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# **GREEN PAPER**

**Combating Counterfeiting and Piracy in the Single Market**

(presented by the Commission)

## Summary

Counterfeiting and piracy have grown into an international phenomenon accounting for between 5% and 7% of world trade. The phenomenon is affecting the proper functioning of the Single Market as, in addition to the deflections of trade and distortions of competition to which it gives rise, it is leading to a loss of confidence among business circles in the Single Market and to a reduction in investment. It has major repercussions not only at an economic and social level (100 000 jobs lost each year in the Community) but also in terms of consumer protection, especially as regards public health and safety. It is important, therefore, that measures be taken to combat the phenomenon in order that the transparency and equality of the conditions of competition in the Single Market might in particular be safeguarded.

Mindful of the importance of the fight against counterfeiting and piracy, the European Community has adopted specific rules aimed at policing external frontiers so as to keep out counterfeit and pirated goods. At Single Market level, it has also begun to take appropriate action but the steps taken so far concern only a limited number of specific sectors.

Under the circumstances, action by the Community may prove necessary in order to deal comprehensively with the phenomenon in the Single Market. Such action would be in keeping with the Commission's Action Plan for the Single Market as far as the coordinated, effective implementation of legislation is concerned, and with the Commission's 1998-99 work programme for the fight against fraud. It would also be consistent with the aims of the Commission's First Action Plan for Innovation.

The lines of approach explored in this Green Paper concern four areas in which the measures to combat the phenomenon in the Single Market may be improved upon:

- monitoring by the private sector;
- the use of technical devices;
- sanctions and other means of enforcing intellectual property rights; and
- administrative cooperation between the competent authorities.

The purpose of this Green Paper is to enable the Commission to assess the economic impact of counterfeiting and piracy in the Single Market, evaluate the effectiveness of the legislation in this sphere and decide whether new initiatives are called for at Community level. If they are, the kind of action to be taken might be based on the above lines of approach. The measures that might be taken do not have to be first and foremost of a legislative nature but may consist in transparency exercises or in measures to improve collaboration between firms and the authorities. These lines of approach are only a starting point for the forthcoming debate and may be supplemented by other means to the same end.

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## 1. INTRODUCTION

### 1.1. Background

Since the early 1980s counterfeiting and piracy have grown considerably to a point where they have now become a widespread phenomenon with a global impact. The phenomenon has gone hand in hand with the economic and political developments that have occurred during the past two decades, such as the steady growth of international trade, the internationalisation of the economy, the expansion of means of communication and the collapse of the political systems in central and eastern Europe and in the former Soviet Union, where new, highly active markets for the production and consumption of counterfeit and pirated goods have sprung up. It has fed on the growth of the information society and on the emergence of modern, sophisticated technologies which are easy to use for the purpose of copying products. To a large extent, the phenomenon comes under the heading of organised crime.<sup>1</sup>

According to the Counterfeiting Intelligence Bureau set up by the International Chamber of Commerce (ICC) counterfeiting accounts for between 5% and 7% of world trade in value terms.<sup>2</sup> In France, one out of every five firms with 50 or more employees admits to having been the victim of counterfeiting and piracy. The US copyright industry puts its losses due to piracy at between USD 12 billion and USD 15 billion a year. According to the International Federation of the Phonographic Industry (IFPI) sales of illegal compact discs increased by nearly 20% in 1996 and account for 14% of the relevant market at world level. The number of jobs lost through counterfeiting may be put at 100 000 a year for the Community (120 000 for the United States) over the past ten years. Of the industries hardest hit at world level, mention may be made of the data processing industry (35%), the audio-visual industry (25%), the toy industry (12%), the perfume industry (10%), the pharmaceutical industry (6%), the clock and watch industry (5%), the phonographic industry and the motor industry. In the software sector, the piracy rate has reached 46% at world level.

Owing to its scale, the phenomenon of counterfeiting and piracy has a damaging effect not only on businesses, national economies and consumers, but on society as a whole. It is much more than a blight on the economic and social order as it also affects public health and public security. The international community has not remained inactive in the face of this threat, but for various reasons the measures taken so far have not succeeded in stunting the phenomenon's growth.

The Action Plan to combat organised crime approved by the Amsterdam European Council on 16 June 1997 calls upon the Council and the Commission to "put in place common provisions to combat organised crime in the fields of economic and commercial counterfeiting".<sup>3</sup> Counterfeiting is also considered a matter that should receive priority in the Resolution laying down the work programme for cooperation in the field of justice and home affairs for the period from 1 January 1998 to the date of entry into force of the Treaty of Amsterdam.<sup>4</sup> The question of the falsification and counterfeiting of means of payment forms the subject-matter of separate Commission initiatives.<sup>5</sup>

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<sup>1</sup> Cf. Action Plan to combat organised crime adopted by the Council on 28 April 1997 (OJ C 251, 15.8.1997, p. 1).

<sup>2</sup> *Countering Counterfeiting. A guide to protecting & enforcing intellectual property rights*, Counterfeiting Intelligence Bureau, International Chamber of Commerce, 1997.

<sup>3</sup> OJ C 251, 15.8.1997, p. 15.

<sup>4</sup> OJ C 11, 15.1.1998, p. 1.

<sup>5</sup> In the area of the fight against fraud and the counterfeiting of non-cash means of payment, on 1 July 1998 the Commission adopted a communication comprising a draft Joint Action and an outline

## 1.2. The impact on the Single Market

Counterfeiting and piracy are detrimental to the proper functioning of the Single Market. They give rise to deflections of trade and distortions of competition, especially where they exploit national disparities. This state of affairs is not such as to ensure transparency and equality of conditions of competition in the Single Market.

The result is a loss of confidence among business circles in the single market. It is important for the success of the Single Market, however, that firms, inventors and artists should have confidence in the ability of Community legislation to help them expand and to safeguard their rights effectively.

This loss of confidence in the Single Market is leading to less investment and outlay on innovation and creativity by firms which frequently inject substantial amounts into research, marketing and advertising for their products or services. Dwindling investment has a direct impact both economically and socially, for example in the number of jobs offered by firms.

The counterfeiting and piracy phenomenon also has implications in terms of the protection of consumers who are the victims of deliberate deception as to the quality they are entitled to expect from a product bearing, say, a well known brand name. It may even have much more serious consequences where products are involved which endanger the health or safety of consumers.

## 1.3. Community initiatives

With a view to establishing the Single Market, the European Community has taken action in the intellectual property field mainly to harmonise existing national laws<sup>6</sup> or to create new rights. A number of current Community initiatives should shortly be adopted in this field. The difficulties stemming from the differences between the arrangements for protecting intellectual property rights in the single market should therefore gradually disappear.

The response in terms of means of combating the phenomenon at Community level must take account of the fact that counterfeiting and piracy may originate either outside the Community or within the Community itself.

So far, Community initiatives have concentrated on protecting external frontiers. Tightening the provisions in place since 1986,<sup>7</sup> on 22 December 1994 the Council adopted Regulation (EC) No 3295/94 laying down measures to prohibit the release for free circulation, export, re-export or

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of a global strategy for ensuring the security of non-cash transactions (COM(98)395). The issue of the falsification and counterfeiting of euro banknotes and coins is being addressed separately (cf. Commission communication to the Council, the European Parliament and the European Central Bank - Protection of the euro - Combating counterfeiting, COM(98)474 of 22 July 1998).

<sup>6</sup> In relation to trade marks, there is a Directive approximating Member States' trade mark laws. In relation to copyright and related rights, several Directives have sought to harmonise rightholders' rights, thereby affording them material protection and enabling them to monitor the exploitation of works and other objects throughout the Community. These Directives formed part of the follow-up to a Commission initiative which, among other things, set out in general terms the means of combating piracy in the Community (cf. Green Paper on copyright and the challenge of technology, COM(88) 172).

