

New Draft Anti-Commercial fraud law in the UAE

by Rasha Al Ardah - r.alardah@tamimi.com - Dubai International Financial Centre

May 2013

A new draft Anti-Commercial Fraud Law was endorsed in January 2013 by the Cabinet in the UAE.

This draft law is intended to replace Federal Law No. 4 of 1979 concerning the Suppression of Fraud and Deception in Commercial Transactions and is aimed at protecting consumers and regulating the market in the UAE. A key feature of the new draft law is that it compliments the existing enforcement mechanisms in respect of intellectual property rights and especially trademarks.

The existing legal framework for fighting counterfeiting activities in the UAE comprises the Federal Trademarks Law No. 37 of 1992 as amended, Federal Law No. 4 of 1979 concerning the Suppression of Fraud and Deception in Commercial Transactions and the GCC Customs Law. This article will explore how the new draft law will impact the existing legal framework for addressing counterfeiting in the UAE.

In terms of the new draft law, any act of selling, displaying, and possessing for the purpose of sale any counterfeit goods is defined as an act of commercial fraud. Furthermore new draft law prohibits the importation, exportation, re-exportation, manufacturing, storage, rental, marketing, selling, or possessing (even if not for the purpose of selling) any counterfeit goods.

Counterfeit goods are defined in the draft law as “commodities bearing a trademark identical to a legally registered trademark without authorization”. Accordingly, the scope of protection provided by this law will be limited to trademarks only and does not cover any other intellectual property rights. Furthermore, the protection would be only for registered trademark and against the unauthorized use of identical trademarks only, and not look-alikes.

The new draft law establishes a Higher Committee for combating commercial fraud at a federal level (“the Committee”), with a sub-committee in each Emirate (“Sub-Committee”). The Committee will study reports on fraud referred to it by specialized authorities and will take the appropriate measures, while studying the penalties stipulated by the draft law and the obstacles that may face the law’s application and suggestions for overcoming these obstacles. It is a positive development to have a single body oversee the implementation of the law on a federal level. However, it is not foreseen that the Committee will be the authority where complaints would be submitted, and it does not establish a single complaint procedure through this Committee that cover all Emirates. It is worth noting that a similar committee is already established by virtue of the current law which is called the National Committee for Combating Commercial Fraud.

A major development in this new draft law is the hefty penalties for acts of counterfeiting. Penalties have always been considered a limitation in the current law as they do not act as a deterrent and both brand owners and practitioners have sought an increase in these penalties on a continuous basis. The penalties under the current law concerning the Suppression of Fraud and Deception in Commercial Transactions are imprisonment up to three years and fines of up to 10,000 dirhams (USD2,740), and under the Trademarks Law, the penalties are imprisonment of up to one year and a fine that is not less than 5,000 dirhams (USD1,370). In the new draft law the proposed penalties are imprisonment up to two years and fines that reaches up to 250,000 dirham (USD68,500) or both, which is in addition to the destruction of the counterfeit goods. The new draft law further provides for a higher fine that reaches up to 1 million dirhams (USD274,000) if the counterfeit

products are in the nature of or related to pharmaceutical or food products.

The new draft law further provides for the closure of the violating entity in case of activities related to counterfeit pharmaceutical or food products and also in case of possessing counterfeit goods while knowing that it is counterfeit. If the violating entity is a department store, the draft law has provided for a mechanism to close only the section where the counterfeit goods are found or that is related to the counterfeit goods, as opposed to closing the whole store.

In the event that an offence is committed for a second time, the penalty would be the cancellation of the trade license of the establishment or doubling the penalty.

Despite these high penalties, the draft law entitles the Minister of Economy to issue decisions allowing the re-exportation of counterfeit goods to the country of origin. The re-exportation of counterfeit goods is not a new phenomenon, as it is also allowed under the current law concerning Suppression of Fraud and Deceit. However, re-exportation under the existing law is limited to food, agricultural, pharmaceutical and natural products only, while the new draft law may allow for the re-exportation of goods of any nature. The wider scope of the new draft law with respect to the possible re-exportation of goods appears to be a step backward in the fight against counterfeit trade and such re-exportation should have been limited to specific situations subject to very specific conditions. It is hoped that the legislature will set some limitations on and make such re-exportation specific to strict conditions in the implementing regulations that are to be issued.

A further development in the new draft law is that it provides the authorities the power to request all information, documents and invoices related to counterfeit goods, and traders are obliged to comply with such requests. It is however, not clear to what extent brand owners will have the right to obtain relevant information from authorities.

The new draft law further provides for a mechanism for settlement with respect to breaches of the law, except when it is related to pharmaceutical and food products. A request for settlement must be made by the offender to the Sub-Committee. A settlement shall be on the basis of the payment of compensation to be determined by a Ministerial Decree to the relevant authority that has performed the inspection and seizure of counterfeit goods, provided that the amount payable in settlement shall not exceed the maximum penalty imposed by the new draft law. In case the offender rejects a settlement, the Sub-Committee shall transfer the matter to the Public Prosecutor for further prosecution. It is not clear however, whether brand owners will have any role to play in this settlement mechanism.

The new draft law proposes to increase the time period in which the seized goods must be released if the seizure done by the administrative authority was not confirmed by a Court order. According to the Current law, the seized goods shall be released after 15 days of the seizure. However, in terms of the new draft law the time period shall be 30 days after the seizure. If no court order is obtained and the seized goods are released, the new draft law does not provide for compensation for the owner of the goods, contrary to the current law which provides for compensation if a claim was wrongly made and the goods are released.

There has been a misconception that the new draft law will change the enforcement regime in the UAE. However, a careful analysis of the new draft law proves that the new law will include the same principles of the existing law with a significant increase in the penalties provided for.

The new draft law is a positive enhancement of the existing enforcement framework in the UAE and should increase the effectiveness of enforcement mechanisms through deterrent penalties – which have been long awaited. After the new draft law is approved and come into force, implementing regulations should be issued which shall provide further explanation and details of the law.