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THE IMPACT OF COUNTERFEIT ON TRADEMARK
PROTECTION IN KENYA
CASE STUDY NAIROBI CITY



BY

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DECLARATION

I **KYULE ELIJAH MWANZIA** do hereby declare that the information contained in this research dissertation is my own findings, except where due acknowledge is made in the text and it has never been presented by any one in any university or any other learning institution.

Signature.....

Date.....16 / 04 / 20 12.....

APPROVAL

I certify that I have supervised and read this study and that in my opinion; it conforms to acceptable standards of scholarly presentation and is fully adequate in scope and quality as a dissertation in partial fulfillment for the award of Degree of Bachelors of Law of Kampala International University.

MR FAROUQ LUBEGA

Signature.....

Date.....

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DEDICATION

To my great and noble hearted parents (Mr. Levin Kyule Mwandu and Mrs. Mary Ndinda Kyule)
and my brothers Joshua, Moses and my sisters Martha and Grace.

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- 9) Parke Davis & Co. Ltd. v Opa Pharmacy Limited (1961) EA 556
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ABSTRACT

This research dissertation mainly dealt with the general objective and specific objectives of the study problem which is the impact of counterfeits on trademarks protection in Kenya, with the area of study being specifically Nairobi City.

Chapter one of the study on the impact of counterfeits on trademarks protection in Kenya briefly explained the origin of trademarks and their protection laws and how they come to Kenya. More so it also explains what is counterfeit and counterfeiting and how it has become a growing threat phenomenon to trademarks protection in the world especially in Kenya.

Chapter two of the study clearly explains the causes and factors which encourage counterfeiting in Kenya markets. This includes lack of public awareness, laxity on the part of law, poor vigilance and prosecution in the country which are discussed in details in that chapter.

Chapter three of the dissertation deals with the legal framework of Kenya on the impact of counterfeits on trademarks protection. This chapter explains in details how the laws on trademarks protection have achieved their purpose of combating and their weakness in combating the problem and how they can be improved.

Chapter four contains data analysis of the field work and explains the factors why counterfeits trade has flourished in Kenya to an extent of threatening local trademarked products of local industries.

Chapter five gives the conclusion of the research project and recommendations on completely eradicating or reducing counterfeit products in Kenya.

CHAPTER ONE

1.0 Introduction

Generally this study investigates the impact of counterfeits on trademarks protection in Kenya. Specifically this chapter presented the background, problem statement, purpose of the study, general and specific objectives, research questions, hypothesis, scope and significance of the study.

1.1 Background of the study

Trademark under **section 2(1)**¹ is a sign that individualizes goods or services offered by an enterprise hence disguising them from those others offered by another enterprise. A trademark must be distinctive and not deceptive. More so intellectual property which include trademarks are protected under **Article 40(5) of the new constitution** of Kenya, promulgated on 27th august 2010, which provides that the state shall support, promote and protect the intellectual property rights of the people of Kenya. While Counterfeit² is to illegally imitate something with the intent to take advantage of the superior value of the imitated product. Counterfeit trademark goods³ is defined to mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation. The word counterfeit in this research was used to describe the imitations of company goods logos and brands which results to trademark infringement. Since trademark is

¹ The Trademarks Act cap 506 laws of Kenya.

² Wiki pedia free dictionary on counterfeit.

³ TRIPS Agreement (Agreement on Trade-related Aspects of Intellectual Property Rights),

considered as a tool of communication used by producers to attract consumers to original goods which are not deceptive. However in trademark treatises⁴ it is historically thought that the blacksmiths who made swords in the Roman Empire were the first users of trademarks. While another trademark used for a long time include Löwenbräu, which has claimed ownership of lion mark as their trademark since 1383.

Historically⁵ Trademark law dates back to the age of president Ulysses S Grant in the late 18th century when the Trademark Act of 1870 was enacted even though it covered many different aspects of trademark law it failed to cover trademark counterfeiting. Hence in 1984 the Trademark Counterfeiting Act was sought to provide trademark owners with more powerful weapons against persons involved in trademark counterfeiting, including protection of not only intentional copying of trademarks, but also entire products as well. However due to the increased competition among companies undertaking trade in more than one country the importance of trademarks law protection, in commercial activities has been recognized as the identification means of the quality and value goods or services by the consumers. If trademark owners do not hold registrations for their marks in many jurisdictions, the extent for being able to enforce their rights through trademark infringement proceedings is therefore limited. But in case of Trademarks protection registered under trademark law, it becomes an exclusive owner's right and can bar third party from infringing the trademark. The High Court of Kenya in *Beiersdorf AG v Emirchem Products Limited*⁶ in finding that the defendant's use of its mark "NIVELIN" on petroleum jelly infringed on the plaintiff's exclusive rights to its registered marks "NIVEA" and

⁴ Packard Ashely (2010) Digital Media law. John Wiley and Sons. P. 162 ISBN 978-1-4051-8168-3.

⁵ [Paradise, Paul (1999). *Trademark Counterfeiting, Product Piracy, and the Billion Dollar Threat to the US Economy*. West Port, Connecticut: Quotum Books. pp. 17–19, 83–86.

⁶ High Court Civil suit no 559 of 2002

“NIVEA Crème” registered in class 3 and used on petroleum jelly, stated that the similarity and resemblance in the two marks was so striking as to cause confusion to consumers. Hence in Kenya one can exclusively be protected from trademark infringement or counterfeit, if he is registered under the **Trademarks Act cap 506**

Kenya⁷ is the most industrially developed country in East Africa, and its industrial products still accounts for only fourteen percent of gross domestic product (GDP). Industrial activity, are concentrated around the largest urban centers with Nairobi city⁸ which is the capital of Kenya and currently the 12th largest city in Africa and most populous city in East Africa, with a population of about three million people, but due to counterfeiting of the companies trademarked property some of the industries in the city which was the case study area have collapsed or near collapsing. For example the Textile and dry cell manufacturers are cases in point and also the officials of the Pharmacy and Poisons Board regularly have discovered boggling quantities of fake drugs circulating in the market. This has reduced the profits supposed to be earned by registered trademark owners if they have legally authorized their use to the persons using them hence this undermines trademarks protection. While counterfeit has existed as a low level inconvenience for many years, over recent decade due to the world’s economy globalization, trade barriers have come down and technology has become more accessible, hence the problem has evolved into something far more serious with intellectual property theft having a major impact on society as a whole. Not only does counterfeiting eat into the profits of legitimate rights owners, it also causes lack of jobs as the money that could have been ploughed into investing in product development and manufacture is not available to spend.

⁷ 30th march 1994, by Mc Gee Kenya Overseas Business Report.

⁸ www. Wiki pedia .com the current history of Nairobi city.

However counterfeit products conditions are as follows; the imitation of original product with the intent of taking advantage of the superior value of the imitated product, any packaging bearing an identical trademark compared to the validly registered trademark without authorization. More so for an act to be considered as counterfeit it has to be done with the intention of defrauding the original trademark owner and making a lot of profits due to production of fake products which cause confusion to consumers. As in the case of *AMF, Inc v Sleekcraft Boats*⁹, The Court stated eight specific elements to measure likelihood of confusion which are; strength of the mark, proximity of the goods, similarity of the marks, evidence of actual confusion, marketing channels used, type of goods and the degree of care likely to be exercised by the purchaser, defendant's intent in selecting the mark and the likelihood of expansion of the product lines. Also the case of *Pharmaceutical Manufacturing Co v Novelty Manufacturing Limited*¹⁰, The court held that the defendant's mark was as substantially similar to the plaintiff's mark and it would likely deceive or cause confusion in the course of trade in relation to pharmaceutical and medical preparations and substances in respect of which the mark was registered. So confusion and lower quality goods which undermine the original trademarks are the major elements in determining when an act becomes a counterfeit.

More so counterfeiting is a serious and ever growing problem against legally run businesses and owners of intellectual property rights with the primary source of counterfeited products in Kenya being China¹¹ because of their low cost labour, cheaper prices, size and proximity of markets. Despite the major threats of counterfeiting it is given less legal attention hence the biggest peril to registered businesses and owners to trademarks. Counterfeit trade is costing the business

⁹ 599 F.2d 341 (C.A.9) 1979

¹⁰ High Court of Kenya Civil Case No. 746 of 1998

¹¹ A report by the Kenya manufactures association

community and Government billions of shillings annually in profits and revenue respectively. Current business estimates indicated that over fifty billion shillings is lost annually by the business community to the Counterfeiting menace. At the same time, the government loses nineteen billion shillings annually in terms of taxes as a result of lost opportunities for the business community, since counterfeiters targets fast moving consumer goods such as soaps and detergents, food products, alcoholic beverages and dry cell batteries, cosmetics, electrical and electronics equipment, medicines, shoe polish and apparels. This calls for enhanced cooperation between the government and private sector with the aim of substantially reducing trade in counterfeit products, and to taking effective measures against those supporting this trade. Perhaps most troubling is the widespread threat counterfeiting poses to public health and safety.

The office responsible for receiving trademark applications is the Department of the Registrar General, P.O. Box 30031, Nairobi, Kenya. However the register of trademarks in Kenya has statutory powers to carry out research on any trademark logo brought for registration and he/she has power to register and refuse to register any mark legally. As demonstrated in the case of *Stripes Limited v Hair Zone Inc*¹² where the Registrar of Trade Marks addressed the controversial issue of protection of well known marks in Kenya as follows; The degree of knowledge or recognition of the mark in the relevant sector of the public; The duration , extent and geographical area of any use of the mark; The duration, extent and geographical area of any promotion of the mark, including advertising or publicity and the presentation, at fairs or exhibitions, of the goods and/or services to which the mark applies; The duration and geographical area of any registrations, and/or any applications for registration, of the mark, to the

¹² No. 50148 for TMA No. 50149

extent that they reflect use or recognition of the mark; The record of successful enforcement of rights in the mark, in particular, the extent to which the mark was recognized as well known by competent. However if the register has erred in his judgment an appeal is allowed in higher court for the aggrieved party; as *Glaxo Group Limited Vs Syner-med Pharmaceuticals Limited*¹³ where the High court in its judgment reversed the Registrar's decision by stating that the correct position of the law is that in cases such as the present one, the words that are the subject of the dispute relating to a trade name should be considered as a whole and not in the manner that the Registrar did. If the Registrar had considered the words as a whole he would undoubtedly have arrived at a different decision. Having considered the applicable law, it is clear that the words 'SYNERCEF' and 'ZINACEF' are phonetically similar in pronunciation and that it is likely to cause confusion and deception in the market.'

