions on money laundering, the identification, tracing, freezing, seizing and confiscation of instrumentalities and the proceeds from crime. This was not considered to be particularly successful and on of 24 February 2005 Council Framework Decision 2005/212/JHA on Confiscation of Crime-Related Proceeds, Instrumentalities and Property.[44] The aim of this Framework Decision was to ensure that all Member States have effective rules governing the confiscation of proceeds from crime, *inter alia*, in relation to the onus of proof regarding the source of assets held by a person convicted of an offence related to organized crime.

2. Objectives of Proceeds of Crime Legislation

The principal objects of the Proceeds of Crimes Acts are: (i) to deter crime by reducing its profitability; (iii) to prevent the reinvestment of proceeds, instruments, benefits in further criminal activity; (iv) to deprive persons of the proceeds of offences, the instruments of offences, and benefits derived from offences; (v) to assist detection and investigation by enabling law enforcement authorities effectively to trace criminal proceeds; (vi) to defray the expense of criminal enforcement; (vii) to compensate society for the harm caused by organized crime; and (viii) in the language of the Home Secretary's Guideline to the UK

---

42 OJ C 124, 3.5.2000, p. 1.
43 OJ L 182, 5.7.2001, p. 1.
44 OJ L 68 14.3 2005 p.49.

Proceeds of Crime Act to keep faith with the vast majority of people who do not commit crimes and who do meet their obligations to the community by paying taxes and acting within the law.

Depriving criminals of their assets can have a greater punitive effect on many of them than going to prison. Confiscating the illicit profits is often the most effective form of punishment and deterrence for those who organize criminal undertakings. This is certainly the case with counterfeiting and piracy, where the rewards from criminality considerably outweigh the risks, given the fairly low fines which are imposed.

Furthermore, with intellectual property crime, as with drug offences, pursuing the dealers in small quantities, such as market traders or salesmen in pubs and cafes is a much less effective use of law enforcement resources than the pursuit of the principal sources of supply. The leaders of criminal enterprises are rarely close to the predicate criminal activities. Underlings can be paid to take those risks. Confiscating the illicit profits is often the most effective form of punishment and deterrence for those leaders.

3. Criminal and Civil Confiscation

The Home Secretary's Guideline to the UK Proceeds of Crime Act states that a reduction in crime is best secured by Criminal investigations and proceedings followed by general confiscation. This is referred to generally as Conviction based laws. Conviction-based laws require a criminal charge as a prerequisite to the confiscation of suspected proceeds of crime. In criminal proceedings, because a person's liberty is at risk, the standard of proof is beyond reasonable doubt. However, where a confiscation or forfeiture element has been added to the criminal process, a court will be satisfied on the balance of probabilities that property is the proceeds of crime. It is established that such forfeiture proceedings are to be regarded as civil proceedings. This is partly because in confiscation proceedings the focus is on the property and is quite different from a criminal sanction which targets the person.

However, these laws have not been fully effective. In particular they have failed to impact upon those at the pinnacle of criminal organizations. With advancements in technology and globalization, such persons can distance themselves from the individual criminal acts, thereby evading conviction and placing their profits beyond the reach of conviction based laws. The high criminal standard of proof for conviction can mean there are cases where there are assets that can be linked to criminal conduct but a prosecution would fail because elements of the offence cannot be proved beyond reasonable doubt.

Civil forfeiture laws are a modern development in proceeds of crime laws. They take the form of a civil procedure operating independently of the commission of any criminal offence. The court deprives someone of their property because, although there has been no conviction, it is satisfied on the balance of probabilities that the property is criminally derived. The civil recovery regime is of assistance where criminal proceedings followed by confiscation are not an option for the authorities. Civil recovery might be used if a criminal prosecution or confiscation cannot be brought because of evidential issues. The high criminal standard of proof for conviction can mean there are cases where there are assets that can be linked to criminal conduct but a prosecution would fail because elements of the offence cannot be proved beyond reasonable doubt. Civil recovery can also be effective where the property owner may have died; or is not within the jurisdiction. The argument that such proceedings represent the imposition of a criminal sanction within civil proceedings has been

discounted by the courts on the basis that the deprived party does not acquire the status of an accused person. Furthermore the enactment of civil forfeiture legislation has been considered by the courts to be a proportionate response to support a compelling public interest and therefore not a violation of the general principle that a person should not be deprived of his possessions.

The United States was one of the first countries to introduce comprehensive civil forfeiture laws to attack organized crime. This occurred in 1970 with the enactment of the federal Racketeer Influenced and Corrupt Organizations (RICO) Statute. The United Kingdom (UK) introduced civil forfeiture in its proceeds of Crime Act 2002. Australia enacted the Proceeds of Crime Act 2002 which came into operation on 1 January 2003, which sets up a regime under which action can be taken to recover the proceeds of crime on the basis of civil proceedings irrespective of whether there is a criminal prosecution. [45] Civil forfeiture laws have also been introduced in Antigua and Barbuda, Fiji, Ireland, South Africa and the Canadian provinces of Ontario, Alberta, Manitoba, Saskatchewan and British Columbia, and in the States and Territories of Australia.

3.1 Racketeer Influenced and Corrupt Organizations (RICO) Statute

The RICO statute grew out of a series of US investigations during the 1950s and 1960s into the possibility that a syndicate of Italian–American criminals was penetrating various legitimate industries. The 1967 President's Commission on Law Enforcement and Administration of Justice[46] incorporated an early draft of RICO. The philosophy behind RICO and its subsequent evolution was that "law enforcement must use methods at least as efficient as organized crime's"[47] On October 15, 1970, the Organized Crime Control Act of 1970 became law. Title IX of the Act is the Racketeer Influenced and Corrupt Organizations Statute[48] commonly referred to as the "RICO" statute. The purpose of the RICO statute is the elimination of the infiltration of organized crime and racketeering into legitimate organizations operating in interstate and international commerce.