<sup>7</sup> Council Regulation (EEC) No 3842/86 of 1 December 1986 laying down measures to prohibit the release for free circulation of counterfeit goods, OJ L 357, 18.12.1986, p. 1.

entry for a suspensive procedure of counterfeit and pirated goods.<sup>8</sup> The Regulation is being amended with a view to tightening the substantive provisions.<sup>9</sup> These rules cover, however, only movements of counterfeit and pirated goods between third countries and the Community and do not deal with movements within the Community. Inasmuch as frontier controls are carried out by all Member States on the basis of a selective approach in order to strike a balance between facilitating international trade and combating fraud, it is entirely feasible that counterfeit or pirated goods may evade them and enter the Community fraudulently with a view to their subsequent sale.

Within the Single Market, the measures taken so far to ensure respect of intellectual property rights apply to specific sectors and are limited in scope. Mention may be made here of the proposal for a Directive on the harmonisation of certain aspects of copyright and related rights in the Information Society,<sup>10</sup> which contains provisions on obligations relating to technical measures and on sanctions and remedies. In this proposal, the provisions on sanctions and remedies are couched in very general terms. This being so, a Community initiative, possibly applying across the board, may be necessary to strengthen the means of ensuring that intellectual property rights are respected in the Single Market.

Such an initiative was already included in the Green Paper on Innovation<sup>11</sup> and again in the Commission's First Action Plan for Innovation in Europe,<sup>12</sup> where anti-counterfeiting measures feature among the actions to be taken to protect intellectual property. It would be in keeping, moreover, with the Commission's Action Plan for the Single Market,<sup>13</sup> one of the chief aims of which is to make legislation more effective, notably by ensuring that it is properly complied with.

Community action in this area would also be consistent with the Commission's 1998-99 work programme for the fight against fraud,<sup>14</sup> which expressly refers to the fight against counterfeiting and piracy as an area of action envisaged for strengthening the fight against economic crime. It is stated in the work programme that the Commission will, on the basis of an assessment of legislation in the fields concerned, propose legal instruments in order to strengthen, with its help, mutual provision of information and cooperation between Member States' specialised departments.

#### **1.4. Scope of the Green Paper**

Inasmuch as the terms "counterfeiting" and "piracy" often cover situations which differ considerably not only from one Member State to another but also in some cases within one and the same country, depending on the persons concerned, the meaning of these concepts for the purposes of this Green Paper must be clarified. The definitions given in Regulation (EC) No 3295/94<sup>15</sup> and in the TRIPs Agreement<sup>16</sup> are a starting point, but they do not suffice as they relate only to goods and certain intellectual property rights.

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<sup>8</sup> OJ L 341, 30.12.1994, p. 8. On 16 June 1995 the Commission adopted provisions implementing this Regulation (Regulation (EC) No 1367/95, OJ L 133, 17.6.1995, p. 2).

<sup>9</sup> COM(98)25 of 28 January 1998, OJ C 108, 7.4.1998, p. 63.

<sup>10</sup> COM(97)628 of 10 December 1997, OJ C 108, 7.4.1998, p. 6.

<sup>11</sup> COM(95)688 of 20 December 1995.

<sup>12</sup> COM(96)589 of 20 November 1996.

<sup>13</sup> CSE(97)1 of 4 June 1997.

<sup>14</sup> COM(98)278 of 6 May 1998.

<sup>15</sup> Cf. Article 1(2) of the Council Regulation (EC) No 3295/94 of 22 December 1994, referred to above. The Regulation is being amended (OJ C 108, 7.4.1998, p. 63).

<sup>16</sup> Cf. note to Article 51 of the Agreement, OJ L 336, 23.12.1994, p. 213.

In order that the phenomenon might be dealt with comprehensively, the concepts of counterfeiting and piracy as used in the Green Paper will cover all products, processes and services which are the subject-matter or result of an infringement of an intellectual property right (trade mark or trade name, industrial design or model, patent, utility model and geographical indication), of a copyright or neighbouring right (the rights of performing artists, the rights of producers of sound recordings, the rights of the producers of the first fixations of films, the rights of broadcasting organisations), or of the "sui generis" right of the maker of a database.<sup>17</sup> This wide scope will make it possible to cover not only the case of products which are copied fraudulently ("fakes"), but also the case of products which are identical to the original but which are made in the Community without the rightholder's consent, such as products resulting from an exceeding of the production run authorised by the rightholder. Piracy in the services sphere will cover mainly broadcast services and services linked to the development of the information society.

The concepts do not, however, cover acts which may sometimes be equated by the layman with counterfeiting or piracy, such as acts coming solely under the heading of unfair competition or parasitism which do not directly affect an intellectual property right (e.g. look-alike products). Acts which do not constitute infringements of an intellectual property right, such as acts covered by the principle of the Community exhaustion of rights, likewise do not fall within the scope of this Green Paper.

Where they do come within the above-mentioned scope, the activities covered by this Green Paper may encompass highly diverse situations such as the manufacture, distribution, holding for commercial purposes and importation into the Community or exportation to third countries of counterfeit or pirated goods, or the pirating of services and the supply of pirated services.

### **1.5. Object of the Green Paper**

The object of this Green Paper is to:

- assess the economic impact of counterfeiting and piracy in the Single Market;
- review the existing legislation in this field, while at the same time identifying the problems and the improvements to be made on the legal front; and
- examine the need for Community action in this sphere in the light of the objectives of the Single Market.

Various lines of approach involving the four specific areas of monitoring by the private sector, the use of technical devices, sanctions and other means of enforcing intellectual property rights, and administrative cooperation between competent authorities will be explored. These lines of approach could be translated into practice by the Commission in the exercise of its powers and with due regard for the principle of proportionality, on the basis of comments received from interested parties.

The questions put in this Green Paper are intended to enable the Commission to form as comprehensive a view as possible of the situation and to clarify it through such measures as it may take at the end of the consultation exercise.

The Commission invites interested parties to play an active part in the consultation process, which will be wide ranging, and to answer the questions put in this Green Paper. Any

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<sup>17</sup> Cf. Articles 7 *et seq.* of Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases, OJ L 77, 27.3.1996, p. 20.

contributions sent to the Commission will be treated in confidence and will not be published without the author's explicit agreement.

## 2. NATURE AND CHARACTERISTICS OF THE PHENOMENON

Counterfeiting and piracy in the Single Market are a phenomenon the nature and characteristics of which are little understood, although the feedback from rightholders and the seizures carried out by the authorities do provide valuable background data especially on the channels used. The information currently available is too incomplete to give an overall picture of the nature and characteristics of the phenomenon in the Single Market. A comprehensive, accurate assessment is therefore a *sine qua non* for any Community action tailored to providing a suitable response.

The first point needing clarification concerns acts in the Single Market which may be described as acts of counterfeiting and piracy. Such acts may take many forms. They may consist, for example, in affixing a trade mark to a fraudulently manufactured product bearing little resemblance to the genuine article, or in reproducing a product perfectly without the rightholder's consent. Different sorts of counterfeiting and piracy may call for different responses. What is more, some acts of counterfeiting and piracy may be committed outside the territorial limits of the single market. Account must therefore be taken of acts committed in non-Community countries and of the weapons at the Community's disposal, such acts being considered acts of Community counterfeiting or piracy where the epicentre of the phenomenon - as characterised by the effect on intellectual property law - is located in the single market.

As regards the sectors hit by the phenomenon, infringers are no longer targeting only luxury goods with a prestigious reputation (perfumes, watches, leather goods and other accessories) but a wide range of sectors. Illegal activities are also common in the copyright field, especially in relation to sound and video recordings, and, in recent years, in the information technology field. Customs operations have revealed that the phenomenon may also affect such highly diverse sectors and goods as spectacles, fountain pens, garden gnomes, garden furniture, playing cards, biscuits, circuit breakers and even saucepans.<sup>18</sup> Counterfeiting is also rife in sectors involving products which are highly sensitive from the point of view of public health and safety, such as medicinal products, medical equipment, toys, and spare parts for cars<sup>19</sup> and aeroplanes. It is important, therefore, to know exactly which sectors are affected by the phenomenon in the single market as products may be involved which are attended by risks from the point of view of public health and safety where technical and safety standards are not met.