There are no provisions for automatic protection or recognition of a mark previously registered in the United Kingdom. In Kenya, registrations are valid for seven years from application date in line with **Article 18 of the Trade related Aspects of Intellectual Property Rights** which provides for seven years minimum requirement for Trademarks protection and renewable for fourteen year periods. The first person to apply for a mark as its user or intended user is entitled to its registration. Applications are published for opposition for 60 days.

¹³ HCCC MISC Application No 792 of 2009

1.2 STATEMENT OF THE PROBLEM

In Kenya counterfeit has had a negative effect on foreign direct investment and discouraged the growth of local entrepreneurship. It is estimated that right holders in Kenya lose an estimated Kenya Shillings thirty Billion per annum to trade in counterfeit, since it is very easy to counterfeit on trademarked products creativity in order to make a quick profit. It is, however, worrying that despite the vigorous legislative and regulatory framework available, enforcement continues to be weak and counterfeiting continues unabated leading to crippling of legitimate local industry by unfair trade competition. In Kenya a number of industries have collapsed or are near collapse due to counterfeiting e.g. Textile, dry cell manufacturers and pharmaceutical industries are some of the cases in point. For example Officials of the Pharmacy and Poisons Board regularly discover large quantities of fake drugs circulating in the market. Hence this dissertation examined the laws and Bills protecting trademarks against being counterfeited and took into account the work already done leading to their formulation and publication. Even though counterfeiting of trademarks has been a problem since intellectual property laws were first widely enacted in the nineteenth century and well before that, it is still possible to combat it using legally enforceable machineries.

1.3 PUPORSE OF THE STUDY

The purpose of this study was to determine the impact of counterfeit effects on trademarks protection in Kenya. Since the false trademark then appears superficially indistinguishable from its legitimate counterpart and its purpose is to fraudulently dupe the consumer into purchasing the counterfeit under the mistaken belief that the product is the genuine article. As for the consumer who unknowingly purchases a counterfeit, the result is typically dissatisfaction. To a

state they lose in terms of revenue paid as for the counterfeiter, profits are reaped with little financial or legal risk and with minimal marketing effort; so government loss revenue and trademark holders loses the profits they could have made. Hence the purpose of the study was to find out how counterfeit can be combated and recommend sufficient legal solutions to control counterfeit consequences through severe legal sanction to deter counterfeiters from the practice, control of counterfeits brought into the country and create awareness of the importance of using the original products to consumers.

1.4 GENERAL OBJECTIVE

- 1) To investigate the impact of counterfeit on trademarks protection in Kenya.

1.4.1 SPECIFIC OBJECTIVE

- 1) To find out how trademark holders are affected by counterfeited trademarks products and their awareness.
- 2) To identify and briefly discuss the many factors in the world market that lead to counterfeit products.
- 3) To examine various ways of combating counterfeit and their effectiveness in Kenya and how they can be eradicated.
- 4) To examine the existing legal frame work in Kenya in view of combating counterfeit.

1.5 RESEARCH QUESTIONS

- 1) Does counterfeit affect trademarks protection holders?
- 2) What factors leads to counterfeit products in the world market?
- 3) Which are the various ways of combating counterfeit and their effectiveness'?
- 4) How is the existing legal framework in view of combating counterfeit in Kenya?

1.6 HYPOTHESIS

- 1) To prove that counterfeits affects trademarks protection in Kenya, since they are illegal and unauthorized by the trademark holders hence causing financial losses.
- 2) To show the weaknesses of the existing legal framework and how it has failed to do away with the threat of counterfeit products facing Kenyan industries and how they can be improved to solve the problem.

1.7 SIGNIFICANCE OF THE STUDY

The importance of the study is to add extra information on how counterfeit affects trademarks protection. More so the study shows how it is important to legally combat counterfeit for the benefits of the trademark holder and consumer protection in the consumption of origin goods to avoid future consequences and impact of their health.

1.8 SCOPE OF THE STUDY

The study was carried out in Kenya particularly in Nairobi City in the Industrial area. Since trademark protection deals Marjory with industrial products which are registered specifically textile industries, dry cells industries and pharmaceutical industries.

1.9 THEORITICAL FRAMEWORK

According to the **Robin Hoods theories** ¹⁴ of modern times, some have argued that a growing economy needs counterfeiting so as to acquire technologies, goods and services which may otherwise be inaccessible or unaffordable. For instance, patented pharmaceutical products such as AIDS drugs are often too expensive and beyond the reach of the poor partly because of royalties that must be paid to patent holders. But it should be noted that the adverse effects of counterfeiting far outweigh these defenses, which are raised by Robin Hood defender's in support of counterfeiting. As the long term benefits of genuine trademarked product outweigh any short term, opportunistic benefit that a country, traders or consumers may realize from engaging in counterfeit trade. Hence the promotion of anti counterfeiting preventive methods is the better way to go. So this research problem is against the Robin Hoods theories which support counterfeits as away of acquiring expensive products, yet in the real sense they have negative impact on the consumers, manufacturer and are short lived compared to original trademarked company products.

However there are many laws governing Trademarks protection but counterfeit seem to increase day and night in companies. As the Director General of the Tanzania Food and Drugs Authority¹⁵ noted that fake medicines are alarmingly on the increase and a number of serious cases have been detected where unscrupulous dealers repackage and re label expired drugs or drugs with non active ingredients such as chalk. For example a boy in Kwale hospital died after being administered counterfeit medicine which had no active ingredient as it was fake.

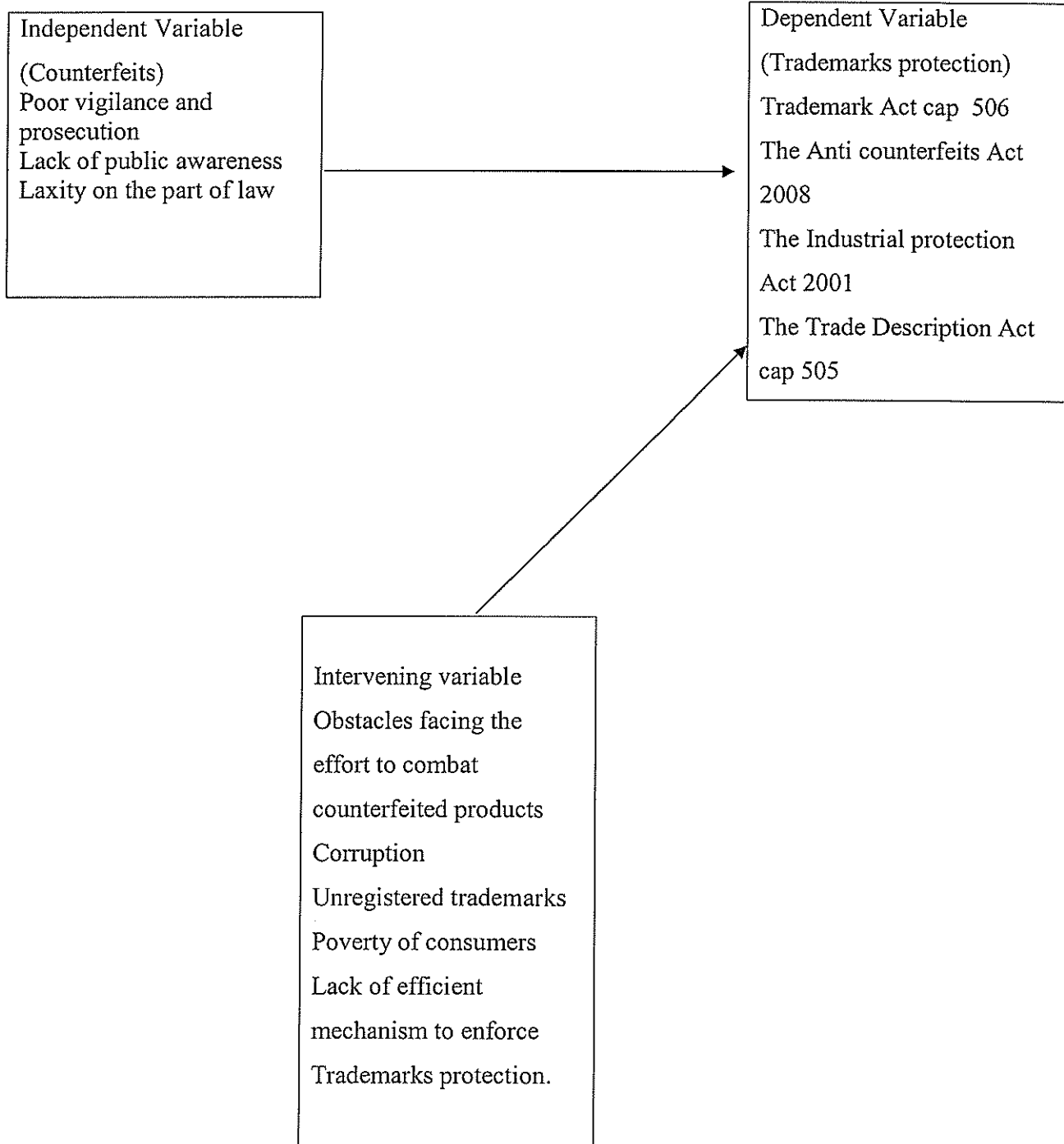
¹⁴ Howard Pyle (1886) *The Merry Adventures of Robin Hood*, Sterling Publishing Company, New York.