RICO renders criminally and civilly liable "any person" who uses or invests income derived "from a pattern of racketeering activity" to acquire an interest in or to operate an enterprise engaged in interstate commerce, who acquires or maintains an interest in or control of such an enterprise "through a pattern of racketeering activity," and who, being employed by or associated with such an enterprise, conducts or participates in the conduct of its affairs "through a pattern of racketeering activity". Conviction for a violation of RICO carries severe criminal penalties and forfeiture of illegal proceeds[49]and a person found in a private civil action to have violated RICO is liable for treble damages, costs, and attorney's fees.[50]

RICO has been applied in a number of intellectual property actions. In 1994, trade mark counterfeiting was added to the list of unlawful activities under the money laundering

---

45 T. Sherman, *Report on the Independent Review of the Operation of the Proceeds of Crime Act 2002 (Cth)*, Canberra, AGPS, 2006.

46 President's Commission on Law Enforcement and the Administration of Justice (1967)(Katzenbach Commission).

47 President's Commission on Law Enforcement and the Administration of Justice, *Task Force Report: Organized Crime*. Washington, DC: U.S. Government Printing Office, 1967, 200.

48 18 U.S.C. §§ 1961-1968.

49 18 U.S.C. 1963 (1982 ed., Supp. V).

50 18 U.S.C. 1964 (c).

statute.[51] Similarly, the Anti-counterfeiting Consumer Protection Act of 1996 made trademark and copyright counterfeiting a predicate offense under RICO. Apparently due to frustration with the usefulness of the Trademark Counterfeiting Act in reducing trademark counterfeiting, Congress amended the RICO statute to enable the government to counter organized criminal activity as a whole "rather than merely react to each crime the organization commits."[52] Similarly, the Anti-counterfeiting Consumer Protection Act of 1996 made copyright piracy a racketeering activity under RICO.[53] In *S.I. Handling Sys., Inc. v. Heisley,*[54] the Court for the Eastern District of Pennsylvania held that the defendant's scheme to misappropriate the plaintiff's trade secrets through multiple mailings and telephone conversations in violation of the mail fraud and wire fraud statutes, established a pattern of racketeering activity.[55] Finally, RICO was applied in an intellectual property context in *Calabrese* v. *CSC Holdings, Inc.,*[56] a 2003 case which concerned a cable company allegedly threatened to sue customers of another company, which was selling decoder boxes for "pirating" cable channels, if they failed to pay the cable company a settlement fee. The court held this to be a RICO infringement based on mail and wire fraud to obtain money in misrepresenting that the mere purchase of a descrambler was illegal.

In the USA the perceived association between organized crime and terrorism and the sale by terrorist organizations of pirated and counterfeit products to fund their activities[57] has resulted in Congressional hearings which have addressed, inter alia, the application of RICO and other criminal law instruments to this trade.[58]

As originally conceived, RICO provided for the forfeiture of property where crimes resulted in substantial economic gain for the defendant, such as money laundering[59] but in 2000, Congress enacted the Civil Asset Forfeiture Reform Act (CAFRA)[60] which rendered liable to confiscation the proceeds from any of the crimes upon which a money laundering or RICO prosecution might be based. As with the forfeiture provisions in other countries the intent of Congress was to strip offenders of their economic power.[61]

In the USA, civil forfeiture is considered to be an *in rem* proceeding in which the property is treated as the offender where subject to due process, the guilt or innocence of the property owner is irrelevant, whereas criminal forfeiture proceedings, on the other hand, are *in personam* proceedings, and confiscation is only possible upon the conviction of the owner of the property and only to the extent of defendant's interest in the property.[62] Another aspect

---

51 18 U.S.C. § 1956 (c) (7) (D) (1994 & Supp. IV 1998).

52 H. R. REP. No. 104-556, at 2 quoted in Comment, (2001) 38 *Am. Crim. L. Rev*. 971 at 989.

53 362. Pub. L. No. 104-153, § 3. 110 Stat. 1386 1996 amending 18 U.S.C § 1961 (1) (b)).

54 658 F. Supp. 362. 377 E.D. Pa. 1986.

55 Ibid., at 377.

56 283 F. Supp. 2d 797 (2003).

57 International Anti-counterfeiting Coalition (IACC) White Paper, *International/Global Intellectual Property Theft: Links to Terrorism and Terrorist Organizations*, Washington D.C., IACC, June 5, 2003.

58 International Relations Committee, U.S. House of Representatives Hearings on Intellectual Property Crimes: Are Proceeds From Counterfeited Goods Funding Terrorism?, Washington D.C., July 16, 2003.

59 18 U.S.C. 981, 982.

60 Pub. L. 106-185, 114 Stat. 202 (2000).

61 See also E. G. Zajac, 'Tenancies by the Entirety and Federal Civil Forfeiture Under the Crime Abuse Prevention and Control Act: A Clash of Titans, (1993) 54 *U. Pitt. L. Rev* 553 (1993).

62 See Charles Doyle. CRS (Congressional Report Service) Report RS22005, *Crime and Forfeiture*, updated May 9, 2007 at CRS-6.

of criminal forfeiture is that it is limited to the property involved in the specific offence of which the defendant was convicted,[63] whereas civil forfeiture is in the nature of an unjust enrichment action.

