



European Communities

**EUROPEAN PARLIAMENT**

# **WORKING DOCUMENTS**

English Edition

1985-86

9 October 1985

SERIES A

DOCUMENT A2-115/85

REPORT

drawn up on behalf of the Committee on External Economic  
Relations

on international trade in counterfeit goods

Rapporteur: Mrs Y. van R00Y

WG(VS)1909E

PE 96.288/fin.



At its sitting of 13 November 1984, the European Parliament referred the motion for a resolution tabled by Mr von Wogau on international trade in counterfeit goods pursuant to Rule 47 of the Rules of Procedure to the Committee on External Economic Relations as the committee responsible and to the Committee on Economic and Monetary Affairs and Industrial Policy and the Committee on Development and Cooperation for an opinion.

At its meeting of 21 November 1984, the Committee on External Economic Relations decided to draw up a report and appointed Mrs van ROOY rapporteur.

The committee considered the draft report at its meetings of 19 December 1984, 31 January 1985, 21/22 February 1985, 20 May 1985, 26 June 1985 and 25 September 1985. It adopted the motion for a resolution unanimously.

The following took part in the vote: Dame Shelagh Roberts, chairman; Mr Hindley and Mr van Aerssen, vice-chairmen; Mrs van Rooy, rapporteur; Mr Kilby, Mr Lemmer (deputizing for Mr Zahorka), Mr Pantazi (deputizing for Mr Massari), Mr Rossetti, Mr Seeler, Mr Toussaint, Mrs Wieczorek-Zeul and Mr Zarges.

The opinion of the Committee on Economic and Monetary Affairs and Industrial Policy is attached. The Committee on Development and Cooperation decided not to deliver an opinion.

The report was tabled on 1 October 1985.

The deadline for tabling amendments to this report will be indicated in the draft agenda for the part-session at which it will be debated.

## CONTENTS

	<u>Page</u>
A. MOTION FOR A RESOLUTION .....	5
B. EXPLANATORY STATEMENT .....	8
I. Definition of the problem .....	8
II. Sectors affected .....	8
III. The size of the problem .....	8
IV. Consequences for consumers .....	10
V. Geographical dimensions .....	11
VI. Impact of counterfeiting on developing countries .....	14
VII. Assessment .....	14
VIII. Solutions .....	15
A. International level .....	15
B. European level .....	16
C. Measures at national level .....	19
D. Action by the undertakings themselves .....	19
 OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS AND INDUSTRIAL POLICY .....	  22
 <u>Annex</u> : Motion for a resolution (Doc. 2-889/84) .....	 29

The Committee on External Economic Relations hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

#### MOTION FOR A RESOLUTION

on international trade in counterfeit goods

The European Parliament,

- having regard to the motion for a resolution by Mr von Wogau (Doc. 2-889/84),
  - having regard to the report of the Committee on External Economic Relations and the opinion of the Committee on Economic and Monetary Affairs and Industrial Policy (Doc. A 2-115/85),
- A. having regard to the significant increase in recent years in international trade in counterfeit goods, which is no longer restricted to luxury goods but also concerns technologically advanced sectors (e.g. pharmaceuticals, electronics and computer products),
  - B. having regard to the severe economic damage caused to legitimate producers by counterfeiting in terms of lost sales, legal costs and loss of goodwill both on the European market and on markets elsewhere; whereas the damage suffered by Community undertakings as a result of the counterfeiting of their products must be estimated at several billion ECU,
  - C. having regard to the negative effects of counterfeiting on employment in Community undertakings; whereas it must be estimated that at least 100 000 jobs have been lost in firms in the Community,
  - D. having regard to the serious risks that counterfeit products may pose to the health and safety of consumers,
  - E. having regard to the negative effects of trade in counterfeit products for the EC countries, notably the losses for the balance of trade and in fiscal revenue and the cost of unemployment benefits,
1. Considers that international trade is being seriously disrupted by the trade in counterfeit products, to the detriment of both the industrialized and the developing countries;
  2. Condemns therefore in the strongest terms the practices of producing and trading in counterfeit goods, since these are not only a form of unfair competition but must also be regarded as nothing less than theft from legitimate producers;
  3. Notes that counterfeit products are often imported from newly industrialized or developing countries; emphasizes, however, that the toleration of counterfeiting cannot be accepted as an indirect form of development aid; points to the adverse consequences of the activities in question for the countries where such products are manufactured, both in terms of lost international credibility and as regards the discouragement of investment and of technology transfers;

4. Calls, therefore, for a tightening-up of the national laws against counterfeiting and piracy in countries where counterfeit goods are produced; welcomes the various improvements that have been made in this area, especially in Taiwan, Hong Kong and Singapore, and stresses the importance of an effective application of the improved legislation;
5. Stresses the importance of the establishment of a GATT code of conduct to combat international trade in counterfeit goods, and draws attention to the active role that the Community can play during the new GATT round in expediting the work in this field;
6. Supports also the Customs Cooperation Council's initiatives designed to explore the possibilities for increasing the role of the customs administrations in the fight against counterfeiting;
7. Points to the need for future trade agreements between the Community and third countries to include specific clauses providing for measures required to combat the production of and trade in counterfeit goods (i.e. legislative measures, cooperation between EC and third country customs authorities);
8. Requests the Commission to examine the extent to which the 'New Community trade policy instrument' can be used to persuade third countries to take action against counterfeiting;
9. Welcomes the initiative taken by the Commission in submitting a proposal for a regulation designed to discourage the release of counterfeit goods for free circulation; the European Parliament will deliver an opinion on this proposal separately; feels, however, that a number of comments are appropriate at this stage:
  - (a) the regulation, which concerns only trade marks, should be regarded as a first step towards more effective protection of intellectual property;
  - (b) the regulation is rightly confined to goods imported from third countries; applying customs controls to goods and traffic within the Community would create new barriers to trade and thus conflict with the aim of completing the internal market in 1992;
  - (c) the provisions concerning securities should include sufficient safeguards to ensure that the regulation cannot be misused for protectionist purposes;
  - (d) it should be stipulated that, in all cases, confiscated counterfeit goods are to be disposed of outside commercial channels in order to remove all prejudice to the legitimate producer;
  - (e) the computerization of customs procedures can help towards more effective checks on imports and thereby make it easier to control imports of counterfeit goods;
  - (f) the regulation should be reviewed after a period of three years, with a view to possibly extending its scope to other forms of intellectual property, especially copyright;