¹⁵ In a report entitled "Counteracting Counterfeiting: Strategies for improving the integrity of Medicinal Marketplace in Tanzania" given in September 2005.

Counterfeiting¹⁶ is still a large problem in the world economy today, one that has mushroomed into a machine that doesn't give signs of letting up any time soon. With the garment industry being one of the largest areas affected by counterfeit goods Louis Vuitton estimates two to three million counterfeit pieces are produced each year, about twice the number of genuine products they manufacture, hence they spend upwards of five percent of its revenue fighting off counterfeiters. This has been the same case in Kenya which according to Kenya Manufacturers report loss an estimated fifty million shillings to counterfeited goods which are smuggled to the country mostly from China and no taxes is paid to them. Hence more efforts should be put in place to combat these problems effectively. Hence the research on the impact of counterfeits on trademarks protection in Kenya is completely against the Robin Hoods theories of modern times that encourage counterfeiting existence as it has completely negative impact on trademarked products.

¹⁶ Louis Vuitton Report on counterfeits

1.10 CONCEPTUAL FRAMEWORK



1.11 LITERATURE REVIEW

Counterfeit¹⁷ mean goods that are as a result of counterfeiting or goods made to look exactly like the real product when they are not the real product. In other words it is the illegally imitation of something without authorization. So product counterfeiting is a form of consumer fraud as product is sold purporting to be something that it is not. Kenya take the offence quite seriously because original trademarked products of high demand have been counterfeited based on the same or similar designs, often packaged and branded in ways to make them indistinguishable from the original. However the estimates quantifying the extent of counterfeiting have severe shortcomings, as the underlying data is often not supported by substantial, trustworthy investigations. So there need for establishment of a governmental legal body like the Anti Counterfeit Agency, fully supported to solve the problem of untrustworthy data, hence this was the basis of the research problem on the impact of counterfeit on trademark protection in Kenya

According to the **Anti counterfeit Act 2008, section 2**, defines counterfeits to refer to a range of actions which are done without the authority of the owner of any intellectual property right subsisting in Kenya or elsewhere in respect of protected goods. This appears to go far, blurring the meaning of the term and potentially enabling owners of patents not necessarily held in Kenya to supply generic drugs through importation. However as per **Wong T, and Dutfield G**¹⁸, this has reduced the Kenyans abilities to take advantages of the flexibilities of **Trade related Aspects of Intellectual Property Rights** as it fails to address the possible problems of

¹⁷ 2008 Kenya national Assembly official record (Hansard) pg 3187

¹⁸ Wong T., Dutfield G. 2010. Intellectual property and Human Development. Current Trends and Future Scenarios. pg 70

originators firms selling poor quality versions of their own drugs. So the research problem was based on the loophole of the existing legislation of not being able to clearly define counterfeit products and how they can be identified if they don't meet the original standard.

Moreover, no methodology has been published to date showing how to estimate the volume of counterfeit goods in specific product categories or for specific brands, even though they are available hence the following reports were considered in the research. For example even if the scale of the global problem has not been well documented¹⁹, the **International Chamber of Commerce** continues to cite a frequently used estimate of Counterfeiting accounts for between five to seven percent of world trade, worth an estimated of six hundred United States Billion dollars a year. This figure does not appear to have an empirical basis, however, and has been criticized as excessively high.

Since Kenya has no specific brand protection laws enforcement²⁰, counterfeiters have produced superficial quality products; hence it has become impossible to distinguish the real product from the counterfeit products which have inevitably dominated the market. However it is important to protect trademarks in Kenya by eliminating counterfeit products. As stated by Justice Felix Frankfurter in the US case of *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co*²¹, that “the protection of trademarks is the law’s recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them.” So it is a

¹⁹ 2008, World Customs Organization report

²⁰ Counterfeit product report of the world contents.

²¹ 316 US 203, 205 (1942) as cited in D. J. Goldstone and P. J. Toren, ‘The criminalization of trademark counterfeiting’, [1998] Vol. 31 Conn. L.

Rev. 1.

clear violation of trademarks principle if the trademark is not original and distinctive but deceptive. So this is a major loophole leading to the objective of study of counterfeit impact on trademarks which led in finding out how Kenya laws against counterfeit can be harmonized to effectively protect trademarks owners.

The threat of counterfeit product has been realized in Kenya where the original, high quality products have been essentially priced out of the market by the counterfeits products for example the dry cell and textile industries are at the verge of collapsing. More so the **Kenya Association of Manufacturers**²², has established that the public sector loses about Nineteen Billion shillings per year while the private sector loses approximately fifty Billion shillings per year as a result of counterfeiting. The production and trafficking of counterfeit goods is often portrayed as a matter of intellectual property theft, and Kenya continues to strive because of weak enforcement mechanism. Hence the research was aimed at looking at the various ways of strengthen the existing laws and creating public awareness on counterfeits by educating consumers on the various ways of identifying counterfeits and there effects which are severe and grievous compared to consumption of original product

In aggregate, product counterfeiting²³ poses a serious economical challenge to Kenya, since the branding of a product provides implicit quality assurance and a legal line of accountability. Unaccountable products are often dangerous, since counterfeit auto parts are not subjected to the vigorous safety testing borne by their licit counterparts and due to cheaper materials and workmanship, counterfeit batteries and cigarette lighters are prone to explode. Also in the health

²² Inception Report on the Formulation of East Africa community policy on Anti counterfeiting of 17th sempter 2008.

²³ Wwww. Counterfeits products. Bridge WPOS Anti counterfeiting problem Analysis

sector counterfeit medicines may not contain any active ingredient at all and worse, still they can contain a substandard dose, allowing the targeted microbes to develop resistance. Hence this was the rooted aim of the significance of the study to prove clearly the importance of trademarks protection against counterfeit to prevent consequences of substandard goods.

More so Kenya has to realize the importance of registering creation as trademarks in the country. As per **Ruth Taplin and Alojzy Nowak**²⁴ two of Kenya products which are Kiondo and Kikoi have been at the centre of dispute regarding intellectual property ownership. First Kenya lost its intellectual property ownership of Kiondo to Japan as the name was registered there as a Trademark. As a result Kenyan Kiondo makers have to pay levies to Japan for using the name. Secondly Kenya was about to loose the ownership of Kikoi to a United Kingdom based firm which had applied to register Kikoy as a trademark for its clothing lines. However the United Kingdom intellectual property office could not register the trademark, as historical Kikoi is a hundred percent hand knitted cotton fabric from Kenya worn by men and women along the East Africa. So the above two incidents shows the major needs for creation of awareness of registering trademark laws and their protection from being counterfeit from any part of the world by putting a clear advert on the trademarks belonging to Kenya to avoid them being registered unaware by other countries and be forced to pay levies to them like it has happen with Japana who registered Kiondo as their trademark, even though it was historical Kenyan product.

The problem of counterfeit medicines was first brought to the foreground at a World Health Organization (WHO) Conference of Experts on **Rational Drug Use in Nairobi, Kenya**²⁵, in

²⁴ Taplin, R., Nowak A. Z.2010. *Intellectual property, innovation and management in emerging economies*. Routledge pg 49-52

²⁵ The Drugstore safe Counterfeit Diabetes product on shelve report

1985. Since that time, the proliferation of counterfeit drugs has spread like a cancer, with a jump of eight hundred percent between 2000 and 2006. . These counterfeits include brand name and generic varieties of pharmaceutical drugs that are deliberately and fraudulently mislabeled as to the identity or source. Hence the proliferation of counterfeits in Kenya has ramifications for health and poses an unacceptable risk to the health and safety of the Kenyan consumers. The increase in medicines counterfeiting²⁶, is attributed to weak laws and lack of enforcement of existing laws, high level of corruption, low literacy rates and a lack of coordinated response from key stakeholders such as the health professionals to this illicit crime. Also the **Anti counterfeit Act 2008 under section 2** exempt generic medicines from being defined as counterfeit product something which has allowed fake drugs in Kenya as generics are not shut out of the Kenyan market. As the feature of allowing generic medicine is unique²⁷ as it is not found in Anti counterfeiting legislation from other jurisdictions there need to set legal mechanism to prevent the opportunity from being misused by counterfeiters as a major objective of the study.

More so a random East Africa Community policy found almost thirty percent of drugs in the **market are counterfeited Figures.**²⁸ Some of the fake drugs discovered are no more than just chalks or water being marketed as competent pharmaceutical products. So if Kenya exempts generic medicine from being termed as counterfeits there should proper legal mechanism of determining their standard whether it is of high quality capable of curing diseases, not allowing

²⁶ 2010 Adam smith on the article Kenya losing the global debate over counterfeited drugs.

²⁷ Margaret Odhiambo, legal Manager, Eveready Batteries, Brand protection and Anti counterfeit Forum, Laico Regency Hotel, Nairobi, 11/03/2009

²⁸ Counterfeiting and Piracy/Inception Report/MM_IKM/ Sept 2008 survey by the National Quality Control Laboratories



dubious drug dealers to defraud the unsuspecting consumers by low qualities drugs which are ineffective.

It has become evident however, that a lack of effective intellectual property protection²⁹ and enforcement is hindering the growth of trade and investment. The scourges of counterfeiting is a major impediments to increased trade and investment, and therefore adversely affects the economic growth in Kenya. This is because some local industries in Kenya such as dry cell and textile industries are at the verge of collapsing due to counterfeit products. So the research significant will help in finding ways of doing away with counterfeit products, hence helping in reviving these industries to their economic status hindered by rampant increment of counterfeits products.

