

ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS
IN A GENERAL FRAMEWORK AND EVALUATION OF ENFORCEMENT
MEASURES IN THE EU CONTEXT

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ABSTRACT

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This thesis analyzes the enforcement measures for the protection of intellectual property rights in an international and regional framework. The challenges posed by the digital technology; the difficulties faced by right holders, judiciary, public agencies, international and regional organizations in the implementation stages will be discussed by referring to the legal texts such as the TRIPS Agreement, the EU Enforcement Directive and Regulations. All dimensions of counterfeiting and piracy will constitute an important focus of this thesis. The thesis will seek to clarify uncertainties arising from the jurisdictional conflicts for the determination of the applicable law and competent courts in intellectual property cases involving foreign elements.

Keywords: Intellectual property rights, enforcement, counterfeiting, piracy, civil and criminal remedies, jurisdiction.

ÖZ

FİKRİ MÜLKİYET HAKLARININ UYGULANMASINA DAİR GENEL ÇERÇEVE VE AVRUPA BİRLİĞİ'NDE FİKRİ MÜLKİYET UYGULAMALARININ DEĞERLENDİRİLMESİ

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Bu tez, fikri mülkiyet haklarının korunmasını teminen, alınan uygulama önlemlerinin uluslararası ve bölgesel çerçevede bir analizini sunmaktadır. Dijital teknolojinin getirdiği yenilikler; hak sahipleri, yargı, kamu kurumları, uluslararası ve bölgesel örgütler tarafından fikri mülkiyet haklarının uygulanması alanında karşılaşılan zorluklar bu tezde TRIPS Anlaşması, AB Uygulama Direktifi ve tüzükleri ekseninde tartışılmıştır. Sahtecilik ve korsanla mücadelenin tüm boyutları bu tezin önemli bir kapsamını oluşturmaktadır. Bu çalışma, yabancı unsur ihtiva eden fikri mülkiyet davalarında yetkili mahkeme ve hangi hukukun uygulanacağına dair yargı hakkına ilişkin ihtilafli durumlar hakkında incelemelerde bulunmaktadır.

Anahtar Kelimeler: Fikri mülkiyet hakları, uygulama, sahtecilik, korsan, hukuki ve cezai tedbirler, yargı hakkı.

To My Parents and
To My Husband

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LIST OF ABBREVIATIONS

- AAC:** Alliance Against Contraband
- ACE:** Advisory Committee on Enforcement
- ACM:** the Association for Computing Machinery
- ACTION:** Alliance of Customs and Trade for the Interdiction of Narcotics
- ADR:** Alternative Dispute Resolution
- AIDCO:** Europe Aid Cooperation Office
- CCC:** Customs Cooperation Council
- CEBR:** Center for Economics and Business Research
- CME:** Consultation Meeting on Enforcement
- DGs:** Directorates-General
- DMCA:** US Digital Millennium Copyright Act's
- DSU:** Dispute Settlement Understanding
- ECJ:** European Court of Justice
- EDRi:** European Digital Rights
- EFTA:** European Free Trade Association
- ENE:** Early Neutral Evaluation
- EU:** European Union
- GACG:** Global Anti-Counterfeiting Group
- GATT:** General Agreement on Tariffs and Trade
- ICC:** International Chamber of Commerce
- ICPO:** International Criminal Police Organization
- IFPI:** International Federation of the Phonographic Industry
- IIPCAG:** Interpol Intellectual Property Crime Action Group
- IPEIS:** Intellectual Property Enforcement Issues and Strategies
- ISPs:** Internet Service Providers
- LDCs:** Least Developed Countries
- NGOs:** Non-Governmental Organizations
- OECD:** Organization for Economic Cooperation and Development
- OHIM:** Office for Harmonization in the Internal Market

OJ: Official Journal of the European Communities

SMEs: Small And Medium Sized Enterprises

TRIPS Agreement: Agreement on Trade Related Aspects of Intellectual Property Rights