Since the civil proceedings are *in rem*, actual or constructive possession of the property by the court is a necessary first step in any confiscation proceeding.[64] Where the seizure of the property causes an undue hardship, such as preventing the functioning of a business, preventing an individual from working, or leaving an individual homeless, CAFRA affords an owner the opportunity to petition the court for release of the property pending the completion of forfeiture proceedings.[65] The government may be entitled to a restraining or protective order to preserve the property pending the completion of forfeiture proceedings.

Administrative forfeiture may be permitted as the first step after seizure in uncontested cases, where the property is worth less than $500,000.[66] It is estimated that administrative forfeitures account for 80 to 85 percent of the 30,000 federal forfeitures.[67] The procedure requires that those with an interest in the property be notified and given an opportunity to request judicial forfeiture proceedings.[68] If there are no properly filed claims, the property is summarily declared forfeited. Under CAFRA the government must notify those with a property interest of its intent to confiscate within 60 days of seizure, after which the property owner has at least 35 days within which to file a claim and request a judicial hearing.[69] The government has 90 days within which to initiate judicial proceedings after the receipt of a claim. The government has 90 days within which to initiate judicial proceedings after the receipt of a claim. Under CAFRA, the government must establish that the property is subject to confiscation by a preponderance of the evidence.[70]

The grounds for successful challenge to a confiscation action are: (i) the predicate criminal offence did not occur; (ii) the property was not used to commit or to facilitate the commission of a crime; and (iii) the claimant was not aware that the property was being criminally used[71] or that they are a good faith purchasers who were unaware of the taint on the property at the time of its acquisition.[72]

Confiscated property may be transferred by the Federal Attorney General to state, local, and foreign law enforcement agencies to the extent of their participation of in the case.[73] The Department of Justice shared $367.7 million with state, local and foreign law enforcement agencies in the 2006 fiscal year 2006.[74] However, the most recent Justice Department statistics indicate that criminal forfeiture judgments have surpassed civil forfeiture judgments

---

63 See S.D. Cassella, 'Criminal Forfeiture Procedure: An Analysis of Developments in the Law Regarding the Inclusion of a Forfeiture Judgment in the Sentence Imposed in a Criminal Case' (2004) 34 *Am. J. Crim. Law* 55.

64 *United States v. Ursery*, 518 U.S. 267, 289 (1996).

65 18 U.S.C. 983(f)

66 19 U.S.C. 1607.

67 D. Rabiej, 'Proposed Supplemental Rule G Governing Pretrial Procedures in Forfeiture in Rem Actions' (2004) 51 *Federal Lawyer* 41, 42.

68 18 U.S.C. 983(a).

69 18 U.S.C. 983(a)(1).

70 18 U.S.C. 983(c).

71 18 U.S.C. 983(d)(2)(A).

72 18 U.S.C. 983(d)(3)(A).

73 21 U.S.C. 881(e) and 18 U.S.C. 981(e). Doyle, n.38 supra at CRS-14.

74 United States Department of Justice, Executive Office for United States Attorneys, *United States Attorneys Annual Statistical Report: Fiscal Year 2005*, AF Chart 1, 35 (2006), referred to in Doyle, supra at CRS-14.

every year since 1995 to a point where there are now more than twice as many criminal forfeitures and as civil forfeitures.[75]

3.2 The UK Proceeds of Crime Act 2002[76]

(a) Background

The Proceeds of Crime Act 2002 (POCA), came into force on 24 March 2003.[77] This Act followed three reports by the Home Office Working Group on Confiscation[78] which were addressed by the Performance and Innovation Unit (PIU) of the Cabinet Office, which conducted a comprehensive review of proceeds of crime. A particular recommendation of the PIU was the inclusion of civil forfeiture.

Part 2 of the UK Proceeds of Crime Act (POCA) establishes a regime for the confiscation of property in England as a criminal sanction arising from criminal conduct. Parts 3 and 4 establish similar regimes in Scotland and Northern Ireland respectively. S1 of the Act established the Assets Recovery Agency as the body empowered to recover property and cash from those involved in organized criminal activity. Part 5 of the Act enables the enforcement authority to recover, in civil proceedings before the High Court or in Scotland the Court of Session, property or cash obtained through unlawful conduct, or which is intended to be used in unlawful conduct. These provisions are discussed below.

Pursuant to the Serious and Organised Crimes Act 2006, the ARA is to be absorbed into SOCA. It is planned for the power to launch civil recovery proceedings to be extended to the three main prosecutors in England and Wales; the Crown Prosecution Service (CPS), the Revenue and Customs Prosecutions Office (RCPO) and the Serious Fraud Office (SFO).[79]

(b) *Criminal confiscation provisions*

The criminal confiscation provisions in England are described below. Similar schemes for criminal confiscation are prescribed for Scotland and Northern Ireland. To be liable to criminal confiscation proceedings, s.6 of the POCA provides that the defendant must either have been convicted of an offence in proceedings before the Crown Court, committed to the Crown Court for sentence under the Sentencing Act 2000, ss.3, 4 or 6, or committed to the Crown Court under s.70 of the POCA. Where a defendant is liable to confiscation proceedings, s.6(5) requires the Court to proceed with a view to a confiscation order if it is asked to do so by the prosecutor or by the Director of the Assets Recovery Agency[80], or if the court believes that "it is appropriate for it to do so".

In order to proceed, the Crown Court must first decide whether the defendant has a "criminal lifestyle" and if it decides that he does have such a lifestyle, it must decide whether

---

75 Ibid.

76 The following section is derived from L. Blakeney and M. Blakeney, 'Counterfeiting and Piracy—Removing the Incentives through Confiscation' [2008] *European Intellectual Property Review* 348-356.

