

# LEGALFOXES LAW TIMES

## THE LEGAL IMPLICATIONS OF COUNTERFEITING IN THE FASHION INDUSTRY

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### ABSTRACT

The practice of counterfeiting in the fashion industry is on a high rise with the mushroom growth of fake products being manufactured and sold quite openly. Getting a copy of a Rolex, AP watches, LV, Gucci bags and high-end designer clothes is no big deal these days. Counterfeiting is not only a moral wrong but has legal consequences too yet this practice remains unchecked. The cost of counterfeit goods is way less than that of the original designer product with very less distinction in appearance. Designers put enormous efforts in creating designs and ideas and copying those designs takes no effort and is against the very spirit of creativity. The availability of counterfeit goods in turn undermines the sale of the original designer products and creates a negative impact on the overall market. The cost of counterfeit goods is considerably low and to manufacture those goods at that cost, the manufacturer's compromise on the quality which tarnishes the reputation of the brand associated with the counterfeit product. Those working in the industries of counterfeit goods are made to work in inhuman conditions and are economically exploited to maximize profits. This article sheds light on various laws governing intellectual property such as IPR laws which include trademarks, patents and copyrights which play a significant role in protecting a designer's hard work and creativity but enforcement of anti-counterfeit laws comes with certain difficulties too in the global market for various reasons which have been discussed as well.

### INTRODUCTION

Counterfeiting has been a prevalent issue in the fashion industry for the longest time. The age of media and globalization has given rise to this issue due to the easy access of information and availability of designs of various high brand in the market. Therefore, in recent times counterfeiting has become an industry in itself.

By definition a counterfeit is something that is made to look like the original of something usually for dishonest or illegal purposes.<sup>1</sup>

It basically means to imitate a product by a renowned brand holding a trade mark and calling it your own without permission or giving credits. Products of renowned brands like Nike, LV, Chanel, Hermes, Gucci, Ray ban, Rolex and Levi's are most commonly copied by small manufacturers owing to the fact that these brands have a huge fan base and not many people can afford it, hence they make it in a cheaper quality and sell it for a lower price. This practice is unethical on many levels as a lot of thought and hard work of creative designers goes behind creating a particular piece and copying that product takes no effort. The copied products have an effect on the market of the original products as the price of fake goods do not even cover the manufacturing cost of the original product. This not only harms the original designer and brand by undercutting their sales and reputation, but it also deceives consumers who may believe they are purchasing an authentic item. Counterfeit in fashion industry can be of two types namely:

1. **Deceptive** - Deceptive counterfeit is when the consumer is not aware that he or she is purchasing a fake product.
2. **Non deceptive** – Non deceptive is when the consumer purchases a product with full knowledge that it is a copy of the original product.<sup>2</sup>

In spite of there being various legal provisions to check this practice, there has been a mushroom growth of fake products in the market which is detrimental to the status and business of the high end brands, hence this issue needs to be looked into and checked accordingly.

## LEGAL MEASURES TO COMBAT COUNTERFEITING

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<sup>1</sup> Cambridge dictionary s.v “counterfeit“

<sup>2</sup> Sanjana kala, Ragini Ghosh, ‘Faking It in Fashion’ (2019) Mondaq Ltd <<https://www.mondaq.com/india/trademark/845644/faking-it-in-fashion>> accessed 21February 2023.

A creation, product or a logo that is exclusive and unique in itself needs to be protected for the world to see and also it is necessary to preserve the integrity of the artist who created it, to protect these, the IPR or Intellectual property rights come into the picture. Each country has its own IPR laws to protect the creation of its artists. IPR covers many industries under its shadow including fashion, property, literature, scientific creation, technology and etc. The IPR or intellectual property rights is a legal right or remedy given to the artists/inventors for the exclusive use of their creation or work for some time. This allows the artists/ inventors to gain profit or a source of income from their work. The IP rights are those legal rights that usually govern the use of this intellectual property of the artist/ inventors. IPR has a vast spectrum as it covers many areas of use under its umbrella. It covers the fashion industry, the technology industry, the scientific industry, writers or artists, paintings an etc. For E.g., in the fashion industry, the logo of Sabyasachi is the trademark of its brand, and the logo of McDonald's is a trademark of McDonald's the food giant, even the work of the famous artist MF Hussain is covered under intellectual property rights.