UDRP: Uniform Domain Name Dispute Resolution Policy

UN: United Nations

UNECE: United Nations Economic Commission for Europe

USTR: United States Trade Representative

WCO: World Customs Organization

WCT: WIPO Copyright Treaty

WHO: World Health Organization

WIPO: World Intellectual Property Organization

WPPT: WIPO Performances and Phonograms Treaty

WTO: World Trade Organization

1. INTRODUCTION

This thesis is the outcome of an extensive research made about the enforcement of the intellectual property rights. Importance of the intellectual property rights as a separate category of law is recently recognized by many actors having close connections with this issue such as right holders, public organs, and international organizations. Since there are many dimensions of the intellectual property rights like the protection mechanisms provided for them, infringements, invalidations, valuation and commercialization of those rights each of which might be a subject of a separate thesis, this research mainly covers the current issues regarding the enforcement of the intellectual property rights.

EU regulates this area of law by enacting many directives and regulations. In addition EU necessitates the alignment of the candidate countries' legislation regarding intellectual property protection mechanism with that of the EU legislation. Turkey, as a country on the way of full membership to the EU, is urgently revising current legislation for reaching full harmonization on intellectual property protection. Progress reports prepared by the EU organs still point out some important deficiencies concerning the effective enforcement. Even the gaps and deficiencies in the proper implementation of the intellectual property rights in Turkey is a very crucial subject, this issue is not covered within this thesis and it is not included within the current topics discussed in this thesis regarding enforcement due to the fact that it is worth to be analyzed in another thesis separately.

Intellectual property law is the area of law that deals with the legal rights arising from the creative effort, commercial reputation and goodwill. It regulates the creation, use and exploitation of mental or creative labor. The subject matter of intellectual property is very wide and the term 'intellectual property' has been used to refer to copyright, patents, designs and trademarks as well as a host of related rights. Intellectual property law creates property rights in a wide and diverse range of

things from novels, paintings, films, various insignia applied to the goods and services, performances, pharmaceuticals and plants.

While there are a number of important differences between the various forms of intellectual property, one factor they share in common is that they establish property protection over intangible things such as inventions, signs or information. As rights over intangibles, intellectual property rights limit what the owners of personal property are able to do with the things, which they own. The law also deters others from copying or taking unfair advantage of the work or reputation of another. It provides remedies when these kinds of activities happen.

1.1. Justification for Intellectual Property Law

In granting property status to intangibles, the question arises as to how and where the boundary lines of the property is to be determined. Legal and political philosophers have often debated the status and legitimacy of intellectual property. In so doing, philosophers have typically asked, “why should we grant intellectual property rights?” According to Bainbridge, the basic reason for intellectual property is that a man should own what he produces, that is, what he brings into being. Intellectual property is, therefore, the most basic form of property because a man uses nothing to produce it other than his mind. ¹

The justifications based on property tend to fall into one of two general categories. People in the first category often rely upon instrumental justification focusing on the fact that intellectual property induces or encourages desirable behavior. It is claimed that investment should be stimulated by the presence and enforcement of strong laws that provide a framework ensuring that the publication of new works and the manufacture of new products will be profitable, assuming that they are sufficiently meritorious, useful and commercially attractive to attain a viable level of sales. If investment is stimulated this should lead to increased prosperity and employment. ²

¹ David Bainbridge, *Intellectual Property*, Pearson Longman, 5th ed., 2002, p.17.

² *ibid.*, p. 17.

Another ground for this justification is that the existence of strong laws including strong remedies for the right holders in this area encourages the publication and dissemination of information and this makes accumulation of knowledge for all people wider.