77 By the Proceeds of Crime Act 2002 (Commencement No.5, Transitional Provisions, Savings and Amendment) Order 2003 (SI 2003, No. 333)

78 *Report on the Drug Trafficking Offences Act 1986*, May 1991; *Report on Part IV of the Criminal Justice Act 1988*, November 1992; and *Criminal Assets*, November 1998.

79 Serious Crime Bill.

80 Now the Serious Organized Crime Agency (SOCA).

he "has benefited from his general criminal conduct". If it decides that he does not have a criminal lifestyle it must decide whether he "has benefited from his particular criminal conduct". If the court decides that the defendant has benefited from the conduct referred to it, S.6(5) requires the court to: (a) decide the recoverable amount, and (b) make an order (a confiscation order) requiring him to pay that amount.

It can be seen that there are two key concepts: "criminal lifestyle", and "criminal conduct" – general or particular.

"Criminal lifestyle" is defined in s.75. That section provides that a person has a criminal lifestyle if either convicted of one of the offences specified in Schedule 2 to the POCA, or the offence constitutes "conduct forming part of a course of criminal activity", or was committed over a period of at least six months and the defendant has benefited from the activity.

Among the offences listed in schedule 2 are a number concerned with copyright and trade marks. Specifically, clause 7 of the schedule refers to:

(1) An offence under any of the following provisions of the Copyright, Designs and Patents Act 1988 (c. 48)-

(a) section 107(1) (making or dealing in an article which infringes copyright);
(b) section 107(2) (making or possessing an article designed or adapted for making a copy of a copyright work);
(c) section 198(1) (making or dealing in an illicit recording); and
(d) section 297A (making or dealing in unauthorized decoders).

(2) An offence under section 92(1), (2) or (3) of the Trade Marks Act 1994 (c. 26) (unauthorized use etc of trade mark).

Omitted from schedule 2 are offences concerning other categories of intellectual property such as patents, industrial designs, layout designs of integrated circuits and plant variety rights.

Conduct forms part of a course of criminal activity in two situations described in s.75. First, the defendant must have benefited from the conduct and in the course of the proceedings, in which he was convicted, he was convicted of three or more other offences and each of them constituted conduct from which he benefited. The second possibility is that the defendant has benefited from the conduct and in the period of six years ending with the day when the proceedings in which he was convicted were commenced, he was convicted on at least two separate occasions of an offence constituting conduct from which he benefited. Section 75(4) requires the relevant benefit to be worth at least £5000.

If the court decides that defendant has a criminal lifestyle it must decide whether he "has benefited from his general criminal conduct" General criminal conduct is all of the defendant's criminal conduct. A defendant benefits from criminal conduct if he or she obtains property as a result of, or in connection with that conduct. If a defendant benefits from conduct, the benefit is the value of the property or pecuniary advantage obtained. The court then moves to calculate the defendant's benefit from his conduct.

For the purpose of deciding the quantum of the benefit from such conduct the Court must make four assumptions: (i) any property transferred to the defendant within the period of six years ending on the day that proceedings were commenced, was obtained as a result of the defendant's criminal conduct; (ii) any property held by the defendant at any time after the date of conviction was obtained as a result of the defendant's general criminal conduct; (iii) any expenditure incurred by the defendant within a period of six years ending with the date on which proceedings were commenced, was met from property obtained as a result of the defendant's general criminal conduct; and (iv) any property obtained or assumed to have been obtained by the defendant was free of any other interest in the property.

The court must not make these assumptions where it would be incorrect, or there would be a serious risk of injustice.[81] The burden of showing that an assumption is incorrect would appear to fall on the defendant.[82]

If the court decides that the defendant does not have a criminal lifestyle, it must then decide whether the defendant has benefited from his "particular criminal conduct". This is defined as "all his criminal conduct" which constitutes "the offence or offences concerned", or "offences of which he was convicted in the same proceedings as those in which he was convicted of the offences concerned" or "offences which the court will be taking into consideration in deciding his sentence for the offence or offences concerned".

In determining whether the defendant has benefited from his "particular criminal conduct" the court may not make any of the assumptions listed in s.10, but s.18 permits it to order the defendant to give the court "information specified in the order" and if the defendant fails to comply, s.18(4) permits the court to "draw such inference as it believes is appropriate" from this non-compliance. There is no restriction in the kind of information which may be specified in the order.

Section 6(7) provides that any question arising in connection with whether the defendant has a criminal lifestyle or has benefited from his criminal conduct is determined on a "balance of probabilities". Having calculated the benefit the Court then moves to determine the recoverable amount. Generally, the "recoverable amount" under the Act is an amount equal to the defendant's benefit from his criminal conduct[83] and the court must make an order for that amount unless either the defendant shows that the "available amount" is less.

Section 9 provides that the "available amount" is the aggregate of all "free property held by the defendant at the time the confiscation order is made and of all "tainted gifts"[84]. Free property is that property held by the defendant minus the total amount of "obligations which then have priority. The next calculation is the value of all "tainted gifts." A "gift" includes any transfer of property for a consideration of significantly less than the value of the property transferred at the time of the transfer. The definition of a tainted gift is much wider if the defendant has a criminal lifestyle. A gift made by a defendant who has been held to have a criminal lifestyle, is considered by s.77 to be tainted if it can be shown to be a gift of property which was obtained by the defendant as a result or in connection with his general criminal

---

81 POCA s.10(6).
82 Archbold, London, Sweet and Maxwell, 2006, 5-535.
83 POCA s.7(1).
84 Defined in POCA s.77.

conduct.[85] A tainted gift (if the defendant does not have a criminal lifestyle and the court is therefore concerned with calculating his particular criminal conduct) is a gift made by the defendant at any time after the date on which the offence concerned was committed or the earliest date if there are two or more offences.