A further factor to be taken into account is the activities and conduct through which the phenomenon manifests itself in the Single Market. It may take the form of the manufacture of goods in infringement of an intellectual property right; the marketing, distribution, import and export of those goods; the provision of services; or the use or affixing of a trade mark without its proprietor's consent. Here too, the response to the phenomenon will depend to a large extent on such information. As regards the Member States concerned, there are at present no precise data indicating that such and such a Member State is more badly hit than the others by counterfeiting or piracy. It is entirely conceivable that infringers may avail themselves of differences between national laws. Precise information is needed in order to discover the patterns of counterfeiting and piracy and hence the weak points in the Single Market. In the case of counterfeit or pirated goods and services coming in particular from non-member countries, it may be interesting to

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<sup>18</sup> Commission report on the implementation of Regulation (EC) No 3295/94, COM(98)25 of 28 January 1998.

<sup>19</sup> In the motor vehicle sector counterfeiting concerns both body parts (panels) and mechanical components (brake pads; engine, steering and suspension components; tyres).



know the country of provenance or origin of the goods or services in question so as to be able to take preventive measures.

In view of the diversity of intellectual property rights, it is essential to know which of those rights are infringed most frequently. A description of the conditions under which acts of counterfeiting and piracy are committed (distribution channels, permanent or seasonal nature of the phenomenon, etc.) would also make it possible to modulate the response to the phenomenon in the Single Market. It would appear from the information already available that there are two channels for counterfeiting and piracy: clandestine channels and normal commercial channels. The clandestine channels are by definition organised outside the regular market (black market), i.e. in the street, in markets, by correspondence or via the Internet. There are also normal commercial channels, as, for example, in the motor industry. Despite being tightly regulated at Community level, the market in medicinal products is also a victim of the phenomenon, affecting mainly exports to third countries. In some respects, counterfeiting and piracy are already considered activities falling under the heading of organised crime,<sup>20</sup> which uses them as a means of recycling and laundering the proceeds of other unlawful activities (arms, drugs, etc.).

Questions:

1. Do you agree with the approach concerning the scope of this Green Paper or do you think that other acts should also be covered and, if so, which?  
  
In which sectors or sub-sectors of industry do counterfeiting and piracy manifest themselves?  
  
What, in your opinion, are the causes of the phenomenon?
2. Do you encounter the phenomenon:
  - at the manufacturing stage?
  - at the distribution stage?
  - at the time of intra-Community trade in goods imported beforehand into the Community in an irregular manner from a third country?
  - in connection with the provision of services?
  - or at some other stage (please specify)?
3. Can you indicate, for each of the stages in question, in which Member State(s) or, where appropriate, in which region of a Member State of the European Community the phenomenon manifests itself?  
  
Can you name the country of provenance or origin of the goods or services in question?

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<sup>20</sup> Cf. Action plan to combat organised crime adopted by the Council on 28 April 1997 (OJ C 251, 15.8.1997, p. 1), referred to above.

4. Can you specify, in each case, the rights that are affected (trade mark, design or model, patent, copyright or neighbouring right, "sui generis" right of the maker of a database, etc.)? For each category of rights, specify, if appropriate, the right concerned.
5. Can you describe briefly the conditions under which such acts of counterfeiting and piracy are committed (distribution channels, permanent or seasonal nature, etc.)?
- As far as you are aware, are there any links between such acts and other forms of criminal activity, including organised crime?

### 3. ECONOMIC ANALYSIS: SCALE AND CONSEQUENCES OF THE PHENOMENON

Whereas data exist at world level, the scale of the counterfeiting and piracy phenomenon in the Single Market is not easy to determine. Numerous professional organisations at national, European and international level draw up estimates of the phenomenon on a fairly regular basis. While they afford a better insight into the phenomenon, these estimates give no more than a general idea of the scale of the problem. Similarly, although police and customs actions and seizures show only part of the picture, they seem to indicate that counterfeiting and piracy are very much on the increase, both within the Community and elsewhere. It is therefore essential to have more precise information about the scale of the phenomenon in the Single Market compared with legitimate trade before contemplating any Community action in this area.

The position with regard to the consequences of counterfeiting and piracy in the Single Market is likewise unclear, such consequences being difficult to quantify. From the point of view of the economic and social consequences, the counterfeiting and piracy phenomenon leads in the case of firms, many of which invest considerable sums in research, marketing and advertising, to a reduction in turnover and the loss of often hard-won market share, not to mention the non-material losses and moral prejudice which they suffer as a result of the damage to their reputation. Clearly, if firms cannot earn a sufficient return on their investment in R&D etc., creativity and innovation will suffer in the Community. The consequences in the compact disc sector<sup>21</sup> and in the medicinal products sector<sup>22</sup> are revealing. From a social point of view, the damage suffered by firms is reflected in the last analysis in the number of people they employ.<sup>23</sup>

The phenomenon also has major economic and social consequences for national economies. It results in a loss of revenue to the State or to the Community (customs duties, VAT) and can give rise to numerous infringements of labour legislation where the counterfeit or pirated goods are

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<sup>21</sup> In the compact disc sector, pirates incur no recording expenses, pay no licence fees or royalties to artists and do not have to purchase any reproduction rights. Nor do they incur any promotion costs or any costs connected with producing the accompanying literature or the packaging material, these being paid for by the record company. Because the cost of distribution is much lower in the case of pirated products, the unit cost to the pirate is some 60% less than to the lawful distributor. And pirates bear no commercial risk as they usually concentrate on best-sellers.

<sup>22</sup> In the medicinal products sector, a counterfeiter who manages to discover a product's composition saves on the cost of research, which is particularly high in this sector. He can therefore manufacture and sell the product at very competitive prices. He can cut his costs still further by reducing the product's strength or in some cases even by replacing the constituents with something entirely ineffective. As a result of modern printing technology, packaging and labelling costs are fairly low.

<sup>23</sup> According to a recent survey by KPMG, Union des Fabricants and Sofres, the number of jobs lost in France through counterfeiting comes to about 38 000 (*Les Echos*, 28 January 1998). According to a study by Price Waterhouse, a 10% reduction in piracy in the software sector, i.e. the level in the United States, would create more than 250 000 jobs in Europe by 2001 (*Blick durch die Wirtschaft*, 28 May 1998).

made in sweatshops by undeclared workers. The phenomenon is a serious threat to economies in general as it may destabilise the markets, including such fragile markets as that in textiles, which it attacks.

Counterfeiting and piracy likewise have damaging consequences for consumers. They generally involve deliberately deceiving the consumer about the quality he is entitled to expect from a product bearing, for example, a well-known trade mark. When he buys counterfeit or pirated goods outside the legitimate trade, the consumer does not as a rule receive any after-sales service or enjoy any effective recourse in the event of damage or injury. In addition to the harm it does to the economy, the phenomenon is a veritable danger to society as a whole inasmuch as it may affect public health (counterfeiting of medicinal products, adulterated alcoholic beverages) and safety (counterfeiting of toys or of car or aircraft components).

#### Questions:

6. Do you have any accurate data on the scale of the counterfeiting and piracy phenomenon in the sectors concerned and, if so, which?

Compared with the legitimate trade, for what proportion of all trade does the phenomenon account?

7. Can you furnish any accurate data on the economic and social consequences of the phenomenon in the sectors concerned:

- for firms (job losses, reduction in turnover, etc.)?

- for national economies (clandestine work, loss of tax revenue, etc.)?

Can you furnish any accurate data on the phenomenon's consequences in terms of consumer protection (health, safety, etc.)?

Where counterfeiting and piracy also give rise to other unlawful activities (in the social and tax sphere, etc.), can you quantify the share of these other activities accounted for by the phenomenon?

#### **4. LEGAL ANALYSIS**

The substantive legislation on intellectual property stems, at the international level, from the work of the World Intellectual Property Organisation (WIPO) and from that of the World Trade Organization (WTO), within which the TRIPs Agreement was drawn up. For its part, the Community has taken steps to harmonise national laws and to create new rights, not only to comply with international requirements, but also to bring about a fully integrated Single Market. Member States have had to adapt their legislation in this sphere but there still remain, for certain aspects of intellectual property law, differences between laws as a result of their having evolved in the legal environment peculiar to each Member State.