In 2008, Kenya's Anti Counterfeit Act established the Anti Counterfeit Agency, to lead and coordinate the Kenyan government efforts to combat counterfeit goods in Kenya. However in an interview Mr. **Stephen Mallowah**,³⁰ one of the Anti Counterfeit Agency executive director, said: "We need the expertise and money to mount strong public education, a more effective tool in fighting the vice. Though tackling the crime would be a deterrent, educating the public on counterfeits would help reduce the trade." So it is very clear that counterfeit cannot be fought without government funding and expertise in trademark knowledge and awareness' of the threat something which is lack in the enforcement of the Anti Counterfeit Act of 2008.

²⁹ Inception Report on the Formulation of East Africa community policy on Anti counterfeiting of 17th sempter 2008.

³⁰ The 2008 Daily Nation,

The Anti Counterfeit Agency³¹, created under the Anti Counterfeit Act of 2008 which has the slogan of: “**Enlighten, Enforce, Eliminate**” has tried to create awareness to Kenyans about counterfeited goods with the enforcement of intellectual properties of the owners. But however little has been done in addressing the fight against counterfeiting in Kenya because of the following factors; low drive by governments in fighting counterfeits, corruption particularly at customs entry points, weak institutional capacity and capabilities of legal enforcements, ignorance of consumers, lack of public awareness of policy and strategy on counterfeits, and weak legislation and enforcement machinery. Hence industry should unite in the fight against counterfeiting by developing collaboration and mutual assistance models; on the basis of stakeholder agreements, technical expertise and information enabling the Anti Counterfeit Agency and its stakeholders to intervene. Thus, this public and private partnership is the key to success, as the Anti counterfeit agency is powerless in fighting counterfeits as long as manufacturers do not support them with most evidence, that an item is counterfeit. More so the fight against counterfeits would also require strengthening the judiciary. A weak judicial system is making local Kenyan industries to shy away from pursuing judicial remedies where their products are counterfeited due to fear of liability where such cases fail. They fear that in case the judge is compromised, they are liable and have to pay for damages caused by counterfeit products.

³¹ The August 11th 2011 the Fourth ‘E’ Engagement vis a vis Trademark and Copyright Enforcement in Kenya.

1.12 METHODOLOGY

1.12.1 INTRODUCTION

This chapter addressed the research design and data collection methods and instruments to be used in the research. It also indicated the population, study area and the procedures of data collection, analysis and presentation.

1.12.2 RESEARCH DESIGN

The research design focused on textile industries, dry cells industries and pharmaceutical industries on which qualitative research approach was mainly used and to a lesser extend quantitative research approach was also used . It explained the impact of counterfeit on trademarks protection in companies and consumers. Both research designs of qualitative and quantitative approach was used since both numerical and non numerical data was used.

1.12.3 STUDY POPULATION.

The study was centered mainly on the response from management staff, which will include managers, distributors and customers of Textile industries, dry cell industries and pharmaceutical industries products and a number of ninety respondents was involved in the research through random sampling.

1.12.4 SAMPLE SIZE.

Sample size of the fifty respondents which include managers, distributors and consumers was drawn through random sampling. Further, forty questionnaires was issued. Random sampling was preferable since it is free from bias and therefore each unit or potential respondents has equal chances of being included in the sample size.

1.12.5 DATA COLLECTION METHODS

The data collection methods for the purpose of the research topic comprised of both primary and secondary methods. Primary data collection method entailed interviews and issuing questionnaires. Managers, distributors and consumers were also interviewed. Ten managers were interviewed, twenty distributors interviewed and thirty consumers respectively. In addition, written questionnaires were issued to managers, distributors and consumers. Forty questionnaires were submitted to the above named parties. More so, available records in the industries of textile, dry cell and pharmaceutical companies in Nairobi city were reviewed.

1.12.6 SOURCES OF DATA

The research entailed the usage of both primary and secondary data collection methods. Primary data was collected directly from the field through interviews and questionnaires while secondary data was collected by reviewing the existing records of the industries, on the menace of counterfeit on their products.

1.12.7 PRIMARY DATA

This research was conducted through questionnaires and interviews which were obtained directly from the companies' management staff and consumers of their trademarked products which were counterfeited by their infringers and here questionnaires and interviews were used for that effect.

1.12.8 SECONDARY DATA

This research highly relied on the existing records and publications on the impacts of counterfeit in textile, dry cell and pharmaceutical industries in Nairobi city. The records were accessed through a visit to the industries premises and subsequently making a request to review them.

1.12.9 ETHICAL CONSIDERATION

Throughout the research process, the ethical principles of data collection were followed and voluntary participation. Again the research was mainly used to generate information for study purpose.

1.12.10 CONCLUSION

The above mentioned data collection techniques and tools were the most suitable to be used to collect information for the purposes of this research

Chapter Two

2.0 Introduction

This chapter includes the independent variable which is counterfeit as per the research project; its causes as outlined in the conceptual framework. It explains in details what is counterfeit, when it occurs and its causes in Kenya.

2.1 Counterfeit

It is³² to illegally imitate something with the intent to take advantage of the superior value of the imitated product. In Kenya counterfeit acts are clearly identified under **section 2 of the Anti counterfeit Act 2008** to mean actions without the authority of the owner of any intellectual property right subsisting in Kenya or elsewhere in respect of protected goods which are:-

First, the manufacture, production, packaging, re-packaging, labelling or making, whether in Kenya or elsewhere, of any goods whereby those protected goods are imitated in such manner and to such a degree that those other goods are identical or substantially similar copies of the protected goods.

Secondly, the manufacture, production or making, whether in Kenya or elsewhere, the subject matter of that intellectual property, or a colourable imitation thereof so that the other goods are calculated to be confused with or to be taken as being the protected goods of the said owner or any goods manufactured, produced or made under his license.

³²Wiki pedia free dictionary on counterfeit

Thirdly, the manufacturing, producing or making of copies, in Kenya or elsewhere, in violation of an author's rights or related rights.

Hence section 2 of the Anti counterfeits Act is in line with Article 51 of the Trade Related Intellectual Property Rights which is to the same effect in its definition of trademarks counterfeits. So products that are packaged in a way to misrepresent the manufacturer are clearly counterfeits. As stated in the *Proctor & Gamble Vs Sonal Holdings (K) Ltd*³³ in this case the Registrar held that Sonal Holdings (K) Limited had knowingly crafted its trademark in a way that rendered it confusingly similar to Proctor and gambles mark for use on pampers with a view to deceive the public into believing that the goods sold by it are those of Proctor and gamble. The court upheld Proctor and Gamble's prior extensive use in Kenya of its mark and de-registered the offending mark Samper with immediate effect.

Counterfeiting³⁴ is a twentieth century industrial plague which has spread through out both developing countries and industrialized economies. It is described as the greatest ongoing theft in the world today which is remarked to be more profitable than selling narcotics, but without risks. The threat of counterfeits is realized in Kenya as locally manufactured products are being priced out of the market by fake products. Hence it has undermined the national attempts to regulate commerce in the common interest, more so the problem of counterfeiting has increased in Kenya due to the three major factors outlined in the independent variable as; lack of public awareness, laxity on the part of law, poor vigilance and prosecution.

³³ In the matter of application to Registrar for the expungment of the entry on the trade marks register of Trade Mark no. KE/T/2008/062812 Samper (device) in class 16 in the Name of Sonal Holdings (K) limited by Proctor & Gamble who is the registered owner of the Trademark T. M No. 23607 PAMPERS (Word) in Kenya.

³⁴ Peter lowe 1998 The scope of the counterfeiting problem pg 78

In conclusion therefore, counterfeit include the unauthorized making and distribution of a products which are fake and carrying out a trademarks that are protected by intellectual property rights. This clearly proves that counterfeits are trademark violations as they infringe on the rightfully owned trademarks, symbols and any other distinctive signs of a reputed product in Kenya. As stated in the case of **Arsenal Football Club plc vs. Reed**³⁵ which summarizes the principle of trade mark infringement. As the court ruled that Mr. Reeds an Arsenal fan was liable for trademark infringement as he had jeopardized the origin of Arsenal's trademarks; by manufacturing and selling goods bearing the Arsenal names and logos from a stall in Highbury without authority from Arsenal Football club.

2.1.1 Lack of public awareness

Kenya is reported to have serious problem in counterfeiting trademarks, even though Kenyans are enterprising and hard working people; the abusers are not aware they are committing an offence. They believe that they are earning an honest living and they see nothing wrong in infringing a registered mark. The high rate of infringement may also be because of competition that exists among businesses in Kenya. The rivalry is fairly high and it is quite easy for businesses to duplicate a registered trademark, which is illegal without seeking the holders consent but unfortunately, many people are unaware of this fact.

Most people in Nairobi City are computer literate and can easily use their skills to infringe on well established trademarks. Hence counterfeiting is high in Nairobi city of Kenya because of the high level of education, competition and enterprise amongst Kenyans coupled with a general ignorance and unawareness of trademarks protection laws. Most people do not know that it is a

³⁵ 2003 EWCA Civ 96

serious offence to infringe on a registered mark. Trademark infringement involves a violation of the exclusive rights attaching to a mark and occurs where an infringer uses a mark that is identical or confusingly similar to a registered trademark.

Hence I echo the acting Minister for Industrialization **Amason Jeffah Kingi**³⁶ who said that, *“No matter how much we attempt to come up with good ideas, unless we go to the ground and educate the people on what counterfeits and substandard products are, we will not be able to achieve much,”*

The issues of slow branding, is a factor affecting the fight against counterfeiting. For instance, Kenya has many slogans which companies have come up with but a few are registered. This has led to a very low jurisprudence on Intellectual Property law protection on trademarks in Kenya and lack of awareness on their importance in complying with them.