Sections 40-49 POCA provide for the making of restraint orders to prohibit any person dealing with any "realisable property." "Realisable property" is any "free property" wherever situated, held by the defendant or by the recipient of a tainted gift.[86] The value of the property is the market value of the defendant's interest at that time.[87]

Where there is reasonable cause to believe that the alleged offender has benefited from his criminal conduct a restraint order preventing the restrained person from dealing with his property so as to dissipate its value can be made against the defendant. A defendant will be restrained from dealing with all of his assets ("general restraint") if the prosecutor is going to ask the court to decide whether the defendant has a criminal lifestyle and has benefited from general criminal conduct.

If the prosecutor is not alleging that the defendant has a criminal lifestyle and the court is going to be asked to decide whether the defendant has benefited from his particular criminal conduct, a defendant will be restrained from dealing with specific assets which together total in value the amount of his benefit from particular criminal conduct ("specific restraint"). An application for an order is made by the Crown Court on application by the prosecutor, Director of the Assets Recovery Agency, or by an accredited financial investigator. The application may be made *ex parte* to a judge in chambers.[88]

(c) Civil confiscation provisions

Part 5 of POCA introduces the possibility of civil recovery proceedings against criminally derived assets. Section 240 POCA provides that the purpose of Part 5 is to enable the enforcement authority to recover, in civil proceedings property or cash obtained through unlawful conduct whether or not any criminal proceedings have been brought for an offence in connection with the property.

Recoverable property is defined in s.304 as property obtained through unlawful conduct and includes property which has been disposed of to another, or property which has been obtained in its place, or where mixed with other property and any accrual in the value of such property. Unlawful conduct is defined in s.241 as "conduct occurring in any part of the United Kingdom is unlawful conduct if it is unlawful under the criminal law of that part" or conduct which occurs in a country outside the United Kingdom and is unlawful under the criminal law of that country, and if it occurred in a part of the United Kingdom, would be unlawful under the criminal law of that part. Section 241(3) provides that the court must decide on a balance of probabilities whether it is proved that any matters alleged to constitute unlawful conduct have occurred, or that any person intended to use any cash in unlawful conduct.

---

85 POCA s.78(1).
86 POCA s.84(1).
87 POCA s.79.
88 POCA s.42.

Property will cease to be recoverable in the exceptions outlined in s.305, notably where the person who obtains it does so in good faith, for value and without notice that it was recoverable property, or obtains it pursuant to a judgment in civil proceedings.

Proceedings for a recovery order may be taken by the enforcement authority against any person who the authority thinks holds recoverable property and on any other person who the authority thinks holds any associated property which the authority wishes to be subject to a recovery order. Where the enforcement authority may take proceedings for a recovery order, the authority may apply to the court for an interim receiving order.

If the court is satisfied that any property is recoverable, the court must make a recovery order under s.266 POCA, provided that it is just and equitable to do so and is incompatible with any of the Convention rights (within the meaning of the Human Rights Act 1998 (c. 42)).

Some £230million have been recouped from criminals from 2004-2006.[89] Assets Recovery Agency (ARA) website refers to a number of POCA actions in which confiscation orders were obtained.[90] Yet the experience in the UK of civil recovery has not been an unmitigated success. Civil recovery litigation is both slow and expensive and the number of cases concluded has been the relatively small compared to the number of cases in which a settlement between the parties has been reached. Proving the criminal origin of property is an expensive task. Confiscation of criminal assets is, by comparison, a less expensive mechanism to operate. This is because the prosecution does not need to prove during a confiscation hearing that particular property has an illicit origin. Often statutory assumptions prove the figure by which the defendant has benefited and the court then makes a simple calculation of the defendant's net worth. As we will see some civil forfeiture laws in Australia have overcome this.

3.3 Australia

(a) Introduction

In Australia, consideration of the introduction of proceeds of crime legislation arose out of a series of royal commissions of inquiry in the 1970s and 1980s into the involvement of organized crime in clubs, drug trafficking and in the unions.[91] In each case, the Royal Commissioner recommended the targeting of the ill-gotten gains of organized criminals. In tandem with the States and Territories, the Australian Federal Government introduced the Proceeds of Crime Act 1987 as a conviction-based statute. State and Territory criminal trial courts were conferred power to order the forfeiture of property that constitutes either the proceeds of a particular crime or is property used in, or in connection with, the commission of that crime. The confiscation regime applied to all indictable offences against Commonwealth law. It should be noted in the context of intellectual property offences that all of Australia's intellectual property laws are enacted by the Federal Parliament. Forfeiture under the Act

---

89 Secretary of State for the Home Department, *New Powers Against Organised and Financial Crime*, July 2006 Cm 6875.

90 *http://www.assetsrecovery.gov.uk/MediaCentre/SpecialEditions/2006/240206SE.htm*

91 "Moffitt" Royal Commission of Inquiry in Respect of Certain Matters Related to Allegations of Organised Crime in Clubs, 15 August 1974; "Williams" Australian Royal Commission of Inquiry in Relation to Drugs, 1980; "Stewart", Australian Royal Commission of Inquiry in Relation to Drug Trafficking, 1983; Royal Commission on the Activities of the Federated Ship painters and Dockers Union, Final Report, 26 October, 1984.

could only be precipitated by conviction for the particular offence. Evaluations of the 1987 law were critical of its effectiveness. Freiberg and Fox[92] estimated that assets confiscated under the proceeds of crime legislation average between A$10 and A$13 million per year.[93] This was considered to be less than one percent of crime profits..