10. Reiterates that a Community customs code should be established without delay, in which the draft regulation in question should be included;
11. Emphasizes that the problem of counterfeiting arises not only in trade with third countries but also in intra-Community trade; the Member States' national laws should therefore provide for more effective measures and sanctions in order to combat with greater effect the production of and trade in counterfeit goods;
12. Calls on the Commission to promote the rapid establishment of Community rules on the protection of industrial property with regard to microchip designs;
13. Instructs its President to forward this resolution (and the report of its committee) to the Council, the Commission and the secretariats of GATT and the Customs Cooperation Council.

EXPLANATORY STATEMENTI. Definition of the problem

The term 'counterfeiting' or 'counterfeit goods' can be defined and interpreted in various ways since, from a purely legal point of view, this concept is interpreted differently from one legal system to another. However, from an economic point of view, the term 'counterfeiting' applies whenever goods are copied in substantially identical form without the authorization of the owner of the industrial property rights in the goods: such counterfeit goods are subsequently put on the market as if they were the original goods.

For the purpose of this report, the term 'counterfeiting' will be used where original goods and their get-up are copied without authorization sufficiently closely to appear to be the genuine goods, in order to profit from another firm's reputation and/or products. An essential element of this activity will normally be that the goods bear an unauthorized representation of a trade mark legally registered for such goods. Because of the closeness of the copying, it will often happen that other intellectual property rights (copyright, design, patent, unfair competition) will also be infringed.

Another concept which is frequently used in everyday speech is 'piracy' which seems, as a general rule, to be used in the case of the unauthorized and unfair use of a protected intellectual property right. It is particularly used in the audio-visual and data-processing industries to refer to the wholesale copying of copyright material either with or without the exact copying of the get-up in which the copyright material is sold.

Both counterfeiting and piracy have increased enormously in the last few years. It should be noted that less blatant infringements of intellectual property rights and parallel sales are excluded from the problem under consideration.

II. Sectors affected

For a long time counterfeiting remained confined to luxury goods, such as clocks and watches, cosmetics, clothing, leather goods and credit cards. These products are still being counterfeited, often on an industrial scale. In recent years counterfeit production has spread rapidly to other industrial sectors, such as spare parts in the automotive and aerospace sectors, pharmaceuticals, medical equipment, chemicals (including pesticides), electrical consumer goods, audio-visual products and software. The reader is referred to Annex I for a more detailed list of the sectors in which counterfeit goods have been identified.

III. The size of the problem

Because trade in counterfeit goods is illegal, there are naturally no statistics to indicate the scale of the problem. As with smuggling, what is detected is only the tip of the iceberg.

Estimates vary considerably according to the source and the definition used.

However, the estimates that are available all corroborate each other on one point, namely that there has been a spectacular increase in counterfeit goods in recent years.

The damaging economic effects of counterfeiting are felt in various areas.

(a) Loss of sales

The sale of counterfeit goods goes hand in hand with a reduction in the sales of the firms manufacturing the original product. Available estimates of the volume of counterfeit goods give an indication of the income lost by producers of the original article.

An estimate made by the US Customs Service puts the value of counterfeit goods at the retail level in the United States at between \$ 18 and \$ 19 billion.

The International Chamber of Commerce estimates that total world trade in counterfeit goods is worth roughly \$ 60 bn.

The figure given for France is FF 5 bn per year.

The Swiss clock and watch industry estimates its annual losses at SwF 1 bn.

It is not only on the domestic market that manufacturers of branded products sustain losses as a result of counterfeiting. Often far more serious losses are sustained through the loss of export markets as a result of counterfeit goods being sold on the markets of third countries. There is no reason to assume that the potential for counterfeit trade in the European Community is likely to be significantly less than in the United States. Consequently, the value of counterfeit trade in the EEC must be estimated at several billion ECU per year. Indeed it is likely to increase, since the United States has recently introduced severe penalties to deter counterfeiting and this is likely to deflect counterfeits to other markets such as the EEC.

(b) Loss of reputation

By far the most potentially damaging effect of counterfeiting is the loss of goodwill and reputation of products. Counterfeits are generally inferior in quality to the original product.

A counterfeit product which does not come up to the consumer's expectations, based on the original product, harms the reputation and future of a trademark. This loss of goodwill can often extend to the other goods produced by a manufacturer of branded goods, even if these are not counterfeited.

Consumers can become suspicious of products even though the goods are genuine and sold through legitimate channels.

For this reason the distortion of the market often continues to be felt even after the imitations have been removed from it.

There is also the fact that the consumer - and the (retail) trade too - may become reluctant to buy the original product if it is known that there are cheaper imitations on the market - whether or not they are inferior.

### (c) Legal fees and costs of carrying out inquiries

In order to stamp out imitations, firms have to take often costly precautions, such as the use of investigators who are employed full-time in tracking down the offending products and discovering their source. Legal proceedings and the hiring of specialized lawyers can also be extremely expensive.

Most small and medium-sized firms will be unable to afford costs of this magnitude.

Investigations by the US International Trade Commission show that US companies' costs for combating counterfeiting rose from \$ 4.1 million in 1980 to \$ 12.1 million in 1982.

### (d) Loss of jobs

It is impossible to establish exactly the cost in terms of jobs lost in European industries owing to trade in counterfeit products.

Estimates by different industrial organizations put the number of jobs lost in France as a result of counterfeiting at 20,000 and in Germany at between 40,000 and 50,000.

The study by the US ITC mentioned earlier estimates that counterfeiting cost 130,000 jobs in the US in 1982.

IFPI puts the number of jobs lost in the video/audio sector at 10,000 (1978-1982). It can be concluded from these statistics that at least 100,000 jobs have been lost within the European Community.