**There are various acts governing Intellectual property in India such as;**

- 1- The Copyrights Act, of 1957
- 2- The Patents Act, 1970 (Amended in 2005)
- 3- The Trade Marks Act, 1999
- 4- The Designs Act, 2000
- 5- The Information Technology Act, 2000<sup>3</sup>

Let us study the various tools of IPR in detail:

- **Copyrights:**

Copyright is the legal right that protects the artistic or creative work of an individual created by his or her creative intellect, the copyright protects the work and also ensures that the work is not copied or duplicated, the creators are rewarded for their work and also that it can't be used by anyone without their permission. If it is found that a particular work has been copied, remade and is being sold and it is found that another product having similar traits has copyright, then it would be known as an infringement of copyrights. Such an infringement is particularly common

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<sup>3</sup> The Information Technology Act, 2000 (Act 21 of 2000).

in the fashion industry, where fashion changes overnight and to keep up with the changes counterfeiting is extremely common. Designs, prints, products, patterns, styles, etc are some of the common counterfeiting's in the fashion industry. We often forget that these designs /patterns are someone's work and tireless effort, hence Copyrights can help combat the counterfeiting issue, under the Copyrights Act, 1957<sup>4</sup> section 2 c (i) defines "artistic work" which means a painting, a sculpture, a drawing (including a diagram, map, chart, or plan), an engraving or a photograph, whether or not any such work possesses artistic quality; Similarly, in Section 2(c) in the Designs Act, 2000 defines "copyright" as the exclusive right to apply a design to any article in any class in which the design is registered.<sup>5</sup> The above mentioned provisions have certain limitations too which can be understood through the case of Ritika Private Limited V/s Biba Apparels Private limited<sup>6</sup> in which the appellant had accused the defendant of using its copyrighted designs, manufacturing goods and trading them. However, the court found that the designs copied were used more than 50 times by the appellant losing its exclusivity according to the copyrights act. Hence the defendants were found not liable.

- **Trademarks:**

Trademarks are gaining the legal right on a particular logo, symbol, writing style, or shape of a product, which denotes the exclusivity of that particular brand or product and ownership of a particular company. Under the Trade Marks Act, 1999 Section 2(1) (i) (v) (iii) (zb) "trade mark" means a mark capable of being represented graphically and which is capable of distinguishing the goods or services of one person from those of others and may include the shape of goods, their packaging, and combination of colors.<sup>7</sup>

The fashion industry is seen as the most brand-centric industry which includes famous brands or companies having their trademarks or logos. For example, the logo of Sabyasachi, Nike, Adidas, Chanel, Gucci, Louis Vuitton, H&M, Zara and etc, these brands have their own unique and significant trademarks but being famous also means that it comes with its own cost. The first or cheap copies of these brands are easily available in the market along with them their iconic trademarks which are changed in different ways and sold thereby misleading the customers. This

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<sup>4</sup> The Copyrights Act, 1957 (Act 14 of 1957).

<sup>5</sup> The Designs Act, 2000 (Act 16 of 2000).

<sup>6</sup> Ritika Private Limited v. Biba Apparels Private limited, (2016) DLT 109.

<sup>7</sup> Trade Marks Act, 1999 s 2(1) (i)(v)(iii)(zb) ( Act 47 of 1999).

amounts to the violation of their trademarks and affects the brand name as well. It can be seen in the case of Avtar Singh & ORs. Vs Sakshi Srivastava & Amr.<sup>8</sup> In this case the plaintiff had a trademark on Woodland and the defendants filed for a trademark under “Woodley”. The plaintiffs filed a claim in the Delhi High Court claiming the product of the defendants was deceptive and confusing to the customers, the court however, ruled in favor of the plaintiffs and held an interim order against the defendants thereby protecting its individuality.