In conclusion therefore lack of public awareness on counterfeits impacts and their violation of genuine registered trademarks in Kenya is a major cause of the illegal business to thrive in Kenya. So the research on the impact of counterfeit on trademarks protections looks at various ways of educating people on the importance of using origin products instead of counterfeits hence completely reducing this menace from Kenya.

2.1.2 Laxity on the part of law

The sloppiness of the law in terms of fighting counterfeits or eradicating them in Kenya can be seen due to the following factors;

³⁶ Shikhutuli Namusyule November 3, 2011 Consumer Awareness Critical in Fighting Counterfeits in the Region

First of all counterfeiters normally seek to trade in countries where they suffer the least even when they are arrested. That is why the lack of comprehensive law punishments to deal with this problem has made Kenya an attractive market for counterfeiters because the existing trademarks protection laws are not punitive enough. This has led to products in high demand like batteries pharmaceutical drugs and textile products in Kenya to be manufactured based on the same or similar designs, often packaged and branded in ways to make them indistinguishable from the original.

Secondly, there are fewer risks involved in counterfeit products trading since they are rarely caught and if they are caught the punishments are very modest and are treated as minor crimes. Hence lenient **penalties are awarded** since cases involving counterfeit trades are mostly handled by magistrate courts. More so statutes provide unsatisfactory legal penalty which have no deterrent effects. For example; the **Food, Drugs and Chemical Substances Act, Cap 254, amended in 2002 under section 36(1)** provides a penalty of seven hundred Kenya shillings for trading in counterfeit medicine and also the **Trade Description Act cap 505, section 15** provides a penalty for counterfeits offences to a fine not exceeding two million shillings or to imprisonment for, a term not exceeding five years, or to both such fine and imprisonment which is little compared to the economic losses caused by counterfeit products which is calculated in terms of billions in Kenyan economy.

In conclusion therefore, that is why I support **Chalker's**³⁷ believe that there is there a need for strict Intellectual Property rights enforcement through police and customs authorities in East Africa Community, as she argued in a meeting with the East African Community Senior

³⁷ The chair person of Africa Matters Limited

members in April 2007. More so Chalker saw the move by the Kenya Constitutional Court to suspend some sections of Kenya's Anti Counterfeit Act applicable to generic medicines, as a weakness to anti counterfeiting efforts. Hence she encouraged the drafters of anti counterfeiting legislation to do more consultation and deeper research when drafting laws. So in order to deal with the issue of the laxity of law in terminating counterfeit problem a more comprehensive and deterrent legislation need to be enacted and put in place to save the society.

2.1.3 Poor vigilance and prosecution

Poor vigilance and prosecution which means lack of attention and proper trial in Kenya against counterfeit products can be proved by the fact that they are often smuggled or manufactured in the country without being nabbed and on very rare occasion are caught. More so this lack of vigilance on counterfeit products can be cultivated by corruption cycles in the government which bribery the enforcement officers who are poorly paid to conduct searches, arrest and seize the counterfeits goods to turn a blind eye on the business.

Courts of Kenya play a very important role in their prosecution against counterfeits and their contribution in the protection and enforcement of intellectual property's rights cannot be ignored. However³⁸ their static rigid traditions and processes vis-à-vis the fluidity and dynamism of intellectual property undoubtedly calls for change of process which has in turn rendered the

³⁸ Justice N.R. Ombija Nairobi, December 2011 Case study of Kenya's specialized intellectual property Rights court Regime

service of justice by mainstream courts rather unsatisfactory to millions of intellectual property owners who have increasingly felt disenfranchised.

The lack of recruitment and creation of courts branches with people e.g. Judges and police who are well informed on anti counterfeits laws, since its new, recent and fast growing branch of the law has led to poor prosecution. This is because the Bench has not done enough to keep up with the modern trends of protecting genuine trademark owners against counterfeits. More so due to inadequate training for judges on intellectual property laws, it has led to trademarks protection law being often not enforced or manipulated so that counterfeiters may retrieve their goods after paying a small fine. Hence there are unreported cases of trade in counterfeit products in Kenya due to lack of trust on the expertise of the Judiciary on trademarks protection issues.

Intellectual Property disputes have for years generally not been prioritized by the superior courts. This is apparent even from the administrative divisions of the judiciary where Intellectual Property is lumped together with general commercial law disputes. According to Professor Otieno Odek³⁹, the former Managing Director of Kenya industrial property institute, said litigation at the High Court and Court of Appeal on intellectual property infringement have not yielded definitive jurisprudence on Kenyan laws, hence it seems to be reluctance on the part of the courts to deal with the issue hence poor prosecution.

Also the Police forces are trained to enforce the law with regards to tangible property and not intangible property which falls under intellectual property such as trademarks hence this has led to increase of counterfeit product due to poor prosecution and vigilance.

³⁹ Prof. Otieno Odek, 'Enforcement of Intellectual Property Rights in Kenya' pg 97

Inadequate funding for Kenya's anti-counterfeiting agencies, has led to the limitation of the number of seizures and destruction of counterfeit goods in Kenya hence they are often seized and put in warehouses where they pile up without disposal of them. It is a risky situation since some are even stolen and returned to the market.

In **conclusion** therefore, poor vigilance and prosecution in Kenya on matters of counterfeit products is due to the factors discussed above such as; some of the institution that are charged with the duty of enforcement of the law are not equipped with skills to identify counterfeits that are similar to the real products e.g. Kenya police. There is also a need of better pay to police officers to avoid corruption in the way they carry their duties and more our judiciary judges need to be educate on intellectual property in order to deal with this matters professionally and expertly.

Chapter Three

3.0 Introduction

This chapter entails the legal framework in regard to trademarks protection in Kenya which is the dependent variable for the research project. Hence it will discuss in details the legal framework in regard to fighting counterfeits which undermines trademarks protection and how they have achieved this purpose and to what extent they have failed in securing local industries from collapsing due to this counterfeiting menace. First of all, intellectual property of the people of Kenya which include trademarks protection, is supported, promoted and protected as intellectual property by the state as provided under **Article 40(5)**⁴⁰. More so under **Article 46 (2)**⁴¹ the Constitution gives the parliament power to enact legislation to provide consumer protection and for fair, honest and decent advertising. This indicates that this is a major way of combating counterfeits product in Kenya.

3.1 The Trademarks Act Cap 506 (amended in 2002)

Under **section 2** of this Act a trademark is a distinctive sign or indicator used by an individual, business organization, or other legal entity to identify that the products or services to consumers by distinguishing its products or services from those of other entities. As shown; in the case of **Brooke Bond (Kenya) Ltd. v. Chai Ltd**⁴², where the defendant had represented their packaged tea in green packaging similar to that of the plaintiff. The defendant had also used the words “green label tea” just as the plaintiff had. The suit failed to meet the standard for trade mark

⁴⁰ Ibid 2

⁴¹ Ibid 2

⁴² [1971] EA 10-6.

infringement as the court considered the words used to be descriptive of the type of tea and not original and distinctive as required by the trademarks Act cap 506. The Act under **section 4** provides for the registration of trademarks and **section 5** clearly gives the effectiveness of registering trademarks, as unregistered trademark is not protected under the Act even though it doesn't affect passing off rights of a product. Also the above case of Brooke **Bond (Kenya) Ltd V. Chai Ltd** (supra 35) court stated that the defendant was, liable for passing off because the general (trade) dress of the goods was similar to the plaintiff's even though it did not meet the trademarks requirements of distinctiveness. Hence a registered trademark holder who meets the requirements of trademarks protection is able to recover damages from infringers who use marks that are similar or almost similar to the registered mark with the likelihood of causing confusion to the consumer's eye. **Section 14** prohibits the registration of deceptive marks, while **section 15** prohibits the registration of identical and resembling trade marks. So products and services likely to deceive consumers or cause confusion, or resembling existing trademarks do not qualify and will not be registered. More so **section 58** of the Act defines counterfeits as forgery of registered trademarks without owners consent and with intention to deceive and provides a fine of ten thousand shillings or imprisonment not exceeding five years. The same penalty applies to a person who sells counterfeit goods. However the **Trademarks Act cap 506** being the most frequently used legislation to deal with trademarks protection and infringement issues in Kenya has the poorest provisions of the penalties against counterfeits products. As ten thousand Kenya shillings as a fine to counterfeit offence is too little such anybody can afford it and it is not deterrent at all to counterfeits manufacturers and distributors.

3.2 The Industrial Protection Act 2001

Under **part twelve** of the Act provides for industrial designs, which in **section 84. (1)** means any composition of lines or colours or any three dimensional form, whether or not associated with lines or colours; provided that such composition or form gives a special appearance to a product of industry or handicraft and can serve as a pattern for a product of industry or handicraft. However **section 84 (2)** clearly states the protection under this Act shall not extend to anything in an industrial design which serves solely to obtain a technical result. So this fall squarely under the trademarks protection which is provided for marks, symbols, logos, certain colours usage as per the **trademarks Act cap 506** of Kenya. So the Act has protected industrial designs which are parts of trademarks in unique way which needs to be broadened to strengthen laws governing trademarks protection without divisions and confusion.

More so **section 109 (2)** of the Act provides any intentional infringement of a registered industrial design shall constitute an offence under this Act. Such an offence upon conviction shall be punishable with a fine of not less than one hundred thousand shillings, and not exceeding five hundred thousand shillings, or with imprisonment for a term of not less than three years, and not more than five years, or with both. This punishment is not much effective either so there is need for it to be increased to a level where people dealing with counterfeits products are threatened by its provision. This Act also need to be harmonized with the trademarks Act cap 506 in order to form a formidable legislation dealing with counterfeits products problems in Kenya.