### (e) Consequences for society

When legitimate manufacturers lose billions in domestic and overseas sales to counterfeiters the result is a corresponding loss to a nation's balance of trade. Furthermore the result will be a considerable loss in (company) tax revenues because of the fact that the company which manufactures the original products will make less profits.

The loss of jobs due to counterfeit trade entails further costs to the taxpayer in the form of social benefits.

Another negative effect is that counterfeiting discourages investment in R&D for new products because the results are appropriated by imitators who do not incur any expenses in this field.

This consequence is particularly harmful at a time when the restructuring of various industrial sectors makes investments in new high technology especially necessary.

## IV. Consequences for consumers

Contrary to a quite widely-held view, the risks and disadvantages to consumers are considerable and exceed any advantages. Not only does the purchase of a counterfeit product generally defraud the consumer, who has bought a product normally inferior in quality to the original, but very often genuine hazards for safety and health of the general public can arise, in particular in connection with the counterfeiting of components for means of transport and medicinal products.

The following examples are illustrative:

- Counterfeit brake linings sold in the UK failed after a dozen or so applications.
- Counterfeit brake linings produced in Taiwan and sold in Nigeria took five times as long to stop a car as the authentic ones.
- In 1978 the US Food and Drug Administration was notified by a producer of heart-pumps used in open-heart surgery that it was replacing certain electrical components in its machines because it had discovered some of the components were counterfeits. This case involved 357 heart-pumps in 266 hospitals.
- In 1984 a leading US pharmaceutical company, after notifying the US Food and Drug Administration, removed over one million counterfeit and possibly ineffective birth-control pills from the US market.
- Counterfeit components were found in 600 Sikorski helicopters supplied to NATO countries.
- Entire coffee crops in developing countries have failed as a result of using inferior quality counterfeit pesticides which were sold as the original product.
- In 1984 children's dolls appeared on the UK market in the pre-Christmas period which, though identical in appearance to the original dolls, were made of highly-flammable material.
- Counterfeit pharmaceuticals including drugs for diabetics were identified on the German market.

In the event of a counterfeit product proving defective or dangerous:

- (a) the evidence would show the product was counterfeit and the consumer would have no rights of recourse (whether under guarantee or under product liability) against the producer of the genuine article and generally little chance of obtaining redress from the producers or distributors of the counterfeit products, or
- (b) the evidence that the goods were counterfeit would have been destroyed (e.g. in the case of a medicine because they would have been consumed, or in the case of car machinery by being destroyed in a crash) and the genuine manufacturer would be unjustly held liable for the defects in the product which it would wrongly be assumed he had produced.

#### V. Geographical dimensions

According to the GATT secretariat, goods bearing counterfeit trademarks have been identified in 59 countries (see Annex II)\*. Apart from the markets of the industrialized countries, the markets of the Middle East countries are particularly attractive to counterfeit goods for several reasons: virtually all consumer products are imported, insufficient legislation against counterfeiting, if any, high purchasing power of individuals.

\* L 5512 July 1983 GATT

The US ITC has recently reported that counterfeit products entering the US are being manufactured in 43 countries over the world. The main producing areas in the world are considered to be South-East Asia, South America and Africa. Traditional sources of counterfeit products are Taiwan, South Korea, Hong Kong, Singapore, Japan and Italy. In addition to these there are increasing sources of supply of counterfeit products originating from India, Egypt, Cyprus, Greece, Brazil, Colombia, Mexico, Nigeria, Morocco and China.

It should be acknowledged, however, that some of these countries are beginning to realize that the bad reputation they have earned will work to their disadvantage in the long run, in terms of foreign investment and the transfer of technology.

The Hong Kong Government has introduced stringent anti-counterfeiting laws. The laws applicable to the protection of intellectual property are the Trade Descriptions Ordinance (TDO) and the Copyright Ordinance (CO) which provide for the prosecution of offenders in criminal courts and prescribe heavy penalties and powers of arrest, search, seizure and forfeiture of offending goods. Hong Kong is (with Taiwan) one of the few territories which applies both criminal and civil sanctions to trademark and copyright infringements. The Hong Kong Customs Department employs a special task force to investigate complaints alleging infringements of intellectual property rights. The Customs Department has connections with the US customs and their representatives in Hong Kong. Close cooperation on cases involving infringements of US intellectual property rights has resulted in successful seizure of counterfeit goods. The Hong Kong anti-counterfeiting enforcement programme seems to be increasingly effective (i.e. prosecutions have risen from 6 in 1978 to 437 in 1984).

Following international pressure and in order to maintain the reputation of its foreign trade, Taiwan has also taken various anti-counterfeiting measures. Taiwan revised its law on trademarks in January 1983. Counterfeiters of trademarks registered in Taiwan can be punished with imprisonment of up to five years not convertible to fines. The measures include coordinated investigations by judicial and police authorities. The Ministry of Economic Affairs established the Anti-Counterfeiting Committee in March 1981. As a result there appears to have been an increase in prison sentences imposed for offences relating to intellectual property (364 such sentences in the first ten months of 1984).

According to data available on the origin of imported counterfeit goods seized by the US Customs authorities, the importation of counterfeit goods originating from Hong Kong and Taiwan has decreased considerably, as shown below:

Percentage in value of counterfeit goods confiscated upon importation (USA)  
according to place of origin

Country of origin	1982	1983	1984(first 4 months)
Taiwan	56.1	20.2	2.2
Hong Kong	18.1	18.8	2.2
South Korea	9.5	10.8	10.2

The rapid improvement in the situation as regards imports into the US is due both to the pressure which the US can bring to bear on Taiwan and to the provisions of the bilateral conventions between the US and Taiwan on the capacity of legal persons to bring proceedings.

Nevertheless, it should also be pointed out that considerable problems have arisen due to the copying of software programmes by Taiwan undertakings: this rapidly expanding sector does not seem to be effectively controlled by the law on copyright.