The creation of limited legal monopolies called intellectual property rights gives us a way of protecting and rewarding innovators in art and technology, encouraging firms to produce quality products, and allowing consumers to rely on the identity of the products they purchased.³

Alternatively, some people in the second category comment on ethical and moral arguments to justify intellectual property rights. A person who creates a work or develops a new invention has a right to control the use and exploitation of that work or invention. He should be endowed with the rights to prevent others from taking unfair advantage of his efforts. This idea depends on the concepts of morality and reward. The main argument behind this is that effort deserves reward. This draws on a long line of political theory starting with John Locke's argument about property rights in previously common land being awarded to the diligent cultivator. It has now become a more general argument that not only should effort be rewarded, but also to stimulate useful human activity reward is vital and necessary. In intellectual property this suggests that only by allowing innovators and creators ownership rights over their creations can society stimulate and reward their efforts.⁴ The construction of monopolies or semi-monopolies over the subject matter of intellectual property encourages innovation and creativity.

Intellectual property rights also reflect the rights of individuals to own the products of their own efforts, in that these efforts reflect the expression of an individual's self-identity. Others should not be able to save time and effort required to create or invent the thing concerned. Thus individuals should be allowed to own intellectual property in the products of their mental activity. Recognition of the moral rights has been very

³ James Boyle, "A Manifesto on WIPO and the Future of Intellectual Property", *Duke Law and Technology Review*, No.9, 2004, p. 1.

⁴ Christopher May, "Why IPRs Are A Global Political Issue?", *E.I.P.R.* 2003, 25(1), p. 1-5.

common on the continent for many years for the intellectual property rights. However recently in common law countries such as in the United Kingdom, there has been moves towards the recognition of the moral rights of creators and authors to ensure that their work remains as they intended even when the economic rights have been transferred.

According to Christopher May, intellectual property is more closely related to the capitalist character of modern society. Markets, it is argued, promote efficiency of use, and therefore in order to ensure that ideas and knowledge are used efficiently, for the maximum benefit of society, markets need to be introduced into the distribution of information and knowledge.⁵ Knowledge and information as in the form of intellectual property rights are distributed to the exploitation of the society by giving some material reward to the right holders and this drive to enhance efficiency itself spurs new innovations.

1.2. Nature of the Intellectual Property Rights

Intellectual property is a property in a legal sense. As other kinds of property, it can be owned, assigned, mortgaged and licensed. Intellectual property gives rise to rights and duties. It establishes property rights, which give the owner the right to do certain things in relation to the subject matter. For example, if the right is a copyright and the subject matter is a piece of music, the owner of the copyright has the exclusive right to make copies of the sheet music, to make an arrangement of the music and to control the performance of the music. The owner also has the negative right to prevent others from doing such things in relation to the music.⁶

In short, intellectual property right is a right to do certain things for the owner and it creates a duty for the others not to do certain things. It gives exclusive rights to the owner to make copies of a work of copyright, to make articles to a design covered by a design right or to make products in accordance with a patented invention. The

⁵ *ibid.*

⁶ Bainbridge, *op. cit.*, p. 9, 10.

owner can assign these rights to others or license those rights upon payment of royalties. The duty owed by all others is not to infringe the right. There is no requirement of *mens rea* or the knowledge of infringement for the others to be held responsible for the infringing acts. The right resulting from the operation of intellectual property law gives the owner a corresponding privilege to exploit the work exclusively. Persons other than the owner do not have this right. They need permission of the owner to exploit those works that are the subject of intellectual property right.

However, in the area of intellectual property, the law strives to reach a balance between conflicting interests of the owner and the society at large to reach a justifiable compromise. The grant of formal intellectual property rights is considered as a kind of contract between on the one side the inventor, designer, and trademark owner and on the other side the state. For example, in the case of patents, it gives monopoly protection to the inventor for a limited period of time and the inventor donates his invention to the use of society as a conclusion of this contract. Intellectual property law should always pursue a policy of balance on the grounds of protecting private interests and promoting investment while providing benefits for society at large in terms of increased wealth, knowledge and employment.⁷

For this reason, there are some exceptions to infringement of the intellectual property rights. For example, registration of a design does not extend to features dictated solely by function. Certain things may be done without the permission of the copyright owner such as making a copy of the work for the purposes of research, private study, criticism and review. These are called as fair dealing. In the case of trademarks, the honest concurrent use by other traders of the same mark will not infringe the rights vested in the trademark holder. For patents, in order to prevent abuse of the proprietor manipulating the market to his own advantage and to the disadvantage of competitors and consumers, it may be possible to obtain a compulsory license to exploit a patent irrespective of the proprietor's wishes.

