

**Green Paper on Combating Counterfeiting and Piracy
in the Single Market**

[COM (1998) 569 Final]

UNICE POSITION PAPER

General message

UNICE very much welcomes publication of the above-mentioned Commission Green paper, which it sees as a step forward in the quest for further improvements in combating the plague of counterfeiting within the European Union.

UNICE welcomes the Green paper's broad definition of counterfeiting and piracy as infringement of any intellectual property and "sui generis" right. Nevertheless, UNICE is of the firm opinion that it is also essential to include actions which infringe fair competition such as flagrant imitations and look-alike products. Hence, slavish copies of non-protected products, currently excluded from the scope of the green paper, should be included.

Generally speaking UNICE is of the opinion that provisions in Member States' legislation which outlaw counterfeiting and piracy are reasonably satisfactory although there is a perceived need for greater harmonisation. In UNICE's view, one of the major problems for combating transborder piracy is the implementation of different types of protection in individual countries under different legal orders and with different procedural rules. Action against counterfeiters is all too often unsuccessful: this is the weakness of the system and the fight against counterfeiting should therefore concentrate on improving enforcement aspects.

In this respect, UNICE is of the opinion that co-operation between national authorities is on the whole insufficient and that greater co-ordination is required. Similarly, closer co-operation between rightholders and authorities is essential, and considerable improvements are needed in this area.

Altogether, sanctions at EU level would certainly be more effective than sanctions at the level of the individual state since piracy is usually organised on an international and transboundary basis, often with the aim of exploiting legal loopholes or weaknesses.

In addition to these preliminary remarks, UNICE has taken a close look at the specific questions asked in the Green paper and would like to offer the following comments attached.

Answers to the questions posed in the green paper

I. NATURE AND CHARACTERISTICS OF THE PHENOMENON

Question 1

a) UNICE welcomes the Green paper broad definition of counterfeiting and piracy as infringement of any intellectual property and “sui generis” right. Nevertheless, UNICE is of the firm opinion that it is also essential to include actions which infringe fair competition such as flagrant imitations and look-alike products. Hence, slavish copies of non-protected products, currently excluded from the scope of the green paper, should be included. Lastly, the protection of geographical indications should also be included.

Many cases of copying of non-protected products have been observed in industrial sectors with a particular effect on SMEs (e.g. mechanical engineering). This is also true for sectors ranging from cars to textiles.

In order to combat piracy of products and services properly, all these actions which do not infringe intellectual property rights directly but which can be counted as unfair competition should be included in a broad definition of counterfeiting and piracy.

b) Almost all sectors suffer from counterfeiting and piracy. Examples include chemicals, cars, electrical and electronic products, watches, toys, textiles, tool-making and mechanical engineering. All chemical products with high value-added are affected. These include:

- phytosanitary (finished products and active ingredients);
- animal health (finished products and active ingredients);
- photographic articles, in particular amateur films.

pharmaceuti

In the textile industry, piracy occurs in all areas/niches; the focus is on fashion products.

The causes of this phenomenon are described in great detail in the green paper. Industry has also noted the following reasons:

- relatively low risk of discovery and punishment, i.e. production almost risk-free;
- possibility of making high profits without business risk;
- weak perception of injustice among consumers.

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Question 2

The companies represented by UNICE encounter piracy in the first three areas mentioned: manufacturing, distribution and in intra-Community trade in goods imported beforehand from a third country.

Question 3

The phenomenon manifests itself in different ways in each EU Member State. Broadly speaking, sale of counterfeits occurs world-wide. Counterfeits often originate in China, Taiwan (and Southeast Asia as a whole), India, Brazil, South Africa, Israel, the Middle East, Turkey and the former communist bloc. In addition, there are cases in which pirated goods are made in an EU country and are then sold inside or outside the EU.

For the watch, electrical and electronics sectors, the main counterfeiting countries are Taiwan, China and Thailand. However, now that tighter regulation is in place, there has been some reduction in pirated goods from Taiwan. Against that, the wave of counterfeits from mainland China is apparently still on the increase. For electrical/electronics, mention should be made of Wenzhou, a city/region which is home to hundreds of firms which produce counterfeits and sell them world-wide. For instance, Chinese counterfeits have been found in Turkey, the Middle East but above all in South America.