The situation in Singapore is also showing signs of improvement. The government seems to be on the point of introducing stricter legislation in the copyright field whilst, according to IFPI estimates, the Singapore industry fell from 110,000,000 counterfeit cassettes in 1981 to 50,000,000 in 1984.

The situation in Japan, according to the Commission, still gives cause for considerable concern: the indication of origin and trademarks affixed to 'European' products often turn out to be counterfeit, whilst the prices applied are between 30 and 60% less than the prices of the genuine product.

Counterfeiting is particularly prevalent in the luxury goods sector. It should be borne in mind that this is one of the few sectors in which European firms have been able to gain a foothold on the Japanese market. In practice, it seems especially difficult for European firms to take action against Japanese counterfeiters.

Both the civil and criminal law penalties imposed on counterfeiters are considered to be insufficient and legal proceedings are difficult to initiate. Moreover, the competent authorities have hitherto displayed a very passive attitude with regard to combating counterfeiting in Japan.

The Japanese Government have recently announced details of an Inter-agency Liaison Group to coordinate anti-counterfeiting activities with the aim of banishing the production and distribution of counterfeit goods.

## VI. Impact of counterfeiting on developing countries

The developing countries are suffering the damaging effects of counterfeiting to an increasing extent. They are an attractive market for the counterfeiter, firstly because of the growing demand for branded products in the developing countries and secondly because those countries have neither adequate legislation on quality standards to protect the consumer nor legislation on the protection of intellectual property.

Because of the inadequacy of the legislation and the lack of firm action to combat counterfeit production, counterfeiting is on the increase in the developing countries.

In many cases the authorities in the developing countries tolerate these practices and consider them as a useful contribution to the industrialization process. What they fail to grasp fully, however, are the adverse effects on economic activities and trade.

There will clearly be a reluctance to invest in, to transfer technology to, or to enter into production licence agreements with such countries if the investment or transfer of technology cannot be protected from unfair competition by counterfeiters. States which publicly harbour counterfeiters lose their credibility on the international level and do so disservice to that part of their local industry which respects laws and treaties.

## VII. Assessment

Counterfeiting has grown in the last 10 to 12 years from a small cottage industry, originally supplying the domestic market, to what is today a large, sophisticated, well-organized business that can reach any market world-wide. Not only is there a tendency towards the geographical extension of counterfeiting, but the counterfeit products themselves are becoming also technically and aesthetically more advanced, coupled with an increasingly aggressive approach to marketing by counterfeiters and careful planning of how to evade law enforcement.

The exponential growth of counterfeiting can be explained by the low 'start-up' costs and by the high returns. Counterfeiters will only counterfeit a successful product. Overhead costs are very low: there are no R&D, advertising or marketing costs, and there is often a question of tax evasion.

Moreover, there is little to deter counterfeiters from their illegal activities, because they realize that the existing civil legislation makes it unattractive for a manufacturer of the original product to seek redress for damages sustained. In many cases of counterfeiting, there is no point in seeking compensation in the courts, either because of problems of proof, or because of the cost of the often complicated claim procedures.

Counterfeit products make it harder to apply clear criteria in respect of the protection of intellectual property. Since infringements on a large-scale regularly occur, the (retail) trade may be increasingly inclined to ignore the fact that the products in question are breaking the law, realizing that the profit margin on counterfeit goods is greater than on the original products.

Counterfeit products are a form of theft perpetrated against the producers. Counterfeiting misleads the consumer and can even endanger his health.

Counterfeiting poses a threat to the economies of the Member States of the Community because it endangers output and employment levels in firms which manufacture the original products.

It is also a threat to world trade because it totally distorts the conditions of fair competition. This is why combating counterfeiting is no longer a civil law issue involving the protection of industrial property, but a matter of international trade policy.

Society has a general interest, for the sake of the orderly conduct of economic relations, in reducing as far as possible these unfair trade practices.

### VIII. Solutions

Action must be taken at various levels to effectively combat the international trade in counterfeit goods:

#### A. International Level

In view of the international dimensions of this problem, it is appropriate to assess the actual possibilities of international action. The international conventions on this matter, which have generally been concluded under the aegis of the World Intellectual Property Organization, do not, in the virtually unanimous opinion of those concerned, especially undertakings, provide the necessary means for effective action.

In particular, the Paris Convention for the Protection of Industrial Property (WIPO), concluded in 1883, whilst establishing some important principles from a legal point of view, in actual fact refers exclusively to domestic law with regard to all aspects of its implementation. In particular, Article 9 providing that goods bearing a counterfeit trademark shall be seized on importation, applies solely when the legislation of the signatory State admits of seizure on importation. In general, the Paris Convention extends to foreigners the provisions applying to nationals but has no effect on the substance of the protection afforded.

The Madrid Arrangement for the prevention of false indications of origin on goods (WIPO, 1891) has been ratified by relatively few countries and also refers to national legislation in force as regards legal remedies. The inadequacy of the remedies available at international level and the obvious ineffectiveness of a purely legal approach to the problem led the US, at the end of the 1970s, to raise the problem within the context of the multilateral trade negotiations within the GATT (Tokyo Round, 1973-1979). This approach tends to give priority to the political and commercial aspects of regulations on this matter. Although it was impossible to reach a discussion on a draft international code within the Tokyo Round, discussions on a draft international code to combat counterfeiting which substantially reflects the position of the US and the European Economic Community were begun at the 1982 meeting of the Contracting Parties to the GATT.

The Contracting Parties to the GATT decided, at their meeting of 19 December 1984, to set up a group of experts which will report to the Council before the next regular session of the Contracting Parties.

The problem of combating international trade in counterfeit products is one of the priorities of most developed countries with regard to the opening of a new round of multilateral negotiations within the GATT.

The following is a brief account of the main characteristics of the abovementioned draft code, submitted on 6 October 1982 by the US delegation and entitled 'Agreement on measures to discourage the importation of counterfeit goods'.