⁷ *ibid.*, p. 17.

In addition, intellectual property rights are not granted to the owners for unlimited periods. Duration is an important concern and most of the rights are limited in time. Only registration for trademarks may be renewed indefinitely owing to their enduring usefulness as market information. Broadly, patents enjoy only 20 years' protection owing to the considerable social benefit of innovation being in the public domain for use by all, while copyrights are subject to a longer period of protection because it is seen as less costly if expressive works are not swiftly and widely distributed. Even there are some efforts from the beginning of the formation of the intellectual property law for seeking a balance between private interests of the right owners and the interests embedded in the public domain, there are increasing concerns and criticism to the evolution of this law in contrary to the interest of the society at large.

According to Boyle⁸, as intellectual property protection has expanded exponentially in breadth, scope and term over the last 30 years, the fundamental principle of balance between the public domain and the realm of property seems to have been lost. Ideas and facts as a general principle could never be owned. Boyle arguing that contemporary intellectual property law is rapidly abandoning this central principle. Now we have database rights over facts, gene sequence, business methods and software patents, digital fences that enclose the public domain together with the realm of private property. In Tom Scocco words, "what began as a way for a company to protect its own name and reputation has turned into a sort of Oklahoma land rush by would - be trade markers - only the frontier they're seizing and fencing off is not the prairie, but our language and our culture." Articulating a positive case for an open information environment is probably the single most important thing the new politics of intellectual property might do in Samuelson words.⁹ Intellectual property protections changed over time, responding to the internal and external economic and technological context. The digital networked environment has surely changed the rules of the intellectual property to a great extent. Indeed, the history of intellectual property rights has been largely concerned with politically determining

⁸ Boyle, *op. cit.*, p.6.

⁹ Pamela Samuelson, "Toward a New Politics of Intellectual Property", *Communications of the ACM*, March 2001, Vol.44, No.3.

the balance between private rights to reward and the public benefit of “free” availability of useful information and knowledge.

1.3. Subject Matter of the Intellectual Property Rights

According to Vaver, intellectual property today is a shorthand for a whole list of disparate rights that have this in common: they protect some products of the human mind, for varying periods of time, from others’ using those products in various ways.¹⁰ There are many similarities and differences between the various rights that constitute intellectual property law. Some of them grant monopolies and some only prevent unfair use by others. They are not mutually exclusive. Two or more of the rights can coexist in relation to the same thing. A distinction among various rights can be made according to the requirements for the grant of protection. For some of them, there is a requirement of registration that means the right is dependent upon the completion of certain formalities. Some of them come into life automatically upon the completion of the work without any formalities. Another distinguishing feature is the nature of the right. It might be related to something, which is primarily creative, or it might apply to commercial things.

Traditionally, a number of intellectual property rights were considered as industrial property such as patents, trademarks and designs. When other rights such as copyright and rights in performances are added to industrial property, the phrase used to refer to all these rights becomes intellectual property. The demarcation between industrial and intellectual property has been discussed for many years and it is still subject to some changing views among many scholars and lawyers on the correct phrase to describe the entirety of rights. Throughout this thesis the term “intellectual property” is used to explain various rights categorized under this title regardless of the artificial differences between these two terms.

1.3.1. Copyright and Rights in Performances

¹⁰ David Vaver, “Intellectual Property: Where’s the World Going?”, Oxford IP Research Center, Seminar Papers, 1999, S 01/99, (<http://www.oiprc.ox.ac.uk/Seminar0199.html>).