- **Patents:**

A patent is a legal right given to the inventor for an innovation that gives him/her the exclusive right on how or who should use his product or innovation. The patent which is registered can be valid up to 20 years from the time of registering, a person who owns the patent can sell it to someone or license it as well.<sup>9</sup> A patent can be of three types: utility patent, design patent, plant patent.<sup>10</sup> Under the Patents Act, 1970 in Section 2(1) (j) "invention" means a new product or process involving an inventive step and capable of industrial application; (j) (a) states that "inventive step" means a feature of an invention that involves technical advance as compared to the existing knowledge or having economic significance or both and that makes the invention not obvious to a person skilled in the art.<sup>11</sup>

In the fashion industry, a patent on a particular creation /technique/collection is required to protect the individuality of that collection. It would restrict others to recreate those designs which have patents. It is seen in the case of B.K jewelry V/S Prestige International,<sup>12</sup> where the lawsuit was about design patent infringement, it involved the patent of a diamond jewelry design, to which the BK jewelers held a global patent and Prestige International was found infringing this patent causing a certain financial loss to BK jewelers. The court ruled in favor of BK jewelers and held that Prestige International should pay the losses from the income gained by selling these products/designs.

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<sup>8</sup> Avtar Singh & Ors v. Sakshi Srivastava & Amr (2021) CS (COMM) 385.

<sup>9</sup> Nidhi Bajaj, “All about Intellectual Property Rights (IPR)” (2022) i pleaders < <https://blog.iplayers.in/all-about-intellectual-property-rights-ipr/>> accessed 11 March 2023.

<sup>10</sup> “The patent type explained; utility design and plant” The Patent Lawyer, < <https://patentlawyermagazine.com/patent-types-explained-utility-design-and-plant/#:~:text=The%20United%20States%20Patent%20and%20Trademark%20Office%2C%20or,Plant%20patents%2C%20which%20cover%20certain%20newly%20discovered%20plants.>> accessed 11 March 2023.

<sup>11</sup> The Patents Act, 1970, s 2 (1) (j) (Act 39 of 1970).

<sup>12</sup> BK Jewelry v. Prestige International Inc. (2012) 11 Civ. 2930 (LBS) (S.D.N.Y).

**LEGAL CONSEQUENCES OF SELLING COUNTERFEIT FASHION ITEMS:**

People conveniently sell fake products which are close imitations of high end brands. E.g. Manish Malhotras' first copy lehengas at Sarojini Nagar is very common, fake Nike T-shirts, first copies of Rolex watches which are very detailed and difficult to identify, counterfeit makeup, Shein is very famously known to be copying various brands and selling it on their website and etc. Legal action can be taken against these manufacturers for selling counterfeit products in the market if the product comes under the protection of trademark or otherwise. The trademark holder can file a case under Section 29 of the Indian Trade Marks Act, 1999<sup>13</sup>. Section 29 (1) states that a registered trade mark is infringed by a person who, not being a registered proprietor or a person using by way of permitted use, uses in the course of trade, a mark which is identical with, or deceptively similar to, the trade mark in relation to goods or services in respect of which the trade mark is registered and in such manner as to render the use of the mark likely to be taken as being used as a trade mark.<sup>14</sup> In most cases the counterfeit is very obvious as the manufacturer wants to benefit from the reputation of the original product but in case the copy of trademark is not very obvious then in this case the act gives clarity that the trademark holder needs to clarify how it is a counterfeit to his product. One thing should be kept in mind that only a registered trade mark holder gets to file a complaint under section 29 of this statute. Section 27(2) of The Trade Marks Act, 1999<sup>15</sup> states that if the trade mark is not registered then also a person can file a suit but there is a special criteria that the plaintiff must fulfil.<sup>16</sup> As stated it is not necessary that the trade mark should be registered in order to file a suit against the counterfeiter and this is due to the common law principle of passing off. Passing off is an actionable wrong and is treated as a common law tort. It is similar to trademark infringement but is used in case there is an infringement of unregistered rights.<sup>17</sup> In India Counterfeiting and infringement of trademark is considered as a cognizable offence which means the person can be

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<sup>13</sup> Indian Trade Marks Act, 1999, s 29 (Act 47 of 1999).

<sup>14</sup> Indian Trade Marks Act, 1999, s 29 (1) (Act 47 of 1999).

<sup>15</sup> Indian Trade Marks Act, 1999, s 27 (2) (Act 47 of 1999).

<sup>16</sup> Sandhya Kaur, "Counterfeiting and Infringement of Trademarks in India" Legal Service India <<https://www.legalserviceindia.com/legal/article-3076-counterfeiting-and-infringement-of-trademarks-in-india.html>> accessed 21 February 2023.