The chemicals industry is in some ways a special case: pharmaceutical ingredients are produced in large quantities in third countries (India, China, Cyprus) and distributed via the EU to other third countries. The goods are re-declared, given new papers and marked as goods of European origin. In addition, medicines and phytosanitary products/insecticides are produced illicitly in Spain, Italy, Greece, an outside the EU (Cyprus and Turkey) and imported into (other) EU countries under the guise of an apparently legal parallel import.

Question 4

The type of infringed right depends on the industrial sector. In the textile and toy industries, this is mainly design or copyright. In other sectors trademarks, patents and/or copyright are infringed.

Question 5

a) The circumstances under which illegal acts are committed depend on the sector in question. In the textile industry, the authors of counterfeits are found at all levels of the textile market, from the owner of the patent down to the retail trade, which sometimes actually places the order. In machine tools, copied products are often displayed at trade fairs. Distribution usually takes place directly or through building and consumer markets. In the electrical industry, there are copies in both wholesale and retail. Here, too, display at trade fairs is common, albeit mainly for trademark infringements.

The following cases of illicit actions are reported from the chemicals industry:

- cases of apparent transit through the EU (see example in question 3);
 - cases in agriculture where pirated goods (chemicals, medicaments) are sold direct from the lorry to the farmer, sometimes when they are not even authorised in the country of import;
- b) Some companies are convinced that there is a link with organised crime, some only think that this is the case. However, there is the problem of proving a link with organised crime.

II. ECONOMIC ANALYSIS : SCALE AND CONSEQUENCES OF THE PHENOMENON

Question 6

It is difficult to give reliable figures for counterfeits.

In textiles, the share of copies represents about 10% of total turnover. In the toy industry, the estimate is 10-12 %. In machine tools, copies are usually flooded onto the market in very large numbers. In these cases, trade in the copies can be as high as or higher than trade in the originals for a given period. The European market for counterfeit car parts is extremely high.

Question 7

Here, too, it is difficult to give concrete figures. The high share of copies in total turnover clearly means lower turnover for the companies concerned, which has an indirect effect of jobs. Job losses also occur when market regions are totally lost to a company because of cheap copies.

In addition, manufacturers of original products are often damaged by loss of a reputation built up over years because the copies are generally of inferior quality. At the very least, copies mean that customers lose confidence. This is because externally identical or almost identical products appear on the market at a clearly lower price. This distortion of price levels is difficult to repair and leads to considerable economic losses in the countries in question. This, in turn, holds back the commitment to innovation.

The effects that counterfeits can have on the health and safety of consumers depend on the product. Textile copies can have effects on consumer protection if banned chemicals are used. Consumer health is also endangered by counterfeit tools, which are not always safe to use. Electrical appliances can also be unreliable and may cause personal injury or material damage. Counterfeit pharmaceuticals may be of poorer quality or contain a lower dose of the active ingredient (or even none at all). This is a constant danger to patient health.

III. LEGAL ANALYSIS

Question 8

In UNICE's view, one of the major problems for combating transborder piracy is the implementation of different types of protection in individual countries under different legal orders and with different procedural rules. Patent and design protection inside and outside the EU provide a good example of these differences.

A further problem is tracing counterfeits back to the original makers. This is especially difficult with copies from Asia. Prosecutions can only be successful if the plaintiff can produce actual products, proof of protection and the address of the maker.

SMEs (but also large companies) face other problems which stand in the way of effective defence against product piracy:

- incomplete information in companies about the existing legal instruments,
- difficulty for customs to recognise copies on import,
- rapid flooding of markets with copies, usually in the form of special offers which rapidly sell out,
- difficulties in tracing such cases to their source,
- problems of co-operation with the authorities in the country where the copy was made.

All in all, it is a problem that the measures in place to combat piracy take too long to be effective and are often unwieldy. The costs of prosecution are too high in some countries. It is also regrettable that courts give different interpretations to "product piracy" in individual countries.