Copyright is a property right, which subsists in various works such as literary and artistic works, musical works, sound recordings, films and broadcasts. The author of a work is the person who creates it and he is normally the first owner of the copyright. Films are usually works of joint authorship, the authors being the principal director and the producer. Copyright in a work last generally until 70 years after the author's death or 50 years after it was created depending on the type of work. Copyright gives the owner the right to do certain things in relation to the work, which includes making copy, broadcasting or giving a public performance. Anyone else, who does any of these things restricted by copyright without the permission of the owner, infringes copyright and may be subject to legal action taken by the owner for that infringement.¹¹

Copyright does not protect ideas. It protects only the expression of an idea in its tangible form. For others it is free to create similar or even identical works as long as they do so independently by their own efforts without copying. So it can be said that copyright does not create a monopoly right in a particular work. It gives rise to two types of rights. One of them is economic right in the work for example, the right to control copying and the second one is moral right, which empowers the author with some control over the use and exploitation of the work in the future. The author has a right to be identified as such and has a right to object any derogatory treatment of the work.

International protection of copyright works was shaped through two international conventions: the Berne Copyright Convention and the Universal Copyright Convention. Both of these conventions provide minimum standards of protection for the contracting states and lay down the principle of reciprocity between these states. These two conventions are important for the attainment of harmonization on a worldwide arena of the basic rules of protection that exists for the copyright works. However they are far from full harmonization.

¹¹ Bainbridge, *op. cit.*, p. 5.

There are also rights in performances that can be dealt with under this heading. The performer's right and a recording right appeared as a result of increases in the live performances. The need for specific rights in live performances is that they give the performer, and the person having exclusive recording rights, a means of protecting live performances from persons making illicit i.e. bootleg recordings of such performances.

1.3.2. Patents

A patent is another form of intellectual property and it gives monopoly right to the owner. Upon the fulfillment of the three conditions, novelty, inventiveness and the industrial applicability, a patent may be granted in respect of a new invention. The patent right lasts for up to 20 years. As very strong form of protection is granted for the patents, an application for a patent should be prepared precisely and accurately in order to specify the exact lines of protection and the scope of the invention. Claims in the application define for which protection is sought. In addition, infringement of a patent right is examined on the grounds of what is claimed in the application.

Patents can be assigned and licenses may be granted in respect of them. The owner of a patent is the person who is registered as the proprietor. In case of inventions made by employees, the employer will be the proprietor and the inventor will be identified. The employee may request compensation from the employer, if the invention brings outstanding financial benefits to the employer. For limiting the abuse of monopoly right by the owner, compulsory license is made available for third parties. If the patent was not being worked or if the proprietor was limiting supply of a patented product to the disadvantage of the competitors and to maintain high prices, a compulsory license would be appropriate.¹²

In short, patents protect new, non-obvious and useful inventions. The patent right is given to prevent all others - not just imitator, but even independent devisers of the same idea - from using the invention for the duration of the patent. In recent years,

¹² *ibid.*, p.7.

patents have come to be granted over not only mechanical products and processes, but also the products of computer and genetic engineering.

Another form of intellectual property right is utility model protection. It can be described as a lesser form of patent protection. Basic requirements for the utility models are easier than patents.

1.3.3. Trademarks

In nineteenth century when the industrial revolution gave rise to mass production and distribution of consumer goods that the trademark became an important instrumentality of commerce and trade. By this time trademarks did not merely identify the goods; they also indicated the goods to be of satisfactory quality. They simulated further purchases by the consuming public. Eventually, they come to symbolize the goodwill and business reputation of the owner of the product and became a property right protected by law.