A preliminary response to counterfeiting and piracy consists in improving the substantive provisions on intellectual property. Besides harmonising intellectual property laws, the creation of unitary rights in the intellectual property field, as has already happened in the case of the Community trade mark,<sup>24</sup> is likely to reduce to some extent the risks of counterfeiting and

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<sup>24</sup> Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark, OJ L 11, 14.1.1994, p. 1.

piracy. Unitary rights enjoy uniform protection and take effect throughout the Community. They thus make for greater transparency and make markets more homogenous and easier for the holders of unitary rights to monitor. Thanks to a unitary system, the difficulties due to the differences between national protection arrangements disappear. Continuation of the work on creating unitary rights is, therefore, one of the possible responses to the counterfeiting and piracy phenomenon in the Single Market. The response in relation to substantive issues is not necessarily uniform and may vary according to the intellectual property rights concerned. It may be limited and consist in some cases in extending the harmonisation with a view, for example, to clarifying certain aspects which have formed the subject-matter of divergent interpretations by the courts.

Another way of dealing with counterfeiting and piracy would be to take action with regard to the measures and procedures for enforcing intellectual property rights. From this point of view, the TRIPs Agreement contains a number of minimum provisions which every WTO member must take into account. So far, the measures taken by the Community under the Agreement have concerned controls at the Community's external frontiers. A degree of de facto harmonisation has taken place between Member States' laws as far as the other aspects covered by the TRIPs Agreement are concerned. As to those aspects which are not covered by the TRIPs Agreement, each Member State regulates the control and prevention of the phenomenon itself, with the result that the position varies, sometimes substantially, from one country to another. The activities of counterfeiting and piracy, which are transnational in nature and which are becoming more highly organised and more professional by the day, cannot, however, be dealt with effectively at the level of a single country. It is important, therefore, that the effectiveness - both practical and otherwise - of existing measures and procedures be assessed and that thought be given to improving them. In this context, certain specific national provisions which have proved their worth should be taken into account. In some sectors where fashion plays a role and where most sales are made during a relatively short period, it is questionable whether the measures and procedures for combating counterfeiting and piracy are effective enough to permit speedy action.

Although the situation is not covered by the Community rules on the control of counterfeit and pirated goods at the external frontier,<sup>25</sup> it is appropriate as part of this Green Paper exercise to assess the means at the disposal of the rightholder in the single market of enforcing his intellectual property right in the case of goods manufactured lawfully outside the Community but imported into the Community without his consent ("parallel imports"). This assessment is not, of course, intended to call into question the principle of the Community exhaustion of rights, which has been clearly established by the Court of Justice of the European Communities<sup>26</sup> and integrated into Community law.<sup>27</sup> It must also take account of the situation peculiar to each intellectual property right.

#### Questions:

8. In general, what in your experience is the main problem encountered with the existing legal arsenal for fighting counterfeiting and piracy?

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<sup>25</sup> Cf. Article 1(4) of Council Regulation (EC) No 3295/94 of 22 December 1994, referred to above.

<sup>26</sup> Cf. Case 187/80 *Merck v Stephar* [1981] ECR 2063.

<sup>27</sup> Cf. Article 7(1) of the first Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, OJ L 40, 11.2.1989, p. 1.

9. In your view, is the national, Community and international substantive legislation on intellectual property up to the task of preventing counterfeiting and piracy in the Single Market? Please distinguish, if necessary, between the intellectual property rights in question.

If the answer is in the negative, what improvements should, in your opinion, be made?

In particular, do you think that certain national and international substantive provisions need supplementing at Community level? If so, which? Please distinguish once more between the intellectual property rights concerned.

Are there, in your view, any aspects needing clarification in the light of the case-law of domestic courts?

10. Are, in your opinion, the national, Community and international provisions concerning measures and procedures for enforcing intellectual property rights up to the task of preventing and punishing infringements in the Single Market?

If not, what improvements should be made?

Do you think that certain measures and procedures existing at national and international level need supplementing at Community level? If so, which? Please distinguish between the intellectual property rights concerned.

11. Are the measures and procedures applied effective from a practical point of view?

If not, what corrections and changes should be made? Please distinguish between the intellectual property rights concerned.

In sectors where fashion plays a role, are in your experience the measures and procedures for combating counterfeiting and piracy effective enough to permit speedy action?

12. In the case of goods manufactured lawfully outside the Community but imported into the Community without the consent of the rightholder in the Community ("parallel imports"), are the means at the latter's disposal of enforcing his intellectual property right in your view sufficient?

If not, what improvements might in your view be made?

13. In your area of activity, if you have the choice between a number of intellectual property rights in judicial proceedings, which in your experience affords the most effective protection? Please distinguish, if necessary, between the countries concerned.

## 5. POSSIBLE SOLUTIONS

In order to combat counterfeiting and piracy effectively, horizontal measures may be envisaged. These may centre on four areas: monitoring by the private sector, the use of technical devices, sanctions and other means of enforcing intellectual property rights, and administrative cooperation between the competent authorities.

### 5.1. Monitoring by the private sector

Most monitoring is carried out privately by national, European or international professional associations or organisations, such as manufacturers' associations, trade mark proprietors'

associations and collecting societies. It generally consists in observing market trends, advising and supporting the industries concerned, collaborating with the authorities (customs, police, the courts, etc.), monitoring suspect activities and detecting acts of counterfeiting and piracy, keeping the public informed and, where necessary, convincing the government of the need to amend the law. This is often highly effective when it comes to combating counterfeiting and piracy. The monitoring done by the private sector must, however, comply with Community competition rules. These rules are of decisive importance to the establishment of a competitive single market, which includes the goods and services covered by intellectual property rights. The Commission will intervene with determination in case of any suspicion that these rules have been infringed. The proposals which follow must accordingly be read subject to this reservation.

### *Market monitoring*

Market monitoring is an important means of detecting acts of counterfeiting and piracy and of taking suitable countermeasures in terms of prevention and punishment. The effectiveness of such monitoring depends, of course, to a large extent on the size of the relevant market and the number of players in the market. If the number of players is small, the market will be easier to monitor. In the CD sector, for instance, a system for identifying CDs has been introduced, making it possible to detect the source of the piracy. The effectiveness of existing monitoring systems must therefore be assessed at single market level, and where there is no such system in a given sector the need for introducing one must be evaluated.

#### Questions:

14. In your area of activity, is there a market monitoring system for detecting cases of counterfeiting and piracy?

If so, does it function satisfactorily?

If not, what improvements should in your view be made? Should these improvements be sought at Community level? If so, why?

If there is no market monitoring system in your sector, do you think that the introduction of such a system would contribute effectively to the fight against counterfeiting and piracy in the Single Market? If so, should the system be introduced at Community level, and why?

### *Strengthening of cooperation*

The activities engaged in by these organisations with a view to combating the phenomenon, particularly that of collecting information, could be supported at either national or Community level and encouraged. This could take the form of, say, help from the authorities responsible for combating counterfeiting and piracy in supplying data for the existing databases managed by the organisations or of the setting-up of a central database to which data could be supplied both by the organisations and by the above-mentioned authorities. In both cases, care would have to be taken to ensure that the rules on confidentiality and the protection of personal data are complied with. The creation of such organisations might be promoted where there are none and support might be given to efforts to bring or group them together.

The exchanging of experience between professional organisations and the departments responsible for combating counterfeiting and piracy<sup>28</sup> might also be encouraged, as might the introduction by the authorities, in conjunction with those organisations, of training modules for the staff of the departments responsible for combating the phenomenon. The FALCONE programme<sup>29</sup> might back up such actions by providing financial support for Europe-wide projects. Support might also be provided for public awareness and information campaigns, as these play a major preventive role.

The cooperation between the authorities and this type of organisation, notably for the exchanging of information, might be placed on a more formal footing and take the form of memoranda of understanding. The organisations would thus undertake to communicate to the authorities any information they obtained either directly or through their members concerning cases of counterfeiting or piracy, while the authorities would supply, subject to the rules of confidentiality and to the extent allowed by law, information on any cases of counterfeiting or piracy that are discovered in order to enable the organisations or their members to take speedy action, if necessary through the courts.