3.3 The Trade Descriptions Act cap 505 (amended in 2010)

First of all, under **section 3** any person who, in the course of any trade applies a false trade description to any goods or supplies or offers to supply any goods, to which a false trade description is applied, shall be guilty of an offence. It was passed to prohibit mis description of

goods, services, accommodation and facilities provided in the course of trade hence prohibiting counterfeiting. As per **section 9(1)(e)** which defines false, trade description includes any mark made to so nearly resemble a registered trade mark or monogram as to be likely to deceive. More so under **section 25 (1)** The fact that a trade description is, or is part of, a trade mark within the meaning of the Trade Marks Act does not prevent it from being a false trade description when applied to any goods falsely. Hence it is a leading statute in combating counterfeits trade in Kenya. Under **section 15** it provides a penalty of a fine not exceeding two million shillings or to imprisonment for a term not exceeding five years, or to both such fine and imprisonment for a person found guilty under the Act. So far this is the only statute that gives a slight higher deterrent and punitive sentence and it is administered by the Department of Weights and Measures within the Ministry of Trade and Industry to eradicate cases involving trading in counterfeit goods in Kenya. However this punishment even if deterrent compared to other law statutes fighting counterfeits is not so severe to stop counterfeiting trade as they make billions compared to the two millions fines.

3.4 The Anti Counterfeit Act 2008

This Act came into force in the 2008 establishing an agency and a strong legal framework to prevent counterfeit goods, under **section 3**. However **section 5** of the Act establishes its functions which are mainly to combat counterfeit products trade in Kenya and more so encourage foreign organization union in the aim of defeating counterfeiting. Even though the agency is still establishing itself in eliminating counterfeits production in Kenya, it is still struggling with the challenge of insufficient resources while carving out its role. **Part Four** of the Act provides the power to inspect goods suspected to be counterfeits products. As per **section**

23(1) which gives an inspector power to enter at any reasonable time to a premise to inspect goods with or without a search warrant, seize and detain counterfeit goods if they are there.

Also part five under section 32 states it is an offence to pose counterfeits, manufacture counterfeits, exhibit and distribute them for the purpose of trade. However under part six, **section 35 (1) (a)** of the Act provides a penalty for a first conviction, to imprisonment for a term not exceeding five years, or to a fine, in respect of each article or item involved in the particular act of dealing in counterfeit goods to which the offence relates, not less than three times the value of the prevailing retail price of the goods, or both; while **section 35 (1) (b)** of the Act increases the penalty in the case of a second or any subsequent conviction, to imprisonment for a term not exceeding fifteen years, or to a fine, not less than five times the value of the prevailing retail price of the goods, or both. So this is a clear loophole that the Act is not entirely intended to eliminate counterfeits completely as the section creates room for second term offenders, by providing an extremely heavier penalty compared to first time offenders. In the case of **Jivanji Vs Sanyo Electrical Company Ltd**⁴³ where the respondent was registered under the Trade Marks Act (Cap 506) as the owner of the Trade Mark "Sanyo". It was operating in Kenya through its locally registered subsidiary Sanyo-Armco (K) Ltd. Sanyo-Armco found the appellant conducting business under the trademark "Sanyo". The goods traded by the appellant were of inferior quality and were not manufactured by Sanyo. The respondent filed a suit pleading the damage already suffered and continuing to be suffered as a result of reduced sales of items. However during its holding the High Court found the defendant guilty of counterfeiting and condemned it to pay over ten million Kenya shillings in damages. The finding of guilt was later upheld by the Court of Appeal. Hence it is anticipating the reoccurrence of the offence by providing two different punishments for first time offender and second term

⁴³ Civil Appeal No.225 of 2001

offenders. In this Act there is need of combining the two penalties in order for them to apply to all counterfeiters manufacturers equally and have a standard high fines and sentence years compared to the ones provided now in the Act.

In conclusion therefore Kenya has a comprehensive legal framework to ensure protection of trademarks against counterfeiters products which includes the Anti-Counterfeiting Act of 2008, the Industrial Property Act of 2001, the Trade Marks Act cap 506, the Trade Description Act cap 505, and other treaties which are ratified by Kenya as form part of the states law under Article 2 (6)⁴⁴. These treaties are, the Trades Related Intellectual Property's Rights, agreement, Madrid convention on trademarks protection and The African Regional Intellectual Property Organization which embodies the protection trademarks against any form of infringement, by supporting the registration of trademarks both locally and internationally. Hence clear enforcement of these laws to protect our trademarks and by creating public awareness on counterfeiters products their impacts and by increasing punishments on the violators of this laws will enable us to eliminate counterfeiters once and for all so amendment is the best method of solving this problems.

⁴⁴ Ibid 2

Chapter Four

Data Analysis on the impact of counterfeits on Trademarks protection in Nairobi City of Kenya

4.0 Introduction

This chapter sampled the collected data on the impact of counterfeits on trademarks protection in Kenya, both primary and secondary data by use of qualitative and quantitative methods of research. More tables, pie charts and bar graphs were used in this research report to analyze the data.

4.1 Gender

The number of the people who perfected the research with primary data was a total of ninety people selected randomly from Nairobi city. They were categorized into the companies which are textile industry, pharmaceutical industry and dry cell industry; consumers, managers and distributors. Sixty percent of the respondents were males while forty percent of the respondents were females as shown in the table below.

Gender	Number of respondents	Percentage (%)
Male	54	60%
Female	36	40%
Total	90	100%

4.2 Age

The respondent ages were also considered in carrying out this research to determine how a person understands the effects of using counterfeits products compared to original trademarked products. As per the table below thirty six and above years of age of the respondents in the

research report were forty percent, while between thirty one and thirty five years of age respondents were thirty percent, the respondents between the age of eighteen to twenty five years were twenty percent and the respondents between the age of twenty six years to thirty years were ten percent.

Age	Number of respondents	percentage
18-25	18	20%
26-30	9	10%
31-35	27	30%
36 and above	36	40%

4.3 level of education

The respondents were also categorized according to their level of education in order to determine the knowledge and awareness of the counterfeit menace. In the table below fifty percent of the respondents held O level certificates in Kenya, thirty percent had diploma certificate, while ten percent had degree graduates certificates and another ten percent had other academic credentials which they had to specify themselves for the research report to be inclusive of everybody.

level of education	Number of respondents	percentage
O level certificate	45	50%
Diploma certificate	27	30%
Degree graduates	9	10%
Others specified	9	10%

4.4 Working experience years

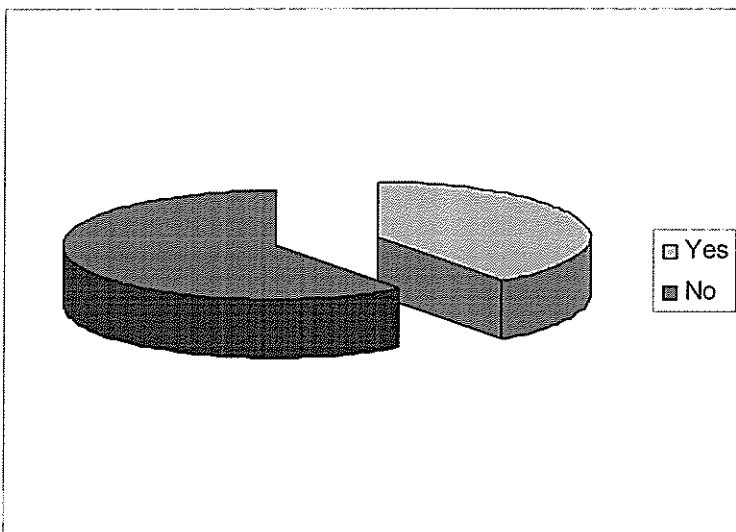
The researcher was conducted specifically on the distributors and management staff working experiences between the textile pharmaceutical and dry cell industries in Kenya. The table below shows that under working experience categories the employees of the three companies which are textile, dry cell and pharmaceutical industries selected randomly were as follows. Those who had worked for a period of six to ten years were fifty percent, while those who worked for a period of

five years and duration of ten to fifteen years were twenty percent respectively and those who had worked for a period of fifteen years and above were ten percent.

Working experience	Number of respondents	percentage
0-5	18	20%
6-10	45	50%
10-15	18	20%
15 and above	9	10%

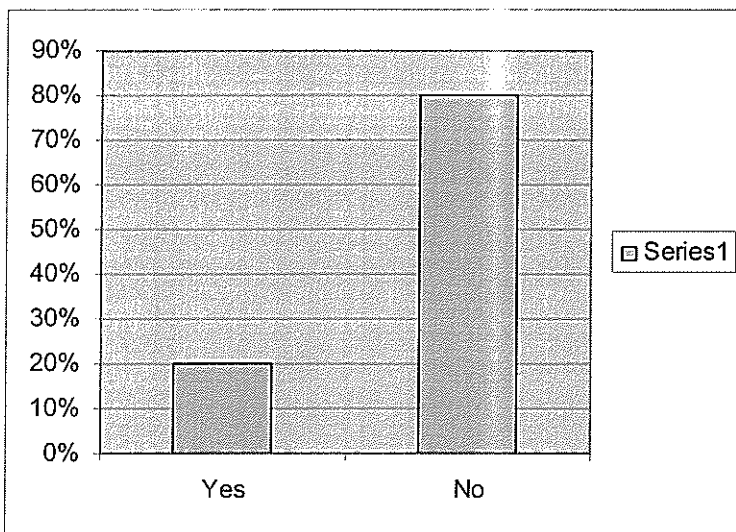
4.5 Public awareness on counterfeits impact on trademarks protection in Kenya

This information was presented on pie chart to show how lack of public awareness on the legal protection of trademarks has facilitated the increase in counterfeits trade. As shown below only forty percent of the respondents were aware counterfeits impact on trademarks protection in Nairobi city of Kenya while sixty percent of respondents were not aware hence to them purchasing counterfeits products was not a big deal.



4.6 The level of the knowledge of the illegality of counterfeits products trade.

The information in this section is represent via bar graph to show the gravity of the ignorance of the consumers and distributors on dealing with counterfeits as the managers of textile, dry cell and Pharmaceutical industries are aware of counterfeits products being illegal.