The Contracting Parties to the agreement will discourage international trade in counterfeit goods, operating so as to deprive counterfeiters of the economic benefits of their dealings and establishing an effective deterrent to that trade; they agree in addition that counterfeit goods must not reach the commercial market by any means. 'Counterfeit goods' mean any goods bearing without authorization a trademark legally registered in the importing country: 'parallel imports' are however expressly excluded from these rules. The agreement lays down several minimum requirements for the objectives listed therein to be considered to have been fulfilled; in particular, trademark owners must be put in a position to initiate procedures to protect their rights before the counterfeit goods are released by the customs authorities. The provisions on security and time-limits for bringing an action are designed to prevent the creation of non-tariff barriers to trade. Lastly, a special clause provides that the possibilities of widening the agreement, to include trade in counterfeit goods affecting intellectual property rights other than trademarks, should be explored.

The reticence shown by several developing countries towards the GATT draft code, though understandable, cannot be shared. We would refer to what has already been said in point VI above and recall that in actual fact international trade in counterfeit products is now also being carried out to a considerable extent within the South-South context.

Initiatives aimed at strengthening customs control over international trade in counterfeit goods have also been taken within the framework of the Customs Cooperation Council (CCC). In particular, the Enforcement Committee of the CCC has agreed to place the subject of trade in counterfeit goods as a permanent item on the agenda of its meetings: it will study problems such as the exchange of information between customs administrations, the functioning of the legal instruments available, and the feasibility of organizing an intergovernmental conference on the subject. The Permanent Technical Committee of the CCC will, in addition, prepare model legislation dealing with action by customs as regards trade in counterfeit goods.

#### B. European level

However, because it is likely to be some time before a GATT code comes into being, there is a case for taking measures at Community level to combat the trade in counterfeit goods. The measures taken in the United States could serve as a model for the Community's approach.

The US system of customs control on imports effectively discourages imports of counterfeit goods. The system applied in the US provides for customs registration of the trademarks of companies. The release of suspect goods may therefore be suspended by the customs authorities upon request, whilst the importer has a period of 30 days to prove his right to use the trademark in

question. If he cannot do so, a procedure for confiscation of the goods is initiated. The provisions concerning copyright are substantially analogous. The system operated in the US seems to be efficient, due in addition to the fact that many customs services have been computerized. The US anti-counterfeiting legislation has recently been revised: the Trademark Counterfeiting Act of 4 October 1984 provides for sentences of up to 5 years imprisonment and fines of up to US \$ 1 million (15 years and US \$ 5 million where the offence is repeated) for the manufacturing, distribution and sale of goods bearing a counterfeit trademark. Another new law gives the US President the power to restrict trade benefits (i.e. GSP rights) to nations that do not provide adequate and effective protection for intellectual property. The mere passage of these laws appears to have had a considerable effect on the flow of counterfeit products into the US market. This positive development for the US can have the opposite effect for other nations. Counterfeiters will certainly seek other attractive markets. This makes it even more urgent to take appropriate measures at the EC level.

The EC policy against counterfeiting should consist of the following set of measures.

#### 1. Customs controls on imports

There is a considerable disparity between the system in force in the various Member States: the customs authorities may suspend the release of imported goods which are suspected of being counterfeit in the following countries only: France, Germany, Ireland and the UK.

It is clear that a uniform procedure used by the customs authorities to prevent counterfeit goods being released for free circulation in the Community would be a considerable advantage. This system would enable the European Community to strengthen its position within international organizations such as the GATT in negotiations for international rules which could be based on these principles.

The introduction of effective controls at the external frontiers of the Community is also a prerequisite for the further facilitation and simplification of intra-Community trade. In order to create such a uniform customs procedure, the European Commission has drawn up a proposal for a Council regulation laying down measures to discourage the release for free circulation of counterfeit goods (COM(84) 705 final). The opinion of the European Parliament on this proposal is in preparation and will be presented in a separate report.

Consequently, the comments on the proposal for a regulation in this report will be confined to a few main points.

\* The proposal for a regulation contains two main provisions: the suspension of the release of counterfeit goods for free circulation and the possibility of confiscation where it is established by the competent authorities that the goods in question are counterfeit.

The suspension of the release of goods is crucial since it allows the trademark owner to initiate legal proceedings before the goods are placed on the market, i.e. before the damage is done. The provision dealing with confiscation is essential as a means of preventing counterfeit goods from eventually finding their way back on to the market.

\* The regulation deals exclusively with trademarks. Infringements of copyright (video and audio piracy) fall outside its scope. This regulation should be regarded as the first step towards the adoption of practical measures to combat imports of counterfeit goods. From this viewpoint it is acceptable that its scope be limited to trademarks, particularly since it is more difficult for customs to check on copyright infringements. It ought to be possible to include a requirement that the regulation should be reviewed after three years to determine whether its scope can be extended to include copyright products.

\* The regulation applies only to goods originating from third countries and not to goods from Member States. This restriction is perfectly justified because the imposition of a system of customs checks on goods in intra-Community trade would give rise to fresh trade barriers within the Community, which is totally at variance with the efforts to establish a common market. Nonetheless, continued intra-Community trade in counterfeit goods cannot be ignored and it may become appropriate to conduct a separate study on measures to be taken by Member States to counteract this.

\* The definition of counterfeit products is so framed as to clearly exclude parallel imports from the scope of the regulation.

\* It is important to remove the possibility of using the suspension of the release of goods for protectionist purposes. Sufficient safeguards should be built into the provisions of the regulation governing security to ensure that the regulation cannot be used for unfair ends.

\* The obligation on the trademark owner to provide the customs authorities with the necessary information to enable the customs to establish whether a consignment of goods is counterfeit and to suspend their release is an important one.

It should be remembered that customs officials check declarations and examine goods passing through customs in barely 5% of cases on average.

\* The computerization of customs procedures can help towards better and more effective checks on imports and thereby make it easier to control imports of counterfeit goods.

## 2. Trade agreements between the Community and third countries

Counterfeiting in various countries is only able to flourish thanks to the active or passive support of the national authorities. Hence it is important that the countries affected by counterfeit goods should bring strong pressure to bear on the authorities in countries with large counterfeiting industries, to persuade them to take the necessary steps on their side to stamp out this practice. When negotiating in future, therefore, with countries where counterfeit goods are manufactured the Community should lay down its requirements concerning the combating of counterfeit production in exchange for trade concessions.