#### Questions:

15. Do you think that promoting the activities of professional organisations, such as public awareness campaigns or the gathering and dissemination of information, is likely to improve the fight against counterfeiting and piracy in the Single Market?

Would a Community initiative in this sphere be appropriate?

In this connection, what do you think, for example, of the setting-up of a central database or a strengthening of existing databases, subject to the rules on protection?

Are you of the opinion that any Community initiatives aimed at encouraging the formation or amalgamation of such organisations would be likely to improve the fight against the phenomenon?

16. How, in your opinion, might reciprocal cooperation and information exchange between the authorities and professional organisations be strengthened?

For example, is in your experience the conclusion of memoranda of understanding between the authorities and professional organisations in these areas likely to make a useful contribution to the fight against the phenomenon?

#### *Improvement of the legal framework*

Such organisations often carry out monitoring and survey work on behalf of their members. An extension of the powers vested in organisations involved in the fight against counterfeiting and piracy might also be considered in order to enable them to institute legal proceedings in the defence of the collective interests for which they are responsible. On a more general level, the establishment of a legal framework for the actions which anti-counterfeiting and piracy organisations may have occasion to take might be considered. This could result in organisations'

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<sup>28</sup> Depending on the country, either the customs authorities transmit, in the event of the discovery of counterfeit or pirated goods, the file to the police, who then conduct an enquiry, or else the customs themselves have investigatory powers (United Kingdom, Germany).

<sup>29</sup> Joint Action of 19 March 1998 adopted by the Council, on the basis of Article K.3 of the Treaty on European Union, establishing a programme of exchanges, training and cooperation for persons responsible for action to combat organised crime, OJ L 99, 31.3.1998, p.8.

operations being redefined *inter alia* along the lines of an ad hoc involvement in supervisory authorities' monitoring operations.

Questions:

17. In your experience, is the scope for action in the field by professional organisations involved in the fight against counterfeiting and piracy sufficient for them to combat the phenomenon effectively?
- If not, do you think that the establishment of a legal framework for those organisations' actions, in order, for example, to involve them more closely in the work of national authorities, would make it possible to render the fight against the phenomenon more effective?
- If so, how should this be achieved?
18. In your opinion, do such professional organisations play a big enough role in legal proceedings?
- Do you think, for example, that an extension of their powers to enable them to institute legal proceedings in the defence of the collective interests for which they are responsible is likely to improve the fight against the phenomenon in the Single Market?
- If so, what requirements ought to be satisfied (ability to show an interest in acting, etc.)?
19. In your experience, which national or international bodies or which professional organisations are the most effective in combating counterfeiting and piracy?

## 5.2. The use of technical devices

One of the means of combating counterfeiting and piracy at the disposal of the holders of intellectual property rights is the use of technical devices to protect and authenticate their products or services. Technical devices may take many forms: security holograms, optical devices, chip cards, magnetic systems, biometric codes, special inks, microscopic labels, etc. These technical devices facilitate the prosecution and punishment of counterfeiting and piracy. Through them, unlawful uses of works, products or services can easily be traced back to source, so that infringers can be found and prosecuted more effectively. However, although technical devices act as a filter for the most obvious counterfeit or pirated goods, they do not as a rule defeat the most highly organised infringers, who succeed in turn in reproducing the devices. Such devices must therefore enjoy suitable legal protection to prevent them from being infringed, manipulated or neutralised.

There are international obligations in the field of copyright and neighbouring/related rights<sup>30</sup> concerning legal protection against the neutralisation of technical measures which may be invoked by rightholders in the exercise of their intellectual property rights and which restrain the performance of acts not authorised by the rightholder or allowed by law. At Community level,

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<sup>30</sup> Cf. Article 11 of the WIPO Copyright Treaty and Article 18 of the WIPO Performances and Phonograms Treaty. Both treaties were adopted by the Diplomatic Conference on Certain Copyright and Neighbouring Rights Questions, which was convened under the auspices of WIPO in Geneva on 20 December 1996.



the Commission has taken steps in the intellectual property field<sup>31</sup> to ensure that certain unlawful activities involving technical devices are prohibited in Member States.

### *Effectiveness of technical devices*

If current Community initiatives in relation to intellectual property are to be discussed in the appropriate fora, one question that will need to be addressed is whether the technical devices used in the industrial property field are adequately protected or whether their protection needs to be ensured or strengthened, for example through a Community initiative aimed at prohibiting in the Member States certain commercial activities relating to unlawful technical devices (manufacture, import into the Community, sale, possession, installation, maintenance, replacement, advertising, etc.).

On the other hand, technical devices for authenticating or otherwise protecting goods and services must not be misused for the purpose of partitioning markets and controlling parallel imports. The Commission will not tolerate any infringement of Community law, and in particular of the rules on the Single Market or on competition, which might result from the use of such technical devices.

#### Questions:

20. Do you have recourse to specific technical devices to protect your industrial property rights? If so, which?

Do the devices afford effective protection? If not, what problems arise? How much do they cost?

21. In your view, is the legal protection of these devices sufficient to prevent activities enabling or facilitating the unauthorised infringement, manipulation or neutralisation of the devices?

Is such protection afforded at the level of each firm, of the industry itself or by law and regulation?

22. As far as the role of the authorities is concerned, do you think that standardisation of the rules for the protection of technical devices would be an adequate response to unlawful activities?

If not, what alternative would you suggest?

Without prejudice to the initiatives that are being considered at Community level in the intellectual property field, would you be in favour of an initiative at European Union level in the industrial property field aimed at prohibiting in general in the Member States activities such as the manufacture, import into the Community and sale of unlawful technical devices?

### *Contribution made by research and development programmes*

The Commission's research and development programmes may help to come up with solutions to the problem of the use of technical devices. It would be useful, therefore, to have at one's disposal information, in particular on the nature (role, functions) of the technical devices considered desirable by the circles concerned, making it possible to define more closely certain

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<sup>31</sup> Cf. Article 6 of the proposal for a Directive on the harmonisation of certain aspects of copyright and related rights in the Information Society (referred to above).

R&D actions of the Fifth Framework Programme, notably Key Action 2 of the specific research, technological development and demonstration programme in the "User-friendly information society" (1998-2002) field.<sup>32</sup> This information could thus be taken into account in planning specific R&D actions.

Questions:

23. To the extent that you think that the use of technical devices might help protect your intellectual property rights:

- What, in your opinion, should be the ideal nature and functions of a technical device capable of meeting your needs? (Your reply need not necessarily reflect the current state of the available technologies, but may simply list the desired functions).

- Could you describe the ideal scenario in which a technical device meeting your needs might be used?

- Do you consider it desirable that technical protection devices should be standardised? If so, at what level? If not, why not?

### **5.3. Sanctions and other means of enforcing intellectual property rights**

Besides promoting monitoring activities by the private sector and the protection of technical devices, it is also necessary to assess the need for and feasibility of Community initiatives in relation to sanctions and other means of enforcing intellectual property rights. It must be asked whether measures and procedures over and above those laid down in the TRIPs Agreement for enforcing intellectual property rights,<sup>33</sup> which measures and procedures form the basis common to all EC Member States in this sphere, must be envisaged in order to improve and strengthen the fight against counterfeiting and piracy in the Single Market. In this connection, account must be taken of certain domestic-law provisions which have stood the test of time. It goes without saying that any sanctions and other means of enforcing intellectual property rights envisaged at Community level will have to accord with the general principles of law such as, for example, proportionality and respect for privacy.

#### *Criminal proceedings and penalties*

All Member States provide by law that counterfeiters and pirates are in principle liable to criminal penalties, but the level and severity of the penalties vary considerably from one Member State to another. For certain types of right, no criminal penalty is provided for. Some Member States have, however, been tightening up the criminal law in respect of counterfeiting and piracy in recent years. Criminal proceedings have certain advantages over civil actions (greater dissuasive effect, more effective gathering of evidence, etc.). The effectiveness of existing preventive measures and punishments in the Single Market and possible improvements thereto therefore needs looking into. In so far as both counterfeiting and piracy give rise in most instances to a chain of successive operations, it is important to know whether all the links in that chain, from the manufacturer through the middleman to the reseller, are caught by the applicable legislation. Another important question is whether the disparities that exist between Member States can have an impact on the localisation of counterfeiting and piracy activities in the Single Market.