4.7 Factors that lead to manufacturing of counterfeits in world market especially Kenya.

These factors were clearly researched on the field by different people's views and on the existing literature review reports which were arranged as follows in this research project.

4.7.1 Counterfeiting is a profitable business as customers request for goods which are of cheaper price, and in most cases original trademarked products are very expensive than counterfeits, hence this is the core driving factor to counterfeit trading products, as shopkeepers benefit from the larger margins profit achieved in this illegal trade, while consumer benefit from cheaper priced products. Since counterfeiters are essentially unaccountable and have no interest in building a brand reputation; costs can be additionally reduced by cutting corners in the

production phase, such as labour, engaging in environmentally unsound manufacturing processes and using inferior grade materials.

4.7.2 Globalization is one of the major factors which have made it easier for counterfeit products to reach consumers. For example since internet has been established as an ideal sale channel, counterfeiters have utilized it as a marketing method hence anyone can comfortably order these products online from his/her home or office.

4.7.3 Cyber squatting is the word given to the scenario that arises when someone, frequently a private individual, registers valuable trade marks as domain names for the objective of selling to the trade mark owner the entitlement to the domain name. In other jurisdictions for instance the United States, the courts have showed willingness to apply intellectual property rights to the internet. In the United Kingdom, the courts have been flexible with their interpretation of passing off, so that it now covers those who threaten to sell a domain name. Future passing off is now a term that has been coined by the Courts and may be used by trademark owners in claims against cyber squatters.

4.7.4 Consumer's experiences and perceptions on counterfeited products is another factor which has led to increase in trademarks infringement by counterfeits. This is clearly explained under consumer's behavior⁴⁵, which are; perceptive behavior also referred to as non-deceptive and non-perceptive behavior known as deceptive. Perceptive behavior is defined as the knowing consumption of counterfeit products by consumers, whereas non perceptive behavior is a case where consumers purchase counterfeits goods unintentionally, this can occur

⁴⁵ Eth Zurich, SAP 2007 Research Problem Analysis Report on Counterfeiting and Illicit Trade

when the goods are made of high quality counterfeits whose quality is close or identical to the original products and that can fool even trained personnel.

4.8 The Impact of counterfeits products trade to original trademarks holders in Kenya

4.8.1 It has led to **unfair competition** against genuine trademark holder. This is because counterfeited product are sold at cheaper price compared to original products which are taxed, of higher and better quality compared to counterfeits which are substandard, sold illegally and not taxed . For example an April 2008 survey⁴⁶, conducted by **Kenya Association of Manufactures** the Kenyan's foremost business association, indicated that legitimate commerce climate is hostile because of unfair foreign competition, which dumps counterfeit products e.g. batteries, medicines, and secondhand clothes which affects dry cell industry, pharmaceutical industry and textile industry respectively in Kenya. Trademarks holders have suffered the loss of reputation on their original product, as counterfeits are of lower quality than genuine products⁴⁷, this has led to the entrepreneur's reputation being tarnished hence affecting future sales as this has resulted due to the unfair competition which has occurred as a result of counterfeits existed in Kenya, so there is a clear need to eradicate the problem or completely reduce the problem to completely.

4.8.2 It has caused loss of **sales and market shares** by trademarks registered holders to counterfeiters who incur limited production costs, hence selling cheaply the counterfeited

⁴⁶ 2011 Investment Climate Statement - Kenya Bureau of Economic, Energy and Business Affairs March 2011

⁴⁷ Consequently, this activity in one stroke infringes the innovator's material or economic rights (loss of revenue streams) and moral rights (reputation).

product and thus the genuine product is undersold and overshadowed by counterfeits which result to loss of a lot of income. For example specific industry stakeholders have reported massive losses, like the **Eveready East Africa's managing Director declared in 2006**⁴⁸ declared that his company loses about five hundred million shillings annually to illegal dumping of dry cell batteries in the Kenyan market. According to him, "Counterfeiting is a nuisance that can only be dealt with through concerted efforts from all stakeholders." This clearly shows counterfeit trade impacts the society and the economy adversely hence there is need of joined efforts from are sectors of Kenyan economy to stop this menace. It distorts market forces by changing the legitimate expectations of various economy players and bringing about unpredictable changes which cause the market to be unreliable.

4.9 The effects of counterfeits usage to consumers and the Kenya governments in over the use of protected trademarked products.

In this research on the impact of counterfeits to trademarks protection in Kenya it is very important to note that counterfeits products do not affect trademarks holders alone as discussed in the above finding but it also affects the consumers and the government in the following ways:

4.9.1 Consumers are affected by counterfeits in the following ways; consumers who buy counterfeits without there knowledge are defrauded by the sellers since they duped to buying the products at cheaper price believing that it is the origin product. For example a counterfeit of an

⁴⁸ Peter Mutai, "Eveready loses Kshs 500 million to counterfeit batteries," The Standard (Nairobi), 11/07/2006

Eveready dry cell can cost a consumer half the price of the original product but the duration of usage is shorter than the original dry cell hence it result to defrauding which also affects the protected trademark owner good reputation.

In case of pharmaceutical drugs products being counterfeited the consumer may have serious health risk. Since these drugs can also contain filler compounds that can cause serious health problems and have resulted in death, as fake drugs often lack important active ingredients, meaning that the people who take them are not getting the treatment they need and could be developing drug resistance. More so according to a random survey by the National Quality Control Laboratories and the Pharmacy and Poisons Control Board⁴⁹ concluded that approximately thirty per cent of all drugs are counterfeit hence Kenya has a substantial problem with counterfeit medicines be sold in Nairobi and any other part of the country

4.9.2 The Government is affected by counterfeits in the following ways also:

The government loses a lot of revenue in form of billions to counterfeiter's as legitimate traders of the original trademarked products who pay taxes are put out of business and jobs are lost hence hindering economic growth. For example; the Kenya government, losses an estimated nineteen billion shillings to counterfeit products as per the Kenya Manufacturers report as shown in the literature review.

Counterfeits products can also affect the government by distortion of local domestic trademarked products trade. This occurs when counterfeits products effects changes the legitimate expectations of various economy players and bringing about unpredictable changes which cause

⁴⁹ The Standard newspaper on 08th Feb. 2011 that Kenya lose fifty billion shilling to counterfeits.

the market to be unreliable and government losses revenue as no consumer is willing to buy their original products when there are cheaper ones.

4.10 Conclusion

Nairobi city in Kenya is one of the cities affected by counterfeits products which have led to loss of profits by original trademarks holders whom their products are being counterfeited, as seen in the dry, textile and pharmaceutical industries in Kenya which are most hit by the counterfeits effects and loss a lot of money to this problem. More so the problem also affects the government who loss revenues to the illegal trade and some of its citizens losses jobs when profits become less to sustain them in that work area. Also consumers are defrauded by counterfeits by getting substandard goods. However the legal framework which deals with prohibition of counterfeiting is discussed in chapter three of this research report; to include the new constitution, the Trademarks Act cap 506, the Trade description Act cap 505, the Industrial property Act 2001 and the Anti counterfeits Act 2008. These statutes however need to have high legal penalties in order to have strict deterrent effects to counterfeits hence eliminating counterfeiting menace. More so public awareness on identifying counterfeits products from genuine products and there negative impact should be passed to Kenya society to help solve this problem. Also high vigilance and seizure of counterfeits goods sold in Kenyan markets should be encouraged to do away with counterfeits products and prosecution of the culprits who manufacture and distribute the goods to consumer as various ways of combating counterfeits products

Chapter Five

5.0 Introduction

This chapter included the conclusion and recommendations obtained during the research period on the impact of counterfeits on trademarks protection in Kenya. More so the conclusion and recommendations are based on the information obtained from the analysis of questionnaire, interview and literature review.

5.1 Conclusion

The aim of trademarks protection laws⁵⁰ focuses on ensuring, the integrity of the market place by protecting consumer against confusion as to the source of products, it facilities and enhance consumer decisions and encourages business to supply quality products and services. So there is a need to protect trademarked products against counterfeits so as to prevent anybody from making illegal profits. Since counterfeits products is illegal imitation of the original product with caring of the quality of the product and services.

More so the problem of counterfeit in Kenya is clearly felt as it affects local growing industries hence some are almost near collapsing. Since my research majored on the textile, dry cell and pharmaceutical industries it was proved that counterfeit menace is a serious problem in Kenya despite having legal legislation such as the Trademarks Act cap 506, the Trade Description Act cap 505, the Industrial protection Act 2001 and the Anti counterfeits Act of 2008. This is because the public lacks awareness of the impact of counterfeits on trademarks protection, there is laxity on the part of law which allows the business of counterfeits to flourish without big risk

⁵⁰ Peter M and David N,2007 Unwinding sony, pg 95

hence it has become an enticing business to entrepreneur's and hawks in Kenya and also poor vigilance and prosecution on the part of goods imported to country from outside and what is sold in the markets whether it is original the trademarked products or counterfeits has enhance the trend to continue.

Also the legislation statutes governing the protection of trademarks in Kenya have provided lesser punished to counterfeits hence the illegal business has become a lesser risk to venture in it in Kenya. So there is needed harmonization these laws to have deterrent effects hence they can achieve the goal of eradicating counterfeits in Kenya.

The criminalization of trademarks counterfeiting⁵¹ serves at least four important purposes which are: the protection of trademarks holder's property from theft or dilution e.g. stealing a company's name or brand name is a type of corporate identity theft, the maintenance of the good reputation of trademark holder from being devalued by counterfeiters, the protection of consumers from fraud, since consumers decide what goods to buy on individual goods' trademarks and the quality those marks purport to represent and the protection of the safety of non purchasing users. Since sales of counterfeit products can hurt not only the trademark holder and the initial purchaser, but also third parties who use the goods or services after the initial purchase.