Three State Parliaments, however, introduced civil forfeiture laws. In New South Wales the Drug Trafficking (Civil Proceedings) Act 1990, which was limited to serious drug offences, introduced a scheme for civil forfeiture. This was extended in 1997 by the Criminal Assets Recovery Act (CARA) to other forms of serious criminal activity involving an offence punishable by five year's imprisonment. Under CARA, the New South Wales Crime Commission (NSWCC) can apply *ex parte* for a restraining order in respect of specified property (i) owned or effectively controlled by a person suspected of having engaged in serious criminal activity; and/or (ii) of third persons suspected to having been derived from the serious criminal activity of a defendant. The assets will be restrained for up to 48 hours, during which the NSWCC may apply for a forfeiture order. To secure this order it must prove on the balance of probabilities that the defendant was engaged in some form of serious criminal activity in the previous six years. Another remedy under CARA is for a proceeds assessment order which requires the court to assess and secure the gross value of proceeds derived from any illegal activities undertaken by the defendant during the previous six years. Rebuttable presumptions provide that any expenditure or increases in assets during this period were financed from crime. Amounts received under CARA are paid into the Confiscated Proceeds Account and can be used for the administration of the Act, compensating victims, enhancing law enforcement and funding rehabilitation and education programmes.

The most far-reaching civil confiscation statute is the Western Australian Criminal Property Confiscation Act 2000 which provides for civil confiscation of "unexplained wealth". Where a court finds that it is more likely than not that the total value of a person's wealth is greater than the person's lawfully acquired wealth, it must make an unexplained wealth declaration requiring the person to pay an amount equal to the excess. Wealth is presumed to have been unlawfully acquired unless the person proves otherwise on the balance of probabilities. The court may order the confiscation of all property owned, effectively controlled or given away by a convicted drug trafficker. Under the WA Act, where a court finds it more likely than not that a person committed any offence punishable by imprisonment for two years or more, it is required to assess the value of the benefits derived from the offence and the value of the property used in connection with the commission of the offence and this amount is paid to the State. Property of that person is considered on the balance of probabilities to have been derived from the commission of that offence. Finally, the WA Act provides for freezing orders in relation to the property of a person against who an application for confiscation is made. After 28 days, property subject to a freezing order is automatically confiscated unless an objection is filed. By the end of the financial year 2005 property worth $AUD53m. had been frozen.[94]

A review of the effectiveness of the confiscation laws was reviewed by the by the Australian Law Reform Commission (ALRC).[95] The Commission concluded that

---

92 A Freiberg and R Fox, 'Evaluating the effectiveness of Australia's confiscation laws', (2000) 33 Australian and New Zealand Journal of Criminology 239.

93 Ibid., at 250.

94 J. McGinty, Answer to Question without Notice, No 320, 37th WA Parliament, Assembly, 28th June 2005.

95 Australian Law Reform Commission, 'Confiscation that Counts: A review of the Proceeds of Crime Act 1987', Report No. 87. Canberra, AGPS, 1999.

Commonwealth conviction based laws were inadequate. It identified the principal shortcoming of the law to be the need to secure a conviction for a predicate offence in order to trigger the forfeiture regime, observing that various submissions referred to cases where, although the evidence was inadequate to secure a conviction, but "available material pointed strongly to involvement in criminal activity and consequent unjust enrichment."[96] As a consequence of this review the 1987 Act was replaced by the Proceeds of Crime Act 2002 (Cth) ("the Act") which established a civil forfeiture regime confiscating unlawfully acquired property, without first requiring a conviction, in addition to the conviction-based confiscation regime

(b) Proceeds of Crime Act 2002 (Cth)

This Act establishes a scheme to confiscate the proceeds of crime by setting out in Chapter 2 processes by which confiscation can occur and in Chapter 3 ways in which Commonwealth law enforcement agencies can obtain information relevant to these processes. The confiscation scheme provides for:

- restraining orders which prohibit the disposal or dealing in property the subject of the order;
- forfeiture orders which forfeit property to the Commonwealth;
- pecuniary penalty orders (PPO) which require payment of amounts based on benefits derived from crime; and
- literary proceeds orders (LPO) which require payment of amounts based on literary proceeds of crime.

Section 315(1) makes it clear that applications for confiscation orders are not criminal proceedings. Furthermore, the rules of construction and evidence applicable to criminal proceedings do not apply such applications. Unlike the UK there is no independent civil enforcement authority and the Commonwealth DPP conducts all proceedings under the Act for restraining orders, forfeiture orders and PPO.

The restraint of property suspected of being the proceeds or instrument of crime is a crucial part of the forfeiture regime. An application for a restraining order will often be the first step in forfeiture proceedings, and may occur before the investigation is complete. An application for forfeiture is able to be made at either the time the application for the restraining order is heard or at a later time.

The Act makes differing provision depending on whether the crime is a serious offence or an indictable one. A serious offence includes an indictable offence punishable by imprisonment for 3 or more years, unlawful conduct by a person that causes, or is intended to cause, a benefit to the value of at least $10,000 for that person or another person; or a loss to the Commonwealth of the same amount[97] and various specified offences under *Financial Transaction Reports Act 1988 and Anti-Money Laundering and Counter-Terrorism Financing Act 2006.*

---

[96] Ibid., para .4.131.

[97] Recommendation D36 of the Sherman Report was that the definition of "serious offence" should be amended to cover cases where acts or omissions in aggregate cause a benefit or loss over $10,000. Further, the definition of "serious offence" should cover excise offences.

Thus the Act provides for Conviction-based orders, civil forfeiture for serious offences and civil forfeiture for indictable offences.