<sup>17</sup> "Trademark Infringement in India" (2022) Clear tax, <<https://cleartax.in/s/trademark-infringement-india>> accessed 21 February 2023.

charged with criminal offence along with civil charges. In cases of trademark infringement and passing off the following remedies are available:

- **In case of civil proceeding the following remedies are available:**

- Permanent injunction
- temporary injunction
- damages (in the amount of the profits gained from selling the counterfeit)
- destruction of goods
- cost of legal proceedings

- **In case of criminal proceeding the following remedies are available:**

- imprisonment of not less than 6 months and may be extended to 3 years
- A fine can be levied of not less than 50,000 and extending up to 2 lakh<sup>18</sup>

### **CASE LAWS REGARDING COUNTERFEITING:**

As we progress towards changing times, counterfeiting in the fashion industry has increased day by day, here are some cases which show how the legal system in India has protected the Intellectual Rights of its citizens.

- It was seen in the case of H&M; Hennes & Mauritz Ab & Anr vs Hm Megabrands Pvt. <sup>19</sup>Ltd. & Ors. In this case, the plaintiff was H&M the renowned brand which deals with stylish clothes and designing, etc, and the Defendant, in this case, was HM Megabrands which dealt with a very similar line as the plaintiff. H&M had a registered trademark in India since 2005 and started their first store in India in 2015. While H&M Megabrand had a trademark 'HM' which signified the initials of the defendant's name and that of his brother. Aggrieved by the infringement of their trademark, H&M filed a suit in the Delhi

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<sup>18</sup> Peter Lowe, "International Guide to IP Rights Enforcement", 1, ICC 73 (2006).

<sup>19</sup> H&M Hennes & Mauritz AB & ANR v. HM Megabrands Pvt. Ltd & Ors,(2018) SCC OnLine Del 9369.

High Court. It was argued that the Plaintiffs can't have a restriction on the usage of alphabets 'HM' and that the trademark was not used for 5 years after registration. Further, from the plaintiff's side it was argued that H&M had been exporting products to India since 1972 and also that it was the first user in the world to have used "H&M" and was quite famous worldwide. In this case, it was concluded that the defendant's trademark could confuse the customers, and also that, although the trademark was not used it had digital footprints on its web portals. The Hon'ble Delhi High Court granted interim relief in the favor of the plaintiff.

- In a recent case, <sup>20</sup>The Hon'ble Delhi High Court passed an interim relief in favor of Titan Company who had filed a case in the court alleging that some sellers on the famous e-commerce website Snapdeal were selling counterfeit goods which bared the trademark of Titan/FastTrack. Despite several notices from Titan, the defendants didn't work out any action plan. Later on, the court passed an order indicating the sellers to pay 1, 50,000 each to the plaintiff as a fine.
- M/S Blue Heaven Cosmetics Private ... vs Deepak Arora, <sup>21</sup>in this case, the petitioner filed a suit against a trademark 'Marc Heaven' as it claimed to be extremely identical to its trademark of 'Blue Heaven'. Even the similar words Heaven could be misleading to the consumers, also it held that the respondent's trademark was registered far later than its trademark, which was being used since 1972. Hence the court passed an order, that the trademark of the respondent couldn't be registered due to its indistinct qualities.
- In the case of Levi Strauss & Co. v. Imperial Online Services Pvt. Ltd <sup>22</sup>it was seen that the petitioner found out that the respondent was selling jeans with a very similar logo and stitching style, to which the petitioner has a trademark on the 'Arcuate Stitching Design' which is famous worldwide. The court ruled in favor of the Plaintiff and ordered the defendant to pay Rs.4, 00,000/- as the respondent's trademark has been used for a very long time on its clothes/products.

## IMPACT OF COUNTERFEITING ON THE OVERALL ECONOMY

<sup>20</sup> Titan Co.Ltd v. Rohit Kumar Jain & Ors, (2019) CS (COMM) 380.

<sup>21</sup> M/S Blue Heaven Cosmetics Private Limited v. Deepak Arora & Anr, (2022) 04 Del CK 0111.

<sup>22</sup> Levi Strauss & Co. v. Imperial Online Services Pvt. Ltd, (2021) CS (COMM) 6057.