It is clear that for a very long time to come, trademarks will continue to play an important role in our society and the process of registration of trademarked products is not difficult, the cost is

⁵¹ H Rep. 109-68, at 8 n.2 ("Congress was concerned ... that counterfeiters can earn enormous profits by capitalizing on the reputations, development costs, and advertising efforts of honest manufacturers at little expense to themselves.")

very minimal and its advantages are so vast in fighting counterfeits business in Kenya. So there is need of creating public awareness, strict laws on combating counterfeits and better vigilance and prosecution against any counterfeit offences brought to light in order for the Kenya society to learn it is a serious crime to counterfeit a registered trademark of a person or corporate body in order to take unfair advantage of the products, illegally and without their permission hence forcing them to loss profits, reputation of the products and even putting their business at the verge of collapsing and causing unemployment.

The impact of counterfeiting is both tangible and intangible; it affects both the individual firm and society; and injury befalls both the corporation whose goods are counterfeited and the consumer who unknowingly purchases the counterfeit products. Tangible impacts include the revenues lost by the trademark owner to the counterfeiting manufacturer. Intangible impacts include the loss of goodwill and consumer confidence. These negative effects are magnified when lost revenues are translated into lost jobs and dissatisfaction is translated into negative attitudes towards business in general. Hence the following recommendations can be used to assist in eliminating counterfeits effects on trademark protection in Kenya

By understanding and continuously surveying the counterfeits problem on trademarks protection in this research project, it is necessary to examine the available countermeasures on how companies can protect their products and mitigate the negative impacts and ensure the safety of consumers. So I recommend the following solutions to counterfeit problem.

5.2 RECOMMENDATIONS

- ❖ The government and private institutions should create public awareness on the impact of counterfeit product consumption and its illegal infringement on trademarks protection in Kenya. For example through empowering and strengthening the Kenya Anti Counterfeit Agency both by legal empowerment and financial support to clearly spread its slogan which is enlighten, enforce and eliminate. Since the first word which is enlighten caters for creation of awareness to educate the Kenyans on issues relating to counterfeit effects on trademarks protection and the consequences of using them. More so consumer's education on counterfeit consumption negative effects will help to suppress their demand for contraband hence reducing or totally eliminating counterfeit problems. As in **Parke Davis & Co. Ltd. v Opa Pharmacy Limited**⁵², where the court found that the appellant who was the registered proprietor of the trademark "Capsopa" used on ointment was entitled to an injunction against the respondent's use of the mark "Capsolin" on a similar ointment. By ruling that the marks were identical and there was a real probability of confusion to the public. This means also if consumers are taught different ways of identifying counterfeit they will avoid the confusion and more so courts should continue to protect consumers against counterfeit products by offering public awareness on the existence of the problem
- ❖ There is need for the creation and adoption of legal deterrent penalties with the aim of enforcement against counterfeit products. In order to clearly effect this recommendation there is need to involve the Kenya police in carrying out raids and seizures in areas where

⁵² (1961) EA556

counterfeits products are sold like River Road, Kariobangi, Luthuli Avenue and throughout the country, with the aim of totally eliminating counterfeiting.

- ❖ The government should recruit and create courts branches with people e.g. Judges and police who are well informed on counterfeits, since its new, recent and fast growing branch of the law, it is imperative that the Bench keeps up with the modern trends so that the genuine trademark owners feel that the Kenyan Courts are protecting their rights as they should. So the judiciary should organize trademark and counterfeits impact on their protection in order for the Bench to make informed decisions which legally and economically favours registered trademarks owners. Since the lack of Intellectual property expertise in the national academic institution in Kenya has led to a serious shortage of domestic legal professional and lack of policy development capacity in the area of intellectual property. Also the Police forces should be trained to enforce the law with regards to intangible property and not tangible property alone as intellectual property such as trademarks fall under intangible property.
- ❖ There is need for specific degree as to measure of how good is counterfeited or not. For example the **Kenya Anti counterfeit Act 2008**, under **section 2** defines counterfeiting to mean infringing the intellectual property, patents or trademark of company or individuals logos or marks, which makes the definition uncertain. So the definition should be amended to do away with patent protection, since counterfeit affects only well established trademarks so this will eliminated the uncertainty of law by protecting specific areas of the law.
- ❖ There is need for mass serialization which is the changing of the way product information is managed by giving unique identities to individual items. One implication of this higher

level of information granularity is that the physical security of products can be improved in terms of novel anti counterfeiting techniques, as well as with the detection of illicit trade activities.

- ❖ There should be interlink between Registries, when one applies for a trade mark, the Registrar of trademarks do not consult with other registries especially the Registrar of Companies on the availability of the Trade Mark. It is therefore possible that one might run into problems when he realizes that he or she has registered a trademark yet somebody else had registered a company trademark with a similar name.
- ❖ Trademark owners should be made aware of the actual extend of the problem of counterfeits which remains unknown to them through problem analysis report on counterfeit hence they will participate in anti counterfeiting activities which is indeed important for the success of any kinds of counter measures. As trademark owners do not want to discuss the problem in public and with their competitors hence this will be an eye opener to them on the possible benefits from public awareness. For example the use of Industry based Organizations these include agencies like Kenya Association of Manufacturers which advocate for protection of Intellectual property rights by creating greater awareness of their legal effects through their programs.
- ❖ There is need for the private and public enforcement of intellectual property rights to work hand in hand in order to succeed in combating counterfeit problems. Since private enforcement which is done by Individuals and private institutions in the end, they still have to use public enforcement mechanisms e.g. the police and judiciary who are well informed on intellectual property rights in order to realize their rights.

- ❖ There is need for adequate funding for Kenya's anti counterfeiting agencies and fighting corruption both within the regulatory bodies and among individuals who fuel illicit trade. Since inadequate funding and corruption has led to the limitation of the number of seizures and destruction of counterfeits goods in Kenya. Hence they are often seized and put in warehouses where they pile up without disposal of them, so it is a risk they can be stolen and returned to the market. There are many more reported and unreported cases of trade in counterfeit drugs in Kenya due to inadequate training for judge's which means that the existing and new laws are often not enforced or manipulated so that counterfeiters may retrieve their goods after paying a small fine. That is why even after amending the Food, Drugs and Chemical Substances Act, Cap 254 in 2002 under section 36(1) to provide stiffer penalties for seven hundred thousands shillings for trading in counterfeit medicine large quantity of counterfeits medicines are still found existing in the recent Kenya market. So still there is need for still surveillance on the goods sold in Kenya markets and this can be achieved by properly funding organizations which are anti counterfeits to carry out their functions with busted moral and achieve their objective.
- ❖ The east Africa community should harmonize its intellectual property laws in order to collectively eliminate the problem of counterfeiting. More so the organization should also look into establishments of an anti counterfeiting policy additionally, in early December 2008 Deputy Prime Minister and the then Minister of Trade Uhuru Kenyatta⁵³ publicly conceded that immediate action involving a coordinated effort among East African Community members must be undertaken to prohibit counterfeit goods from entering Kenya and the region. He acknowledged that counterfeits are undermining the domestic manufacturing sector.

⁵³ The fourth 'E' Engagement vis-à-vis Trademark and copyright enforcement in Kenya

- ❖ Kenya should actively participate to the global solutions on the problem of counterfeits by supporting and facilitating the applicability and realization of completely eradicating the problem. For example; the **World Intellectual Property Organization**⁵⁴ plays a proactive role in the field of international enforcement of Intellectual property, For example its Enforcement and Special Projects Division is cooperating in the development of effective government and industry anti counterfeiting and piracy strategies, focusing on awareness raising, legislative assistance, improved coordination and capacity building.

⁵⁴ World intellectual property 2008 May special Edition for the 4th Global congress on counterfeiting and piracy.

APPENDIX 1: INSTRUMENTS

a) Questionnaire

Kampala International University
Faculty of Law
P.O. BOX 20000
Kampala
Uganda.

Dear respondent

My name is Kyule Elijah Mwanzia. I am a student at Kampala International University pursuing a degree in Bachelor of Laws. In partial fulfillment of my degree, am undertaking a research and I humbly ask you to participate in this research on the 'impact of counterfeit on trademarks protection and practice in Kenya.' The questionnaires enclosed here serves as a data collection instrument and the information sought will be purposely used for academic and will be treated with utmost confidentiality. The information and data you give will be appreciated.

Yours faithfully,

Kyule Elijah Mwanzia.

PART A: BACKGROUND

Please tick where applicable

- 1) Gender Male..... Female.....
- 2) Age 18-25 26-30 31-35..... 36 and above.....
- 3) Level of Education
 - a) Diploma..... b) A-Level.....
 - c) Graduate..... d) Others, (specify).....
- 4) For the management staffs of the companies how long have they worked at the organizations
0-5 years..... 5-10years..... 10-15years.....
- 5) Are you aware of the impact of counterfeits on trademarks protection in Kenya?
Yes..... No.....
- 6) Do you that counterfeiting original trademarked products and there distribution is illegal
Yes.... No....

PART B: GENERAL INFORMATION

7) What factors lead to counterfeits product trading in world market specifically in Kenya?

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8) How do counterfeit products affect trademarks owners?

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8) How does counterfeit products consumption affect consumers in Kenya?

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9) Which impact do counterfeit have in the economy of Kenya?

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10) What are the various and effective ways of combating the spreading effects of counterfeit trade on protected trademarks protection and enhance effective protection to trademarks holders?

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INTERVIEW GUIDE

Interview guide for the research on the impact of counterfeits on the trademarks protection and practice;

- 1) Does counterfeit affect trademarks protection holders?
- 2) What factors lead to counterfeit in the world market
- 3) Which are the various ways of combating counterfeit and how they can be improved?
- 4) What is the legal frame work in regard to counterfeit in Kenya?

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