(c) Conviction Based Provisions

Section 17 enables a court to make a restraining order where a person has either been convicted of an indictable offence, or has been, or is about to be, charged with such an offence. This Section would be used where *conviction-based* forfeiture action is to be taken, or an application for a conviction-based pecuniary penalty order is to be made. Section 92 provides for automatic forfeiture of restrained property, on the conviction of a person of a serious offence, without the necessity of a court order where the suspect has been convicted of a serious offence. The property must be the subject of a restraining order. In situations where there is no restraining order, Section 48 can be relied upon to make a forfeiture order in relation to proceeds or instruments of the offence. Section 48 can be applied where a person has been convicted of one or more indictable offences even if these also include one or more serious offences. It is only the proceeds or instruments of the particular offence or offences of which the person has been convicted which can be forfeited under this Section.

(d) Civil confiscation: serious offences

Section 18 enables a court to make a restraining order where there are reasonable grounds to suspect that a person has committed a serious offence within the six years preceding the application for the restraining order. It is not necessary for these grounds to be based on a finding as to the commission of a particular serious offence. This Section would be used where either civil-forfeiture proceedings or civil-based pecuniary penalty order proceedings were proposed to be instituted although these provisions can also be used where a person has been convicted of an offence if the DPP so chooses.

The court must make a restraining order court as a condition precedent to obtaining a forfeiture order under Section 47, although the serious offence need not be the same offence on which the restraining order was based, and a particular offence need not be proved To make a civil forfeiture order, the court must find to the civil standard that the person engaged in conduct constituting a serious offence within the last six years.

Property which is characterized only as an instrument of the offence or offences cannot be the subject of civil confiscation.

(e) Civil Confiscation: indictable offences

Section 19 enables a court to make a restraining order where the property which is to be the subject of the order is reasonably suspected of being the proceeds of an indictable offence which occurred in the 6 years preceding the application.

Such an order would be sought where civil-forfeiture proceedings under Section 49 were proposed to be instituted. This provision is intended to be used in cases where property is found and suspected of being proceeds of crime and no lawful owner claims it. It provides for civil forfeiture orders where conduct involves indictable offences in relation to property which has been restrained for six months. Instruments cannot be restrained except where the relevant offence is a terrorism offence.

From the above it can be seen that the property able to be restrained depends upon the type of offence involved and the nature of the proceedings. Generally the order may cover all of the property of the person convicted, or suspected, of the offence ('the suspect'), or specified parts of that person's property. In addition, the order can extend to property of another person which is suspected of being under the effective control of the suspect, or that is suspected to be the proceeds or an instrument of the offence or offences on which the restraining order is based. If property initially owned by a person is disposed of to another person without sufficient consideration, within 6 years either before or after an application for a restraining order or a confiscation order is made, then the property is taken still to be under the effective control of the first person.

A person will have the opportunity to prove to the court that his or her assets were lawfully derived; if such proof can be provided, those assets will not be forfeited.
For conviction based orders where the offence (or any of the offences if there is more that one) is a serious offence, the person must show that the particular property is neither the proceeds nor an instrument of unlawful activity. 'Unlawful activity' is defined to include an indictable State, Northern Territory or Australian Capital Territory offence, as well as a Commonwealth offence and a foreign offence. If the offence or all of the offences are indictable then the person must show that the particular property is not the proceeds or instrument of any offence to which the restraining order relates.

For civil confiscation orders where the crime is defined as serious the person must show that the property is neither the proceeds of 'unlawful activity' nor an instrument of any terrorism offence (if the relevant offence is a terrorism offence). For civil confiscation of property or other indictable offences a person must show that the property is neither the proceeds of an indictable offence nor an instrument of any terrorism offence.

In the same way, where the Court make a pecuniary penalty order pursuant to s.116, the determination of the benefit derived and penalty amounts varies according to whether the offence to which the order relates is a serious or non-serious indictable offence. Where it is a non serious indictable offence the court must assess the value of the benefits the person derived from the commission of the indictable offence. However, if the relevant offence is a serious offence, the benefits taken into account are not limited to those derived from the particular offence, but extend to any benefits the person has derived from any unlawful activity within the period commencing six years before either the application for the PPO or the application for a restraining order if one is in place, and the date of determining the penalty amount. In the case of unlawful activity that constitutes a terrorism offence, however, no defined time period applies. In addition, where there is evidence provided to the court regarding the person's expenditure during the relevant period, that amount is presumed to be the value of a benefit provided to that person due to his or her illegal activity.

The Act in Chapter 3 provides for a number of coercive measures to assist in the investigation of proceeds of crime matters. The Act provides for: examination orders, production orders, notices to financial institutions to provide information about bank accounts or transactions relating to suspected proceeds of crime, monitoring orders and search warrants.

The Act then provides for a number of administrative measures for the management of properties, for legal assistance, and for a Confiscated Assets Account (CAA) as the repository

of funds ultimately realizable as proceeds of crime. Total payments made to the CAA at 30 May 2006 were in the region of $AUD 21 million.[98]

The Act authorizes payments out of the CAA for particular purposes such as crime prevention measures, law enforcement measures, as well as measures concerning the use of drugs. Total payments made out of the CAA as at 30 May 2006 were in the region of $AUD 11 million.[99] It should be noted that unlike the situation in the UK which provides a system of incentivisation of payments to those agencies which recover them, in Australia payments out are not necessarily made to those who recover the funds.