Question 9

UNICE believes that the existing legal provisions governing intellectual property should be strengthened in order to prevent piracy in the internal market. Improvements to the existing provisions should come in the first place from a harmonisation of national provisions at a high level of protection. For example, it should be possible to protect designs through the law on copyright, as well the law on industrial designs. Unfortunately, this option does not exist in all EU countries.

To help SMEs in particular to acquire protective rights for the products, a reduction in the associated costs is essential. This is the case, for instance, for the future Community patent and Community design.

There should also be a separate, no-fault right to information. There is positive experience with this in Germany. Often this right is the only way to trace a copy. In 1990 a provision was incorporated in German laws to protect intellectual property ; the wording of the right to information in the copyright law will serve as an example:

(1) A party infringing copyright or other right protected by this law in commercial transactions through production or distribution of copies may be required to provide the injured party with immediate information about the source and distribution chain of these copies except in cases where this would be disproportionate.

(2) The party obliged to submit information in pursuance of paragraph (1) shall provide the names and addresses of the manufacturer, the supplier and all other previous owners of the copies, the commercial distributor or party ordering the copies, and information on quantities made, delivered, stored or ordered.

Question 10

UNICE believes that the provisions on measures and procedures for enforcing rights are not yet adequate for preventing and punishing infringements in the internal market. One way of removing this

deficiency would be better co-ordination of measures by national authorities in the internal market. In addition, international exchange of information could be improved. Where possible, customs checks at the internal market's external borders should also be improved.

There are a range of problems for implementing rights, especially patents. These are set out below:

1. One problem for efficient implementation is the time factor. With a few exceptions (e.g. Germany) preliminary injunctions are not available in the EU for patent infringements in the area of product piracy (pure copies). Yet, only immediate and direct action makes effective combating of product piracy possible.
2. Court orders are possible in various countries so that allegedly infringing products, or manufacturing processes can be described by experts, e.g. in Belgium, France (saisie contrefaçon), Italy, Spain, UK (Anton Piller order). However, conditions differ substantially and there is no uniformity of effective remedies, even within some countries.
3. A third real problem is that the investigative and enforcement authorities with competence for product piracy are not everywhere equally efficient.
4. Furthermore, acts of piracy in the form of infringement of rights are still regarded essentially as civil matters by investigative authorities and courts. Uniform treatment of product piracy within the EU as a criminal matter is urgently needed, since the sanctions are more effective and easier to enforce. We are aware that the EU has no competence for criminal law. Nevertheless, it could send out important signals to raise the awareness of national legislators to this problem. In addition, claims for damages are often difficult to enforce.

UNICE is of the opinion that the existing protection under civil law should be extended so that action can be taken against the infringing party as rapidly as possible.

Question 11

It will be seen from the response to question 10 that the existing measures and procedures are not effective in practice. In particular, the procedure for patent infringements promises little success.

Question 12

Customs authorities, on the basis of case law, sometimes reject application of the regulation for trademark rights which are not subject to exhaustion. An important tool for the injured party to enforce his rights is the principle of EU-wide exhaustion of trademark rights. This principle must be preserved for trademark protection and not extended world-wide.

Question 13

There is an industry-wide view that patents and trademarks offer effective protection in civil cases. For the textile and toy industries, to this can be added design law (copyright under English law). An inexpensive Community patent and Community design would strengthen protection.

IV. POSSIBLE SOLUTIONS

A. MONITORING BY THE PRIVATE SECTOR

Question 14

Very few sectors have market monitoring systems. The pharmaceuticals sector has product and/or turnover databases (IMS) from which conclusions about unauthorised activities can be deduced.

The question of whether monitoring systems would be desirable receives different responses depending on the sector. The textile industry rejects this solution since such a market monitoring system would be unworkable because of the wide range and frequency of new designs. New designs are usually put on the market at least twice a year. In this case, the companies in question try to monitor the market themselves.

Other sectors think that introduction of a monitoring system would be a very positive development. Given the dimension that the problem of piracy has progressively built up, appropriate monitoring systems to which the industries in question have access would be desirable. They should be both sector-specific and overarching, they should be crossborder but also country-specific.