Agreements on cooperation and exchange of information between the customs authorities of the countries from which counterfeit goods are exported and the customs authorities of the Member States could also be concluded.

### 3. A new trade policy instrument

The failure by various third countries to take adequate steps to combat the production of and trade in counterfeit goods can be highly detrimental to the interests of European producers, in terms of their potential sales both on the European market and on external markets. One of the aims of the new trade policy instrument is to defend the export interests of European industry on non-Community markets. The Commission should examine the extent to which this new instrument lends itself to persuading third countries to take action against counterfeiting. It may even prove to have a significant deterrent effect.

### 4. Protection against the counterfeiting of microchip designs

A new problem is that of protection against the counterfeiting of microchip designs. In 1984, a new law was passed in the United States providing for the protection of microchip designs as industrial property. European undertakings can only benefit from this protection if there is equivalent protection for American firms in Europe. The Commission is therefore called upon to promote the rapid establishment of Community rules on this matter.

### C. Measures at national level

As regards the national level, it should be pointed out that most countries have not yet grasped the precise nature of the present increase in counterfeiting and regard 'piracy' in the same light as other infringements of intellectual property rights. Counterfeiting of trademarks and piracy of audio-visual and data-processing equipment is generally dealt with under civil law and if penalties are imposed they are usually out of all proportion to the colossal advantages which can be gained by these activities.

This area ought therefore to be given a higher priority in the investigation, detection and prosecution policies of the Member States (e.g. a specially equipped unit answerable to the public prosecutor's office or a police force to deal exclusively with the penal law aspects of counterfeiting).

At the same time, the often token sanctions appear to have no deterrent effect.

### D. Action by the undertakings themselves

Undertakings whose products are copied naturally have the main responsibility for doing their utmost to prevent or even to combat counterfeiting. It is important in this connection that trademark owners should have their trademarks registered not only in the countries where they sell their products but also in the countries where counterfeit goods may be produced, so that they can also take legal action against counterfeiters in the latter. After all, the counterfeit goods can always be exported from there to other countries.

It is also important that firms should actively track down the manufacturers of counterfeit goods and possibly combine forces for this purpose. An important development in this context is the creation of an anti-counterfeit bureau by the International Chamber of Commerce in London. This offers small and medium-sized firms in particular an opportunity to take action against counterfeiting. This bureau may also play a useful role in providing national customs authorities with early information in connection with the implementation of the draft regulation.

CATEGORIES OF GOODS AFFECTED

Cases of counterfeiting have been recorded affecting the following categories of goods:\*\*

- Aircraft and helicopter parts
- Automotive components incl. tyres
- China and glass
- Clothing, textiles and shoes
- Computers and computer components
- Cosmetics and toiletries
- Detergents
- Electrical equipment
- Foodstuffs and beverages
- Fungicides and insecticides
- Infant feeding bottles
- Leather goods
- Lighters
- Lighting instruments
- Locks
- Luggage
- Machine parts
- Machine-tools
- Magazines
- Medical equipment and medicines
- Motor oil and brake fluid
- Records, tapes and film
- Spectacles
- Sports goods and sportswear
- Tobacco
- Tools
- Watches
- Water filters
- Woodburning stoves

\*\* This list is not exhaustive.

Goods bearing counterfeit trademarks have been identified in the following countries:

Abu Dhabi	Luxembourg
Argentina	Macao
Australia	Malaysia
Austria	Mexico
Belgium	Morocco
Brazil	Netherlands
Bulgaria	New Zealand
Chile	Nigeria
Colombia	Norway
Cyprus	Oman
Denmark	Pakistan
Dubai	Paraguay
Egypt	Philippines
Finland	Portugal
France	Romania
Federal Republic of Germany	Saudi Arabia
Greece	Singapore
Hong Kong	South Africa
Hungary	Spain (incl Teneriffe)
India	Sri Lanka
Indonesia	Switzerland
Iran	Syria
Ireland	Taiwan
Israel	Thailand
Italy	Trinidad
Japan	Tunisia
Kenya	Turkey
Republic of Korea	United Kingdom
Kuwait	United States
	Yugoslavia

This list is not exhaustive.

The trade mark is the sign (label, product-name, logo, picture, packaging) which identifies and distinguishes one product or service from another. Registration gives the owner exclusive rights over his trade mark. Counterfeiting is an offence in that it consists of using another person's trade mark, without his authorization, by identical or almost identical reproduction of the sign which constitutes that trade mark.

Counterfeiting of trade marks has always existed, and the development of techniques and the liberalization of trade over recent years have certainly helped to make this phenomenon more widespread.

## 1. THE ECONOMIC CONSEQUENCES OF TRADE MARK PIRATING

As one of the assets of the manufacturer or the trader, the trade mark is a way of attracting and keeping customers and a market. It also acts as an economic monitor, identifying the origin of products and ensuring the protection of consumers. The counterfeiting of trademarks, particularly now that it is more widespread, has therefore become a problem in both economic and legal terms.

### 1) The extent of the phenomenon

The practice of counterfeiting nowadays affects almost every economic sector and is widespread in most countries.

#### - Economic sectors which are particularly affected

For a long time, counterfeiting was mainly aimed at luxury goods. It is still rife in this sector (watches, perfumes, leather goods, clothes) and is often on an industrial basis. However, counterfeiting has recently spread to much vaster areas: such as components (brakes, gear-boxes, etc.) in the car and aviation industries<sup>1</sup>. The agricultural processing industry and the pharmaceutical industry are affected by counterfeiting (medicinal products, cardiological equipment)<sup>2</sup>. Finally, in the cultural sector, there has been an increase in counterfeit films and recordings over the past few years.

#### - The countries affected

The world economy as a whole is adversely affected by the growing practice of

<sup>1</sup> counterfeit components were found on 600 Sikorski helicopters delivered to NATO.