Counterfeiting causes a loss of foreign investment in the country, if a reputed brand has experienced counterfeiting in a country it shall be hesitant to further invest as it would bring down the brand value. The black market grows with counterfeiting as people prefer a product of a lower price than buying the original product because the exact same copy of it is available at a much lower price. Government loses its tax revenue and it also affects the employment of designers/artists who don't get acknowledged for their work and talent. The price of counterfeit goods is much lower to that of the original product and this is due to the lower manufacturing cost achieved by lowering the quality of the product and most companies underpay its workers to maximize profit and they are made to work in unhealthy conditions for long hours. In 2020 a loss of 50 billion <sup>23</sup> was recorded worldwide due to the sale of fake fashion products. While in the Indian economy the Authentication Solution Providers' Association (ASPA) claims that counterfeit goods add up to a loss of approximately 1 lakh crore per annum,<sup>24</sup> hence this practice needs to be checked.

#### **ENFORCEMENT OF ANTI-COUNTERFEITING LAWS IN A GLOBAL WORLD IS DIFFICULT FOR SEVERAL REASONS SUCH AS:**

- **Jurisdictional Challenges due to cross border trading:** Counterfeit goods are often produced and distributed across different jurisdictions, making it difficult to determine which laws apply and which government agencies have jurisdiction over enforcement. This means that law enforcement agencies may not be able to take legal action against counterfeiters who are operating in other countries.
- **Limited Resources:** Law enforcement agencies may have limited resources, making it difficult to investigate and prosecute counterfeiting cases. Counterfeiters may also have sophisticated operations and resources, such as technology, that make it difficult for law enforcement to keep up.

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<sup>23</sup> Tugba Sabanoglu, "Global sales loss from counterfeit and pirated goods 2020, by product" (2022) Statista <<https://www.statista.com/statistics/1117921/sales-losses-due-to-fake-good-by-industry-worldwide/>> accessed 10 March 2023.

<sup>24</sup> "India loses Rs 1 lakh crore annually due to counterfeit market" THE WEEK (12 August 2019) <<https://www.theweek.in/news/biz-tech/2019/08/12/India-loses-Rs-1-lakh-crore-annually-due-to-counterfeit-market.html>> accessed 10 March 2023.

- **Corruption:** In some countries, corruption can be a major obstacle to effective enforcement of anti-counterfeiting laws. Counterfeiters may bribe officials or operate with impunity due to a lack of political will to enforce the law.<sup>25</sup>
- **Lack of Public Awareness:** Many consumers may not be aware of the risks of counterfeit products or how to spot them. This can make it difficult for law enforcement to identify and track counterfeit products and their distribution networks.
- **Online Sales:** The rise of e-commerce and online marketplaces has made it easier for counterfeiters to sell their products to a global audience. This has created challenges for law enforcement agencies, as they may not have the jurisdiction or resources to monitor and enforce anti-counterfeiting laws in these online marketplaces.<sup>26</sup>
- Overall, anti-counterfeiting enforcement in a global world requires coordinated efforts between governments, law enforcement agencies, and the private sector to effectively combat the production and distribution of counterfeit goods.

## CONCLUSION

Counterfeiting has been growing with each passing day in our country. Laws and legal services in the country like IPR, Copyrights, Patents and etc help curb it to some extent however the key is awareness. If people around are made aware of counterfeiting and its implications, then it is quite possible to bring down the cases of counterfeiting as this practice affects the economy as a whole and even transpires the minds of the youth. Counterfeiting remains a global issue with each passing day. On a global level there is a dire need for countries to collectively tackle this issue with common laws for cross border counterfeiting. The sale and purchase of these goods bring loss of income to the artists and even to the government of the country. With the world going digital, online counterfeiting has been at its peak, the users should be aware with what they are buying and even verify the very websites they purchase the product from to avoid counterfeit goods. Our laws regarding IPR and cyber protection for counterfeiting should be strengthened to

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<sup>25</sup> “Organized crime markets” (2018) module 3 UNODC <<https://www.unodc.org/e4j/zh/organized-crime/module-3/key-issues/counterfeit-products-trafficking.html>> accessed 21 February 2023.

<sup>26</sup> “Enforcement Of Intellectual Property Rights: Challenges, remedies and public awareness” (2004) WIPO 25.

avoid further losses in the economy of our country and to protect the creativity and originality of the designers.