Question 15

a) Public awareness campaigns and collection and dissemination of information in any form is useful for combating the problem. Databases may be a suitable tool in this case. One of our sectoral members (machine tools) has in past years performed a number of activities to raise public awareness, and these have proved their worth. Other companies report good reactions to publicity campaigns. Hence, public education can help to make the problem more manageable.

b) UNICE believes that only a long-term initiative at EU level will lead to success since business and industry are becoming increasingly international.

It must be made clear to consumers that pirated goods are not “bargains” but are based on criminal activities which damage the economy and – especially in the area of health – can be dangerous to the consumer. Regular publication of a report to help combat piracy could be considered as a flanking measure.

Question 16

Co-operation and exchange of information between the authorities and professional organisations could be reinforced by organisations providing the authorities with information. There could also be feedback from the authorities on the measures implemented, which would improve co-operation.

Co-operation agreements between the authorities and professional organisations is advocated. All in all, we believe that an intensive exchange of information is essential if piracy is to be combated properly.

Question 17

UNICE believes that the relevant authorities should continue to be responsible for combating piracy. However, an improvement in the legal framework for action by federations may be desirable, provided that these organisations represent their member’s collective interests, or that they are entitled by individual companies to act on their behalf.

Question 19

UNICE is of the opinion that national bodies are not able to be wholly effective, since they can usually take action only after counterfeits have entered national distributions channels. Some national customs authorities nevertheless have a good record in catching counterfeits at national borders. At international level, the World Customs Organization and professional organisations can perform very useful work in taking action at an earlier stage in the distribution chain.

B. The use of technical devices

Question 20

The answer to this question depends on the sector. Technical devices play no role for effective protection of designs. With very few exceptions, recognition of copies generally poses no problems.

In tools there are currently no technical devices to protect intellectual property rights. This is partly the result of the difficulty of putting such devices in place for manual tools and partly because copies of tools have sufficient features which clearly mark them out from the original. Efforts to inform consumers about the existence and function of such technical devices are regarded as particularly expensive and ineffective.

In electrical engineering and electronics, security against counterfeits can be provided, inter alia, by specially prepared stickers. However, use of this device does not appear to be very widespread. In chemicals, technical devices are sometimes used.

However technical devices are often very expensive and can in turn be counterfeited. This is particularly the case for products with relatively low manufacturing costs. It should also be borne in mind that training is needed at dealer level so that dealers on the periphery can recognise whether they are being offered an original or a pirated good.

Questions 21 and 22

UNICE believes that there is little merit in specific legislation for protection devices. However, giving legal force to such concepts might be useful (eg: the music industry's voluntary code system for CDs). UNICE is also of the opinion that there is no need to standardise rules for the protection of devices which are often subject to rapid technological change.

Question 23

It is difficult to describe the requirements for an ideal security device. On the one hand, it should be difficult for pirates to identify and, if identified, difficult to counterfeit. On the other hand, it should be possible to identify it simply and rapidly, and without a particular technical effort or special preliminary knowledge. It is almost impossible to marry these two criteria. In order to allow effective information to the consumer, far-reaching harmonisation of these security devices across several product groups is thought to be sensible. This harmonisation should be limited to the nature and functionality of the security device, while the specific characteristics should be individual to companies. Lastly, it is important that this should not make the goods more expensive.

C. Sanctions and other means of enforcing IPR

Questions 24, 25 and 26

UNICE believes that further improvements in implementation of intellectual property rights in the internal market are essential. For instance, it would be desirable to harmonise differences between national legal orders in EU countries in the area of product piracy. Thought could also be given to harmonising the provisions on unfair competition which would make it possible to act against slavish copies. Harmonisation would be particularly worth considering with regard to a harmonised patent (Community patent). Such a harmonised right should make it possible to enforce this right in a uniform manner and not depending on the different national legal orders.

This also applies for the Community design for which a regulation is currently being drafted and which will create a single EU right to protect designs. Here, too, a separate no-fault right to information is needed. This would make it possible to deal with the instigator in a chain of copying and/or piracy activities.

Altogether, sanctions at EU level would certainly be more effective than sanctions at the level of the individual state since piracy is usually organised on an international and transboundary basis, often with the aim of exploiting legal loopholes or weaknesses. It would be useful to close down sales points or production plants in extreme cases. But it should be remembered that this will not protect against the activity being restarted under a different guise. In addition, the tools needed for the production of counterfeit products could be confiscated.