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<sup>32</sup> Proposal for a Council Decision presented by the Commission on 10 June 1998, OJ C 260, 18.8.1998, p. 16.

<sup>33</sup> Cf. Articles 41 to 61 of the TRIPs Agreement.

The Community, for its part, must see to it that Community legislation is properly implemented and hence cannot but take a hands-on approach to the prevention and punishment of infringements of Community law. The Commission has already had occasion to demonstrate the need for taking measures, in particular in the form of penalties, to ensure the smooth operation of the Single Market, *inter alia* in the field of the protection of industrial and commercial property, in its 1995 communication.<sup>34</sup> Following that communication, on 29 June 1995 the Council adopted a resolution<sup>35</sup> calling on Member States to punish breaches of Community law with the same severity as non-compliance with national law and encouraging the Commission to continue studying these matters and to present proposals if necessary. Standard clauses on penalties have since been included in regulations and directives proposed by the Commission in the intellectual property field.<sup>36</sup>

Other law enforcement means may also be contemplated. Some national laws contain, for example, special provisions laying down stronger criminal penalties. These measures seem to be highly effective in combating counterfeiting and piracy. They include the partial or complete closure for a certain period of the shop or other establishment where the unlawful act was committed. One solution might be to extend such measures to the whole Community.

#### Questions:

24. Given that the TRIPs Agreement, which has been implemented in the Member States, provides for the introduction of criminal procedures and penalties to be applied in certain cases, do you think that further improvements are needed to ensure compliance with intellectual property rights in the Single Market?

If so, which?

Is the law as it stands capable of dealing with the various links in a counterfeiting or piracy chain? If not, what provisions should in your view be introduced in order to catch the real culprits?

In your opinion, do the disparities that exist between Member States have an impact on the localisation of counterfeiting and piracy activities in the Single Market?

25. In the interests of uniform application of the law in the single market, does the introduction, on top of national penalties, of penalties at Community level strike you as an effective means of combating counterfeiting and piracy in the Single Market?

26. If not, what other means could be employed?

For example, do you think that closure of the shop or other establishment where the unlawful act was committed is an appropriate, effective measure?

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<sup>34</sup> Communication on the role of penalties in implementing Community internal market legislation, COM(95) 162 of 3 May 1995.

<sup>35</sup> Council resolution on the effective uniform application of Community law and on the penalties applicable for breaches of Community law in the internal market, OJ C 188, 22.7.1995, p. 1.

<sup>36</sup> Cf., for example, Article 8 of the proposal for a Directive on the harmonisation of certain aspects of copyright and related rights in the Information Society (COM(97)628), referred to above.

To enforce their intellectual property rights, rightholders have at their disposal at national level a number of legal measures and procedures, of both a provisional and a permanent nature, which they can resort to in case of infringement. Although these measures and procedures pursue similar objectives in all Member States, bound as they are by the TRIPs Agreement, the practical arrangements sometimes differ substantially from one Member State to another.

Being more speedy and effective than the measures available once the case comes to court, provisional measures make it possible (a) to prevent an act of counterfeiting or piracy from being committed or continued and (b) to safeguard the evidence.<sup>37</sup> They are normally without prejudice to the outcome of the main proceedings. Provisional measures, including, where appropriate, those taken in non-contentious proceedings, exist in principle in all Member States.<sup>38</sup> Nevertheless, owing to the different traditions and approaches followed in the Member States, there are major differences between national systems in terms of procedural arrangements and frequency of use of these legal remedies.

The acquisition and safeguarding of evidence is an important factor in the fight against counterfeiting and piracy. From this point of view, the procedure known in English law under the name of "Anton Piller order" and the French procedure of *saisie-contrefaçon* may constitute highly effective means of obtaining and preserving evidence. Such measures, intended as they are to preserve evidence both before and after a case comes to court, unquestionably make an effective contribution to the fight against counterfeiting and piracy.

The various measures that may be sought in main proceedings or interim proceedings concern *inter alia* the cessation of the infringement while it is being committed or the prevention of future infringements, injunctions and damages. Applications for the cessation of infringements and the prevention of new infringements may be lodged in all Member States. They oblige the infringer to cease any continued interference due to the counterfeiting. The interference that must cease relates both to the goods themselves and to the means of their production. Although the underlying principles are identical, there are differences in the rules of application, for example as regards the taking into account of the interests of third parties, the way in which the goods at issue are to be eliminated (destruction, reexportation, etc.) or the conditions under which the elimination of the means used to produce the goods may be ordered. The Dutch courts, for example, have developed an interesting approach consisting of requiring the infringer to recall the goods at his own expense.

Injunctions are the instrument most widely used in the Member States to prohibit an infringer from repeatedly infringing an intellectual property right. Failure to comply with an injunction is punishable by specific penalties, usually a fine payable either to the State or to the person seeking the injunction. The infringer may be required to pay damages to the rightholder to make good the loss or damage caused by the infringement of the intellectual property right. The amount of damages, which are generally awarded even in the absence of fault, is often considered by practitioners to be too small to compensate properly for the loss or damage suffered.

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<sup>37</sup> According to the definition given by the Court of Justice of the European Communities, provisional or protective measures within the meaning of Article 24 of the Brussels Convention must be understood as being "*measures which, in matters within the scope of the Convention, are intended to preserve a factual or legal situation so as to safeguard rights the recognition of which is sought elsewhere from the court having jurisdiction as to the substance of the matter*" (Case C-261/90 *Reichert* [1992] ECR I-2149).

<sup>38</sup> Cf., for example, the *kort geding* procedure in the Netherlands and the *procédure en référé* in France.

While these measures and procedures are common to all Member States, the details obviously differ from one Member State to another. There is therefore a need for evaluating their effectiveness in the Single Market and considering what improvements may be made, for instance by extending those of these measures and procedures which have proved effective in some Member States.

Questions:

27. Given that the TRIPs Agreement, as implemented in the Member States, provides for the introduction of effective, dissuasive measures and procedures, do you think that further improvements should be made to ensure that intellectual property rights are respected in the Single Market?

If so, what improvements?

Of the existing legal measures and procedures, which in your experience are the most effective?

On the issue of what to do with goods held to be counterfeit or pirated, what do you think to the idea of giving them to charity rather than systematically destroying them? On what terms should this be done?

28. What do you think of the idea of extending in the European Community, in order to combat counterfeiting and piracy, legal measures and procedures which exist in certain Member States or even at Community level in specific areas and which are known to be effective?

For example, do you think that (1) the recalling at the infringer's expense of goods placed on the market or (2) the possibility for the rightholder to obtain on request, before bringing an action on the substance of the matter, an order for the seizure of the goods, as is provided for in French law (*saisie-contrefaçon*) or in English law (Anton Piller order), are measures which should be applied in every Member State?

*Other measures*

There are other, apparently effective measures for combating counterfeiting and piracy. These measures may generally be applied in both civil and criminal proceedings. Thus, the publication of judgments, which is often used in France and Italy, is considered to be an additional penalty imposed by the courts in cases involving counterfeiting or piracy.

Another measure consists in the right of information. This measure, which is optional under the TRIPs Agreement, is unrelated to the application for damages and is directed against any infringer, who may be ordered, at the risk of a penalty, to reveal information about the origin of the goods at issue, the distribution channels and the identity of any third parties involved in the production and distribution of the goods. This measure, which has already proved its worth in the fight against drugs, is highly effective as it makes it possible to pinpoint the source of the infringement and close down the distribution channels. The introduction of a right of information would, of course, have to be coupled with effective safeguards to ensure the confidentiality of the information furnished. To date, the right of information has been

successfully introduced into the laws of only a few Member States, namely the German law on intellectual property and the Benelux law on trade marks.<sup>39</sup>

The effectiveness of such measures should therefore be assessed and the conditions under which they may be implemented should be examined.