<sup>2</sup> In Kenya, the coffee harvests were ruined by counterfeit fertilizers; in the USA, 12 people are reported to have died in the last few years after taking counterfeit amphetamines.

counterfeiting. It is common knowledge that counterfeiting is particularly prevalent in several of the newly industrialized countries of South-East Asia (Taiwan, Hong Kong, South Korea) and Japan, but the same applies to Brasil, Mexico and Morocco. It is also true that counterfeiting practices are still rife in all the industrialized countries, in the European Community and the United States. Counterfeiting is extremely prejudicial to economic activity in the industrialized countries which own a considerable number of trade marks. Finally, the circulation of counterfeit goods are a threat to the health and safety of consumers everywhere.

## 2) The economic consequences of trade mark counterfeiting

The growth and development of trade mark counterfeiting is causing a great deal of harm especially to the economy of the European Community.

### a) The cost of investigating and prosecuting counterfeiters

Some large companies employ detectives and lawyers to track down and prosecute counterfeiters. The cost of such investigations, which often have to be carried out abroad, can be very high - from 1 to 5% of the companies' turnover. Small and medium-sized undertakings cannot usually afford such outlay<sup>1</sup>.

### b) Loss of earnings

The sale of counterfeit goods leads to a loss of earnings for companies which are victims of this practice. This loss of earnings is on the same scale as the growth of counterfeiting and is thought to be around 2000 million francs in France, and between 6000 and 7000 million dollars in the United States<sup>2</sup> in 1982.

### c) Loss of reputation

The loss of reputation which follows counterfeiting practices is far more serious for the manufacturer or trader than the immediate loss of earnings.

<sup>1</sup> There are some private organizations specializing in tracking down counterfeiters: the Anti-counterfeiting Group in the United States, and the Bureau d'Enquête sur la Contrefaçon (B.E.C.) set up by the International Chamber of Commerce.

<sup>2</sup> The perfume industry in France estimates the losses resulting from counterfeiting at 10% of its annual turnover; the Swiss clock and watch industry at 1000 million Swiss francs per annum.

As soon as quality or luxury goods are counterfeited and sold in large quantities at low prices, they lose their originality. Regular customers may abandon once and for all, if not the manufacturer and the trade mark, at least one of the range of products. An incident or accident caused by a counterfeit component can do untold damage to the reputation and future of a trade mark<sup>1</sup>.

d) The risks for the consumer

Counterfeit goods can expose consumers to serious health and safety risks. The cost of accidents should be counted among the indirect economic consequences of counterfeiting.

e) Loss of jobs

It is difficult to make any certain assessment of the effects of counterfeiting on employment. There is an estimated figure of 20 000 jobs lost in France, 40 to 50 000 in the Federal Republic of Germany, and 130 000 in the United States in 1983. In addition to the actual number of jobs lost, it is also important to take account of the effect that counterfeiting may have in certain circumstances on an undertaking which is already experiencing difficulties, and which may consequently be forced to close down.

Combatting counterfeit goods is not only a legal matter involving the protection of industrial property, but is in a wider sense a matter of international trade policy. Counterfeiting generally operates outside the laws relating to companies and taxation, and takes advantage of the investments and advertising costs borne by the owner of the trade mark. It thus acts as a threat to the economy, to the producers whose trade it is stealing, and to the consumers who are being misled.

11. PROTECTION OF THE EUROPEAN COMMUNITY AGAINST THE COUNTERFEITING OF TRADE MARKS

1) The Commission's proposal for a Council Regulation

The Commission's recent proposal<sup>2</sup> contains two main provisions: the

<sup>1</sup> The holder of the trade mark often has to guarantee the after-sales service in the event of a problem caused by a faulty counterfeit part.

<sup>2</sup> COM(84) 705 final

suspension of the release of counterfeit goods entered for free circulation, and their possible confiscation. Provided that he can furnish sufficient proof to validate his suspicions, the trade mark owner can therefore apply to the customs authorities to suspend the release of the goods in question for a certain period. Where it is established that the goods in question are counterfeit, they may be confiscated by the competent authorities. This latter provision is essential in order to avoid one of the problems commonly encountered when combatting counterfeit goods - namely, the return of the goods. However, this proposal for a regulation only applies to goods imported from third countries, and not to goods imported from Member States or in transit. This restriction is regrettable in that it lessens the economic and 'political' scope of the regulation.

## 2) National legislation

There seems to be a growing trend in the Community to strengthen national legislation aimed at combatting counterfeit goods. Customs control, lifting the requirement of customs secrecy, and court injunctions against the further production of counterfeit goods are all essential to this. Although the establishment of a whole battery of repressive measures, as in the United States<sup>1</sup>, must be avoided - since such measures might apply only to the middlemen involved in counterfeiting, rather than those who are directly responsible - counterfeiting should not go unpunished, but rather should be investigated and curbed. Tacit acceptance only serves to encourage these practices both in the case of goods from third countries and in intra-Community trade. In the long run, harmonization of such legislation is needed on a Community level. The argument in favour of the free movement of goods is hardly applicable with regard to counterfeit goods.

## 3) Free movement of goods

There is always the danger that combatting counterfeit goods may lead to protectionism. In order to guard against this, the proposal for a regulation provides, for example, that there should be a maximum period for the suspension of the release of goods (10 days), and that the trade mark owner applying for

---

<sup>1</sup>In the United States, counterfeiting is punishable by a fine of between 250 000 and 5 million dollars and a 5-year prison sentence.

this should have to pay a security. It is regrettable that, in the Commission's proposal, the payment of a security should only be optional, and that there should be no provision for penalties for undertakings which act dishonestly.

#### 4) Prevention

More checks to determine whether goods are counterfeit, and more penalties against counterfeiting may act as a deterrent but will only have a limited effect. In conjunction with these measures, it is important to take preventive action to tackle the phenomenon at source. Counterfeiting involves a complex network, and is difficult to detect (counterfeiting activities often occur sporadically; they are interrupted and then resumed). Preventive action against counterfeiting therefore requires coordinated action by all the authorities concerned: civil service, customs, national and international courts, and private anti-counterfeiting organizations.