Questions 27 and 28

UNICE believes that further improvements in implementation of intellectual property rights in the internal market are essential. Thought could be given, for instance, to improving or introducing the possibility of temporary injunctions in the different countries. Further dissuasive measures should also be considered. These might include publication of legally binding decisions across the entire region in co-ordination with the companies in question. Consideration should also be given to the possibility for rightholders to claim damages from landlords tolerating the presence, on their premises, of tenants who manufacture or commercialise articles infringing intellectual property rights.

In any event, distribution of copies should be impeded. Under no circumstances should seized products be passed on to third parties because this would ultimately harm the original manufacturer and support the pirates. Wherever cheap copies turn up, they generally damage sales of considerably more expensive original articles. Neither can it be countenanced that confiscated counterfeit pharmaceuticals should be passed on.

As an auxiliary measure, the right of legitimate owners of rights to information and accounts should be extended. The procedure under the Anton Piller order is regarded in some quarters as too expensive; reference is also made to the fact that the rightholder needs to prove that the infringing party acted with criminal intent.

Question 29

UNICE is of the opinion that publication of judgements is a suitable and effective instrument for combating counterfeiting because it has a dissuasive effect. In the interests of the affected companies, publication of judgements should be made dependent on the agreement of the companies and/or federations concerned.

Question 30

The rightholder's right to information is regarded by all industrial sectors as an essential condition for effective prosecution (see also question 9). It not only has proved its worth as a suitable measure for combating counterfeiting but is also the main condition for effective prosecution in many cases. The right to information must be separate and no-fault, i.e. not attached to any conditions. Misuse of the right to information for market research purposes need not be feared: this is proved unequivocally by experience with the separate and no-fault right to information in Germany.

We refer here to our response to question 9 which contains the wording of the German right to information. This right could go even further.

Questions 31, 32

Experience is very limited in view of the difficulties in obtaining effective cross-border injunctions and cross-border orders for enforcement of judgements. In those few cases where these have been obtained, they are almost impossible to enforce due to the delays in processing them through the court systems of the various countries involved. There are few difficulties in determining which court has jurisdiction, and national laws are often fairly similar in that they are TRIPs-compliant and have been harmonised to a large extent within the EU.

There are nevertheless difficulties in enforcing judgements against counterfeiters. Defendants may declare themselves bankrupt, move assets to other family members and resort to other financial subterfuges to avoid loss of assets and paying compensation. UNICE calls for greater assistance from courts, police and financial authorities in seizing the assets of counterfeiters.

In some countries it is not possible to intercept goods in transit. There are problems concerning goods in storage at "free" ports and zones. Such facilities should be prohibited in terms of intra-community trade.

Questions 33

UNICE is in favour of closer alignment of both criminal and civil national laws affecting counterfeiting and better co-operation over granting and enforcement of cross-border remedies, including injunctions.

D. Administrative cooperation between the competent authorities

Question 34

The question of whether there should be a single contact point in each Member State is answered differently by the companies UNICE represents. On the one hand, there are doubts as to whether this would make exchange of information easier. On the other hand, establishment of such a single contact point is welcomed to provide the industry in question with an experienced and informed discussion partner. This also applies for creation of a co-ordination group.

Questions 35, 36, 37 and 38

Co-operation between the national authorities responsible for combating counterfeiting and piracy in the single market is unsatisfactory at the present time. In particular, to our knowledge there is no co-operation between EU customs authorities, and there are no shared databases. Although efforts have started to build up the latter, it is unlikely that this goal will be achieved for several years.

Even in the case of co-operation between police forces and judiciaries, national borders have proved to be an obstacle. What is urgently needed here is establishment of supra-national co-operation to combat this most highly organised form of crime.

Questions 39, 40 and 41

As pointed out above, awareness of the extent of economic crime has not yet been sufficiently developed. In this context, training measures are sensible in order to raise this awareness among the investigating authorities. UNICE cannot judge whether or not staff exchanges between Member States would be successful. Against that, a practical guide for national authorities would be very helpful. Thought could be given to producing sector-specific guides.

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