Questions:

29. Is in your opinion the publication of judgments a suitable, effective means of combating counterfeiting and piracy?

If so, in what manner should such publication take place?

30. Is in your opinion the requirement that the infringer furnish certain information (right of information) an appropriate weapon in the fight against counterfeiting and piracy?

If so, under what conditions should the requirement be enforced?

*Court having jurisdiction and law applicable*

The free movement of goods and services within the Single Market also raises the issue of the law applicable and the court having jurisdiction in cases of counterfeiting and piracy involving more than one Member State.

In cases of counterfeiting or piracy committed or having effects in more than one country, the question may arise as to what law must be applied, bearing in mind the territorial dimension of protection under most intellectual property laws. It should be pointed out in this connection that the Rome Convention on the law applicable, which was concluded on 19 June 1980 between the Member States,<sup>40</sup> applies only to contractual obligations, but preliminary work is being carried out in the Commission and the Council with a view to adopting an instrument on the law applicable to non-contractual obligations ("Rome II").

It may be a good thing for the rightholder to be able to lodge an application for an injunction or damages with a single court, which is then able to order corrective measures from start to finish of the proceedings. In that event, the rules on the recognition and enforcement of judgments would, of course, have to be observed.

In civil and commercial matters, the rules of the Brussels Convention<sup>41</sup> should make it possible to resolve any difficulties in determining which court has jurisdiction. The Convention does not affect the application of provisions which, in relation to particular matters, govern jurisdiction or the recognition or enforcement of judgments and which are or will be contained in acts of the institutions of the European Communities or in national laws harmonised in implementation of such acts (Article 57(3)). Particular provisions have thus been inserted in the Community legislation already adopted or in the process of being adopted on the Community trade mark and

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<sup>39</sup> At the European Parliament's request, the right to information was included in the proposal for a Directive on designs in 1996, but was deleted in 1997, the Council being of the opinion that a provision of this kind did not come within the scope of the Directive, which merely approximates those national provisions which have the most direct impact on the functioning of the single market.

<sup>40</sup> OJ L 266, 9.10.1980, p. 1.

<sup>41</sup> Convention of 27 September 1968 on jurisdiction and the enforcement of judgments in civil and commercial matters (consolidated version), OJ C 27, 26.1.1998, referred to above.

the Community design.<sup>42</sup> There are, on the other hand, no provisions of this type governing infringements of national intellectual property rights.

The Brussels Convention comprises a sizeable body of rules on the jurisdiction of courts in the single market. The Convention contains not only rules on jurisdiction in a given matter, but also on, for example, cases involving more than one defendant, related actions and provisional measures. If the defendant is not domiciled in a Contracting State, jurisdiction is determined by the national law of each Contracting State. The detailed nature of this legislation is due to the Convention's final objective, namely the recognition and enforcement of judgments in other Contracting States.

Article 5(3) of the Convention contains a special rule on matters relating to tort, delict or quasi-delict. Under this rule, "the courts for the place where the harmful event occurred" have jurisdiction. This provision, like the Convention as a whole, must be construed in the light of the case-law of the Court of Justice.<sup>43</sup> The rule is an alternative option for the plaintiff, who may also, in accordance with the general rule in Article 2 of the Convention, sue the defendant in the courts of the Contracting State in which the latter is domiciled.

As regards provisional and protective measures, Article 24 of the Convention lays down that such measures may be sought in a Contracting State provided they are available under the law of that State, even if the courts of another Contracting State have jurisdiction as to the substance of the matter. The Brussels Convention also permits, under certain conditions, notably observance of the adversarial nature of proceedings, the recognition and enforcement of such measures in other Member States.

On 26 November 1997 the Commission presented a proposal for the amendment of these rules. It is proposed among other things that the scope of Article 5(3) of the Brussels Convention should be extended and that the existing Article 24 of the Convention should be replaced by a new Article 18a.<sup>44</sup>

Where products are made in one Member State and must cross the territory of another Member State before being placed on the market for the first time in the Community, problems may arise if the products infringe an intellectual property right in the Member State of transit. The courts for their part have the greatest difficulty quantifying in practice the damage incurred by a rightholder where the counterfeit or pirated goods are bound for another Member State and are in fact only passing through the State where the court is seised. It would appear that, in some

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<sup>42</sup> Cf. Article 93(2) of Regulation (EC) No 40/94 on the Community trade mark and Article 86(2) of the proposal for a Regulation on Community design.

<sup>43</sup> Cf. *inter alia* the judgments of the Court in Case 21/76 *Mines de potasse d'Alsace* [1976] ECR 1735 and Case C-68/93 *Shevill* [1995] ECR I-415. In the first judgment, the Court held that the defendant could be sued, at the option of the plaintiff, either in the courts for the place where the damage occurred or in the courts for the place of the event which gave rise to and was at the origin of that damage. In the second judgment, which concerned a case of libel by a newspaper article distributed in several Contracting States, the Court held that the victim could bring an action for damages against the publisher either before the courts of the Contracting State of the place where the publisher of the defamatory publication was established, which had jurisdiction to award damages for all the harm caused by the defamation, or before the courts of each Contracting State in which the publication was distributed and where the victim claimed to have suffered injury to his reputation, which had jurisdiction to rule solely in respect of the harm caused in the State of the court seised.

<sup>44</sup> Proposal for a Council Act establishing the Convention on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters in the Member States of the European Union, OJ C 33, 31.1.1998, p. 20.

cases, the courts are obliged to consider that no damage has occurred in the national territory and that it takes place only in the State of entry for consumption or destination of the goods.

In criminal cases, the principle of the territoriality of criminal law, according to which the criminal law of a country applies to acts committed in that country's territory, may, where it exists, sometimes prove ill-suited to dealing with certain situations. The possibility for national law to cover certain acts of counterfeiting and piracy committed in other countries, where those acts infringe a right protected in the Member State in question, might be an effective means of combating the phenomenon.

It needs to be established, therefore, whether the practice gives rise to difficulties in determining the court having jurisdiction or the law applicable where the counterfeiting or piracy are transnational in nature.

#### Questions:

31. What experience have you had of court proceedings aimed at putting an end to infringements and seeking redress for the damage suffered, where the acts in issue in the single market were committed or have effects in one or more other Member States?

Have you encountered any difficulties when it comes to determining the court having jurisdiction or the law applicable?

If so, how in your opinion might these difficulties be resolved?

In case of conflict as to the law applicable, what in your opinion is the most suitable rule for resolving the conflict bearing in mind the significant approximation of substantive law in the intellectual property field at Community level?

Have you encountered any difficulties in having judgments, including provisional measures, delivered in your favour enforced? If so, how in your opinion could those difficulties be resolved?

32. Have you encountered any practical problems with products made in a Member State which, before being placed on the market for the first time in the Community, crossed the territory of another Member State where they infringed an intellectual property right? If so, please give details. In your opinion, could the problems have been resolved by a clarification of the law applicable?

As regards the assessment of the damage, have you experienced difficulties in practice in getting a court to assess the damage suffered because, for example, the counterfeit or pirated goods were bound for another Member State and were simply crossing the territory of the State in which the court was seised? If so, how in your opinion could those difficulties be resolved?

33. In criminal matters, do you think that national law protects you sufficiently against acts of counterfeiting and piracy committed in another country?

If not, what improvements should in your view be made?

Do you think, for example, that the possibility of making national law applicable to acts committed in another country where those acts infringe a right protected in the Member State in question would be likely to improve the effectiveness of the fight against the phenomenon?



#### 5.4. Administrative cooperation between the competent authorities

One of the priority objectives of the Action Plan for the Single Market<sup>45</sup> is the need to ensure the consistent, effective implementation of the single market legislation. To attain this objective, cooperation between Member States' authorities and with the Commission is essential. Such cooperation is designed mainly to ensure that the legislation is correctly implemented by the Member States. In the intellectual property field, however, cooperation is also needed to ensure that the law is correctly applied by individuals and businesses. The introduction of genuine administrative cooperation between the departments responsible for fighting counterfeiting and piracy may be an effective means of dealing with the phenomenon at Community level. Administrative cooperation has proved effective in other areas such as customs and agriculture.<sup>46</sup> The aim is to strengthen cooperation between the national authorities responsible in the Single Market for combating counterfeiting and piracy by providing them with an appropriate legal framework within which to carry out a number of actions.<sup>47</sup> Under these conditions, machinery equivalent to that already used by the customs authorities for monitoring the Community's external frontiers (cf. Regulation (EC) No 515/97) should be introduced for the benefit of the authorities responsible for combating counterfeiting and piracy in the Single Market.