Although there is no specific mention of Intellectual Property offences in the Act, the AFP submission to the Sherman Report indicated that they are considering targeting intellectual property offences for additional proceeds work. That Federal Government is targeting Intellectual property crime is clear from its announcement in 2007, that it will provide funding of $12.4 million over two years to tackle the problem. The Attorney General announced additional funding of $8.3 million over 2 years to strengthen the capability of the Australian Federal Police to pursue serious and complex IP crime, particularly where organized or transnational criminal elements are involved, noting that the AFP will work closely with industry and other agencies, including overseas agencies. He also announced that the Commonwealth Director of Public Prosecutions will receive an additional $4.1 million over two years for new prosecutors and training to enable the prosecution of IP crime and finance the pursuit of proceeds of crime.

The Sherman report considered a submission that unexplained wealth provisions, such as those contained in the Western Australian and Northern Territory proceeds of crime laws, should be incorporated into the Act. Although it was accepted that unexplained wealth provisions may have been effective where there has been insufficient evidence to connect individuals to criminal activity although there is no other legitimate explanation for their accumulated assets, it was felt that to introduce these provisions would represent a significant step beyond the national and international consensus in this area.

The Sherman review concluded that overall POCA 2003 has worked well: - “introducing a non-conviction based regime which has allowed the DPP to commence a far greater number of matters well in advance of any prosecution for suspected conduct. Since its inception the value of properties restrained under the Act is running at much higher amounts than equivalent figures under POCA 87 at $184 million involving a total of 416 orders. Recoveries under the Act 2003 are 45% higher than the average annual recoveries under POCA 87.

VII. EXTRADITION AS AN ENFORCEMENT ISSUE

The possibility of extradition being used to deal with intellectual property crime was suggested in a submission by US Department of Justice to the Hearing by the EC in March 1999 on Combating Counterfeiting and Piracy in the Single Market.[100] It was noted

---

98 T. Sherman, Report on the Independent Review of the Operation of the Proceeds of Crime Act 2002 (Cth), Canberra, AGPS, 2006, Appendix E.

99 *Ibid.*

100 Speech by Roslyn A. Mazer, *http://www.cybercrime.gov/ecfinal.htm*

that IP crime was not subject to sufficiently severe criminal penalties to qualify for certain extradition treaties. However, as the face of IP crime had changed, it was suggested that it would be prudent to re-examine attitudes toward extradition.

The Department of Justice encouraged the inclusion of IP crime as a basis for extradition.

This suggestion was taken up in the extradition of a copyright pirate from Australia to the USA. This case concerned Hew Raymond Griffiths, 44, a British national living in Australia, who was extradited to the United States in February 2007 to face criminal charges in U.S. District Court in Alexandria, Va. He pleaded guilty on April 20, 2007, and was sentenced to imprisonment for 51 months, having spent three years in gaol in Australia awaiting extradition[101]

According to the US Department of Justice, Griffiths was a leader of an organized criminal group known as DrinkOrDie, which had a reputation as one of the oldest Internet piracy groups.[102] DrinkOrDie was founded in Russia in 1993 and was dismantled by the U.S. Immigration and Customs Enforcement as part of Operation Buccaneer in December 2001, with more than 70 raids conducted in the U.S. and five foreign countries, including the United Kingdom, Finland, Norway, Sweden and Australia. DrinkOrDie was estimated to have caused the illegal reproduction and distribution of more than $50 million worth of pirated software, movies, games and music. It specialized in cracking software codes and distributing the cracked versions over the Internet. Its victims included Microsoft, Adobe, Autodesk, Symantec and Novell, as well as smaller companies whose livelihood depended on the sales revenue generated by one or two products. Once cracked, these software versions could be copied, used and distributed without limitation. Members stockpiled the illegal software on huge Internet computer storage sites and used encryption and an array of other sophisticated technological security measures to hide their activities from law enforcement.

Griffiths, known by the screen nickname “Bandido,” was described by the US Department of Justice as “a longtime leader of DrinkOrDie and an elder in the highest echelons of the underground Internet piracy community, also known as the warez scene”.[103] The Warez community is made up of groups of computer hackers which in the 1990s organized into competitive gangs which “cracked” proprietary software, removed its protections and posted it on the Internet for distribution by others.

The success of the USA in securing the extradition of Griffiths is attributed to the existence of the US-Australia Free Trade Agreement, which obliged Australia to strengthen its enforcement of computer piracy.[104] Among the interesting features of the case were the fact that Griffiths had never set foot in the USA and the fact that he could have been sued in Australia under Australian copyright law. One can only speculate whether a US Internet pirate has been successfully extradited to Australia. In any event the Griffiths case provides a premonitory example of the future landscape of the enforcement of intellectual property crime.

---

101 USDOJ, Press Release, June 22, 2007, *www.usdoj.gov/opa/pr/2007/June/07_crm_444.html*

102 Ibid.

103 USDOJ Press Release, February 20, 2007, *www.usdoj.gov/criminal/cybercrime/*Griffiths Extradition.htm

104 Eg see Liz Tay, ‘Software pirate extradition a first of many, legal expert predicts’ *Linuxworld*, 18/05/2007 reproduced in *Computerworld*, 11 July 2008

VIII. CONCLUSION

The ACE has been identified by WIPO Member States as a forum of choice for enhanced enforcement policy dialogue. The Performance Indicators and Targets identified for Strategic Goal VI: International Cooperation on Building Respect for IP in WIPO's current Biennium requires this dialogue to "be supported with detailed information and legal analysis, based on the experience of different countries and regions." This paper is a contribution to the assisting an understanding of enforcement issues by disseminating information on emerging trends, jurisprudence and developments in this field.

It proposes a way in which the resources available to law enforcement officials in handling enforcement matters might be enhanced, while depriving criminals of the profits which hitherto have motivated IP crime.

[End of document]