To this end, it is essential to set up a trade mark data bank which would both facilitate the task of establishing the priority of a trade mark<sup>1</sup> and provide the necessary information for cross-checks and selective controls at frontiers. The Community should encourage and assist in the setting up of such European data banks which are currently being formed; it must have an effective instrument of its own in this sphere.

### III. PROTECTION OF THE INTERNATIONAL COMMUNITY AGAINST THE COUNTERFEITING OF TRADE MARKS

The world-wide scale of counterfeiting means that there should be an international programme of action.

#### 1) The GATT draft code

Owing to the slow progress of GATT's work on drawing up a code, begun in 1979, the Community was forced to go ahead and provide itself with a special, albeit partial protection.

The Commission must therefore work within GATT to ensure that the draft code is introduced. The adoption of the Community Regulation will help advance this work and have a positive influence on the contents of the code<sup>2</sup>.

<sup>1</sup> Unintentional counterfeiting may occur through ignorance of the fact that a registered trade mark already exists, and the trade mark owner may exploit this situation.

<sup>2</sup> In fact, the burden of proof for the applicant is greater in the GATT draft code than in the Commission's proposal for a regulation.

Several of the developing countries do not agree that GATT is the appropriate body to discuss the problems of counterfeit goods but it should again appear on the agenda of the next GATT negotiations.

## 2) Trade negotiations

Counterfeiting in several countries can only thrive with a passive or active connivance of the national authorities. Countries affected by counterfeiting should therefore put pressure on the authorities of those countries where large counterfeiting centres are based to introduce and enforce the necessary measures. The Community, for its part, should in future back up its trade agreements such as the Multifibre Arrangement or the granting of generalized preferences, with safeguard clauses relating to counterfeit goods. The same applied to trade negotiations with South-East Asian, South American or African countries.

## 3) Close coordination between the national and international authorities concerned

The way in which regulations are applied is just as important as the provisions they contain. This calls for close cooperation between the courts, administrative, customs, national and international authorities concerned<sup>1</sup>. It also means that specialized staff should be trained and their number increased.

In conclusion, the Committee on Economic and Monetary Affairs and Industrial Policy:

1. Stresses the illicit nature of the production and marketing of counterfeit goods which are often the work of complex and highly organized international networks, acting at the expense of trade mark owners, reaping the benefits of the latter's investments, and disregarding the laws relating to employment and taxation;
2. Notes that the development of trade mark pirating, particularly since this is now affecting many industrial products as well as merely luxury goods,

<sup>1</sup>The Customs Cooperation Council should play a decisive part in this.

is detrimental to the economy, in particular the EEC economy, in terms of loss of earnings, loss of market, loss of jobs, and the costs incurred, and constitutes serious hazards to the health and safety of consumers;

3. Approves therefore the Commission's proposal which has proved to be necessary and which contains valuable provisions to assist in combatting counterfeiting;
4. Requests therefore that national legislation in this sector should be consolidated and harmonized as soon as possible so that, without hindering the free movement of goods, the production and marketing of counterfeit goods within the Community should be stamped out by means of rapid and suitable procedures;
5. Regrets that the Commission's proposal does not contain provisions relating to the prevention of counterfeiting, without which any efforts to combat this practice will be fruitless; to this end requests the Commission to work with the competent authorities of the Member States to set up a Community trade mark data bank, which is the instrument needed for close supervision of counterfeiting at all times, thus enabling selective controls to be carried out to good effect at frontiers, and generally assisting in the task of providing proof of counterfeiting for all the parties concerned;
6. Further requests the Commission, as part of its trade policy, to introduce safeguard clauses relating to counterfeiting in the trade agreements that it negotiates and concludes (Multifibre Arrangement, granting of generalized preferences, trade agreements with South-East Asian countries in particular); appropriate economic sanctions could act as a deterrent on those states which tolerate counterfeiting activities;
7. Urges that the work begun in 1979 on the adoption of a GATT code on this subject should be pursued, and requests the Commission to play an active role in it so that a world law in the interest of all countries can be introduced and enforced with the cooperation of all the national and international authorities concerned;
8. Hopes, finally, that the Commission will draw up new proposals with a view to stepping up the fight against counterfeit films, recordings and copy-rights which threaten the cultural and scientific patrimony of the Community.

MOTION FOR A RESOLUTION (DOCUMENT 2-889/84)

tabled by Mr von WOGAU

pursuant to Rule 47 of the Rules of Procedure

on international trade in counterfeit goods

The European Parliament,

- A. whereas the problem of counterfeit goods is becoming more widespread and for many industries is already acute,
- B. whereas trade in counterfeit goods is a worldwide problem affecting both developed and developing countries and the responsibility for tackling it is a collective one,
- C. whereas the manufacture and sale of counterfeit goods causes economic loss to legitimate producers in developed and developing countries alike, with a correspondingly negative impact on employment,
- D. whereas counterfeiting defrauds the consumer and many instances of counterfeiting pose serious health and safety risks for the public,
- E. having regard to the Communication by the European Communities to the General Agreement on Tariffs and Trade (GATT) on Trade in Counterfeit Goods, dated 22 June 1983,
- F. having regard to the need to ensure that action against counterfeit goods does not create new non-tariff barriers to trade in genuine goods,

1. Urges the Commission and Council

- a) To press for an early agreement in the GATT on measures to discourage the importation of counterfeit goods or, if this is not possible, to seek such an agreement through alternative channels;
  - b) To seek in cooperation with other developed and developing countries, ways of promoting mutual action against makers, exporters and importers of counterfeit goods;
  - c) To include appropriate anti-counterfeiting clauses in bilateral trade agreements;
  - d) To take action to improve cooperation between the customs services in the community and to introduce harmonised Community customs regulations and procedures to facilitate the detection and seizure of counterfeit goods, leading to the removal of all the economic benefits to traders in such goods;
  - e) To support the recent initiatives of the Customs Cooperation Council aimed at improving international customs cooperation for preventing trade in counterfeit goods;
2. Instructs its President to forward this resolution to the Commission, the Council and the governments of the Member States of the Community.