The administrative cooperation to be introduced for the Single Market must be distinguished from the international cooperation provided for in the TRIPs Agreement (Article 69) with a view to eliminating international trade in goods infringing intellectual property rights, *inter alia* by establishing contact points in the administrations of each WTO member and by exchanging information. That international cooperation is aimed in particular at the customs authorities responsible for controlling international movements of goods and does not make it possible to take fully into account the specific needs arising from the Single Market.

##### *Contact points*

Member States should establish in advance a single contact point for all questions to do with the fight against counterfeiting and piracy in the Single Market to act as an interface with the departments responsible for prevention and punishment in these areas in the other Member States and with business professionals. The creation of a network of contact points at Community level would help to facilitate the exchange of information. In order to evaluate the practical functioning of the cooperation and, if necessary, to formulate recommendations for improving it, a coordination group composed of national contact persons and Commission representatives could be set up.

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<sup>45</sup> CSE(97)1 of 4 June 1997.

<sup>46</sup> Council Regulation (EC) No 515/97 of 13 March 1997 on mutual assistance between the administrative authorities of the Member States and cooperation between the latter and the Commission to ensure the correct application of the law on customs and agricultural matters, OJ L 82, 22.3.1997, p. 1.

<sup>47</sup> The administrative cooperation referred to in this Green Paper must be distinguished from the police cooperation which, if the Council, acting unanimously, so decides, may be devolved on Europol in the field of the counterfeiting and piracy of products, cf. Council Act of 26 July 1995 on the establishment of a European Police Office (Europol Convention), OJ C 316, 27.11.1995, p. 1.

Questions:

34. Do you consider that the establishment of a single contact point in each Member State for all questions to do with the fight against counterfeiting and piracy in the Single Market, which would act as an interface with business professionals and with the departments responsible for prevention and punishment in the other Member States, would be likely to facilitate the exchange of information in this field?

Do you think that the setting-up of a coordination group composed of national contact persons and Commission representatives, the main task of which would be to consider any questions to do with the fight against counterfeiting and piracy in the Single Market, would be likely to improve the fight against the phenomenon?

*Definition of a suitable legal framework*

Of the operational measures for combating counterfeiting and piracy that may be envisaged, mention may be made of the exchange of information, including sensitive information (e.g. on proven or suspected cases of counterfeiting or piracy), whether on request or spontaneous, such exchanges being perhaps effected by means of a system of protected electronic mail to be created or established on the basis of an existing system. The creation of an operational database might also be envisaged to facilitate the work of the departments responsible for prevention and punishment. Another measure might be to provide for the possibility for the staff of these specialised departments working for one or more Member States to take part in inspections or inquiries in another Member State (joint inspections or inquiries). Lastly, the possibility of carrying out, either spontaneously or at the request of another Member State, surveillance operations concerning movements of suspect goods might also be envisaged. The Commission, for its part, could coordinate actions carried out in Member States in cases with a Community dimension, that is to say where at least two Member States are involved.

It became apparent when this Green Paper was being prepared that the quality of the information that is available on counterfeiting and piracy is very variable, not to say lacking in many cases, depending on the sector concerned. With a view to improving the means of action on the strength of a reliable diagnosis, a systematic approach should be adopted to collecting the necessary information. The information available might be periodically inventoried or analysed with a view to improving the means of combating counterfeiting and piracy, along the lines of the report on the operation of the system of checks at the Community's external frontier provided for in Article 15 of Regulation (EC) No 3295/94. The Commission could thus draw up, at three-yearly intervals, a report on the situation in the single market and on the effectiveness of the measures taken by the various bodies and authorities to combat counterfeiting and piracy in that market. The report could be transmitted to the European Parliament and the Council with a view to assessing its impact.

Another question concerns the production in administrative or judicial proceedings of evidence obtained lawfully in another Member State. Such a possibility offers considerable advantages in counterfeiting or piracy cases involving more than one Member State as the evidence is rarely available in only one Member State. Cooperation between judicial authorities in obtaining evidence in civil and commercial matters is governed by the Hague Convention of 18 March 1970, which has been ratified by most EU Member States.<sup>48</sup> It would be useful to know whether the implementation of the Convention has given rise to any difficulties in practice and what positive measures might be taken, if necessary, to resolve them. If the Convention were to prove incapable of resolving all difficulties, another possibility would be to adopt a

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<sup>48</sup> Except Belgium, Denmark, Germany, Greece and Ireland.

specific provision in the area of the fight against counterfeiting and piracy authorising the use in judicial or administrative proceedings of evidence gathered lawfully by the authorities of another Member State.

Questions:

35. Does such cooperation as already exists between the national authorities responsible for combating counterfeiting and piracy in the Single Market function satisfactorily?

If not, what improvements ought in your opinion to be made? For example, do you think that a Community initiative defining the legal framework for specific administrative cooperation between the authorities responsible for combating counterfeiting and piracy in the Single Market would help to improve the fight against the phenomenon?

In particular, what do you think, in this context, of the possibility of enabling those authorities:

- to exchange and, if necessary, store in an existing or new database information, including operational information, due regard being had to the rules on the protection of data?
- to conduct joint inquiries or inspections?
- or to monitor, at the request of the authorities of another Member State, movements of suspect goods or services?

36. What role might the Commission play in the functioning of such cooperation?

Ought it not to do more than merely provide assistance to Member States and coordinate cases with a Community dimension, and play, say, a more operational role, notably in terms of inquiries?

Do you think it would be useful if the Commission were to draw up a report every three years to assess the situation and the effectiveness of the measures taken by the various bodies and authorities to combat counterfeiting and piracy in the Single Market?

37. Have you encountered any obstacles to the production in administrative or judicial proceedings of evidence obtained lawfully in another Member State? If so, did the Hague Convention on the taking of evidence abroad in civil or commercial matters help overcome those difficulties? If not, how in your opinion could the difficulties have been resolved?

Where it proves impossible to resolve difficulties under the Hague Convention, do you think that, within the framework of the administrative cooperation between competent national authorities, the fact of being able to produce as evidence before a court in a Member State information obtained lawfully in another Member State by the authorities of that State would be an appropriate means of combating counterfeiting and piracy in the Single Market?

38. What other measures might, in your opinion, be envisaged with a view to strengthening administrative cooperation to combat the phenomenon in the Single Market?

*Training*

Emphasis should also be placed on training the staff entrusted with the task of combating counterfeiting and piracy, including the exchanging of personnel, for example under the

KAROLUS programme<sup>49</sup> or a specific programme still to be set up, so as to promote the exchange of experience and working methods in this field with a view to promoting the best practices there. In order to facilitate cooperation between the departments responsible for prevention and punishment and thus improve the fight against the phenomenon, a practical operational guide intended for national authorities, drawing on the considerable fund of knowledge and expertise that is available, might be produced and regularly updated at Community level.

Questions:

39. Would in your opinion the introduction by the authorities, in conjunction with the professional bodies concerned, of training modules for the staff entrusted with the task of combating counterfeiting and piracy in the Single Market help to improve the fight against the phenomenon?

If so, at whom should it be targeted in particular and how?

40. More generally, is in your view the enhancing of the training of the officials responsible for combating counterfeiting and piracy in the Single Market, including the exchanging of personnel between Member States, likely to improve the fight against counterfeiting and piracy in the Single Market?

41. Do you think that the production and updating of a practical guide for national authorities is likely to improve the fight against the phenomenon?

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<sup>49</sup> Council Decision 92/481/EEC of 22 September 1992, OJ L 286, 1.10.1992, p. 65. The Decision is currently being amended, OJ C 274, 10.09.1997, p. 9.

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