



MOSCOW IP RAIDS

Rodolfo Diaz, chief operating officer, and Graham Pollock, senior director, EMEA, at PICA Corporation, explain how Russia is beginning to clamp down on its brand pirates

The continuing expansion of the Russian marketplace presents both opportunity and challenge for foreign companies looking to establish or widen a solid base for business. A flourishing economy opens up the fast lane to growth, but it also paves the way for greedy counterfeiters looking to cash in with their knock-offs and phoney merchandise during a period of good times and high consumer demand.

As the world hails Russia's boom, the country is still considered to be one of the worst spots globally for businesses concerned about protecting their brands, trademarks and copyrights.

In the midst of this dichotomy, a sweeping investigation by PICA Corp. agents recently in Moscow provided signs of a breakthrough in Russian willingness to go after brand pirates. The probe triggered dozens of raids by PICA and the Russian authorities, resulting in the confiscation of thousands of pirated imaging devices and the closure of a major counterfeit packaging and delivery operation.

The end result of those raids proved to be good news for four Russian-based foreign businesses. One company—Epson—has seen an increase in sales of its legitimate toner and ink cartridges in Moscow, and believes this can be attributed to the ongoing anti-counterfeiting operations. As investigators continue to sift through information, the removal of this knock-off equipment from the retail marketplace is

also likely to boost the sales penetration of genuine products for other similar companies.

As potential prosecutions loom, PICA remains in the hunt for bigger fish—the chief distributors.

The Bear emerges

For the past seven years, Russia has been one of just a few countries placed on the priority watch list maintained by the International Anti-Counterfeiting Coalition (IACC). In its 2007 report, the IACC notes that despite promises to the contrary, progress by the Russian government for improving IPR enforcement has remained sluggish.

“Trademark counterfeiting and copyright piracy remain at unacceptable high levels in a wide variety of product sectors,” the IACC reports. “...IACC members have consistently reported a lack of effective enforcement, both internally and at the country's borders.”

Those concerns take on added significance as the Russian Bear emerges from hibernation as a vibrant market force, ending 2007 with another year of record growth—a trend that started in 1998 after its financial crisis ended. The country thrives in part due to its pending World Trade Organization (WTO) membership, burgeoning foreign investments and a rising consumer demand, fuelled further by skyrocketing oil prices and an undervalued rouble.

Russia is the world's largest country, spreading out over 11 time zones. Relatively speaking, it was only recently that its nearly 141 million people began to enjoy economic freedom to buy coveted 'Western' goods. That makes stricter IPR enforcement more imperative than ever. Although a small majority still controls the wealth, Russian consumers, especially in the larger cities, are exposed more than ever to foreign-produced merchandise.

The Russian consumer is eager to snap up Western-based branded products, whether these are fashionable clothing or sports apparel, cigarettes, alcohol, computer games, hardware or software, pharmaceuticals, or even ink and toner cartridges.

These products can be expensive for the average Russian, providing fertile territory for counterfeiters. With the country's expansive borders, the transport of knock-off goods into the country and out onto the street is relatively easy. Even so, PICA has experienced total support and co-operation from Moscow law enforcement agencies when organising enforcement actions.

Consumers may recognise the product as a fake, but its name recognition and lower price proves to be an irresistible magnet for purchase, lining the pockets of counterfeiters and triggering a direct hit to the branded companies and their intellectual property.

Convincing the cops

Stemming the flow of illicit goods into the country is only one challenge. A bigger hurdle lies in firmly convincing the Russian authorities that the sale of counterfeits is not a minor transgression, creating little harm to brands. These concerns have to be brought home—that the trade in illegally produced goods ripples through the Russian economy, impacting the health and vibrance of legal sales, which ultimately affects the employment and wallets of the Russian people.

Russian police did join PICA agents mid-summer when they swooped down on an office and warehouse complex in Moscow that was home to a substantial counterfeit packaging and delivery business. Though not considered a large haul, agents confiscated thousands of bogus toner and ink cartridges bearing the brands of four global manufacturers. The operators ran a 'just-in-time process', keeping the warehouse stock to the minimal amount needed to fill orders. This method makes it difficult for investigators to catch counterfeiters red-handed with merchandise stacked to the rafters.

That raid was the result of a four-month investigation that began when Epson, frustrated with continuing counterfeit sales of its products, engaged PICA to begin surveillance of sales at retail stalls in seven electronic superstore malls around Moscow.

Sweeps of the malls, which have been converted from former Soviet factories, exposed widespread sales of knock-offs and pirated imaging equipment from Epson and three other major companies. It was enough to trigger multiple subsequent raids by Russian authorities and PICA agents, who confiscated at least several thousand fake ink and toner cartridges. In its wake, Epson happily reported a boost in legitimate sales of its products.

The intelligence gathered from those retail raids led authorities to the Moscow delivery business. Investigators continue to sort through massive amounts of computer data in order to develop a complete picture of the packaging and distribution operation and to zero in on the main distributor.

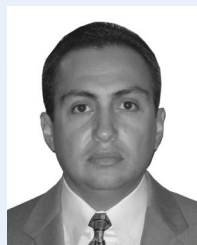
In addition to the toner and ink cartridges, authorities confiscated boxes and holograms from legitimate manufacturers. At least 80 percent of the materials found in the warehouse were counterfeit.

Although the results are yet to be finalised, PICA's investigation shut down a major counterfeiting operation run by a conglomerate of illegal Moscow companies. That should translate to increased business for legitimate manufacturers whose merchandise was pirated.

Russia is demonstrating by actions such as these that it recognises the value of intellectual property rights protection to safeguard the Russian marketplace and consumers, encourage investment in the country, and meet the requirements of WTO membership. Ultimately, that is bad news for Russia's free-wheeling brand pirates, but priceless for the country's thriving economy.

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Rodolfo Diaz



Rodolfo Diaz is responsible for directing and overseeing all operational activity of the PICA Corporation's global business units. He has more than 17 years' leadership experience, and has successfully and consistently led and managed global operations for both the private sector and the US military.

Prior to joining PICA Corporation, Diaz served with the Hewlett-Packard Corporation, leading the Global Anti-counterfeiting Program.

From 1994-2000, Diaz also served as a managing director for Pinkerton C&I, leading operations for both the Chicago and Miami offices, and providing security consultation, corporate investigations and business intelligence to numerous Fortune 500 companies.

Graham Pollock



Graham Pollock began his criminal investigation career in 1975, when he joined the Royal Military Police. He transferred to the Special Investigation Branch in 1979 and served throughout Europe, the United Kingdom, the Middle East and Northern Ireland, leaving in 1994 to work in the commercial sector as a retail fraud investigator.

He has gained extensive experience of managing large teams of specialist investigators in both military and commercial environments. Pollock has also served as a scenes of crime officer, Police photographer, and trained and managed a covert drugs intelligence and suppression team. He is a trained surveillance officer.

In later life, Pollock gained a Masters of Science (MSc) degree (Leicester) in Security and Risk Management, he is a Certified Protection Professional (CPP) and is active in Chapter 208 UK of the American Society of Industrial Security. He is also a Fellow of the Security Institute.

Pollock has headed a number of security and loss prevention departments for major international retailers in the electrical, fashion and departmental store spheres. He is on the 'Expert Panel' of Workplace Law, Cambridge, England, and has lectured throughout the UK on a number of security-related subjects.