Trademarks can be defined as any sign capable of being represented graphically, which is capable of distinguishing goods or services of one undertaking from those of other undertakings. A trademark may, in particular, consist of words (including personal names), designs, letters, numerals or the shape of goods or their packaging. The expansion in trademark subject matter brought previously unregistrable signs such as sounds, smells and three-dimensional shapes within the realm of trademark law. The possibility of registration for mere color of a product or a packaging of a product has raised difficult issues for trademark law. The requirement of graphic representation has posed some barriers to the registration of new types of mark in particular sound and olfactory marks.¹³

Rights are either conferred by way of formal registration or because of a reputation generated by actual trading. Trademarks are registered in respect of certain classes of goods and services. Registration for trademarks may be renewed indefinitely. There are also certification marks and collective marks indicating the origin or quality of

¹³ *ibid.*, p.9.

the goods. Collective marks are used by members of an association. Registered marks must be used and if they are not used for five or more years, they might be revoked.

The tort of passing off is a common law version of trademark law. Passing off protects the goodwill, business image and reputation associated with a trader.

1.3.4. Designs and Other Intellectual Property Rights

Design right relates to the design aspects of the shape, configuration, pattern or ornament of an article. Designs might be protected either under registration systems or along copyright lines. The registered design lasts for up to 25 years, initially granted for five years and then subject to renewal every five years.

Apart from the intellectual property rights explained above, there are many other categories that might be cited under this title like plant varieties, topographies of semiconductor products, trade secrets, trade names and geographical indications. All these different types can be protected either under traditional intellectual property mechanisms or sui-generis protection mechanisms.

1.4. International Aspects of the Intellectual Property Rights

One of the defining characteristics of intellectual property rights is that they are national or territorial in nature. They do not ordinarily operate outside of the national territory where they are granted. The territorial nature of intellectual property rights has long been a problem to right holders whose works, inventions and trademarks are the subjects of transnational trade. Throughout the nineteenth century, countries began to explore ways of protecting their authors, designers, inventors and trademark owners in other jurisdictions. Initially this was done through bilateral treaties whereby two nations agreed to allow nationals of the other country to claim protection of their respective laws.

Towards the end of nineteenth century a number of countries entered in to two multilateral arrangements: the Paris Convention for the Protection of Industrial

Property of 1883 and the Berne Convention for the Protection of Literary and Artistic Works of 1886. Both treaties established the idea of national treatment as their central criterion of protection. The principle of national treatment is fundamentally a rule of non-discrimination. Reciprocity is inherent in the treaties. Each member state is obliged to grant nationals of the other members the same rights as it accords to its own nationals. No country provides national treatment to foreigners in a country that does not reciprocate. Effectively, national treatment is a mechanism of international protection without harmonization.

Paris Convention is updated and amended occasionally. It applies to inventions, trademarks, industrial designs, indication of origin and unfair competition. It establishes basic principles for intellectual property laws in individual countries and reciprocal protection for those rights. It also sets up priority rights in respect of patents, trademarks and industrial designs. The Berne Convention also made the first efforts to harmonize protections across countries, mostly at a procedural level. This was achieved by requiring members of the Berne Convention to grant copyright protection without the need for formalities.¹⁴

In the field of trademarks, a mechanism was developed whereby a national trademark owner could make an international registration which would take effect in designated countries by the Madrid Agreement concerning the International Registration of Marks 1891. A similar procedure for international application for patents was not developed until 1970 under the framework of the Patent Cooperation Treaty. The expansion of international agreements for the protection of intellectual property has continued over the last century. A number of new treaties have been formulated. Most of these treaties have been developed and supervised by the World Intellectual Property Organization (WIPO).¹⁵

¹⁴ *ibid.*, p.16.

¹⁵ The WIPO, has built itself around the attempt to promote and harmonize intellectual property laws internationally, though the organization's actual responsibility within the UN system is significantly broader: "promoting creative intellectual activity and facilitating the transfer of technology related to industrial property to the developing countries in order to accelerate economic, social and cultural development."

WIPO's actual responsibility within the United Nations (UN) system is to attempt to promote and harmonize intellectual property laws internationally. WIPO has a uniquely influential role to play in setting innovation policy worldwide. Boyle criticizes the role of the WIPO while harmonizing the intellectual property rules of different nations upwards, adopting the strongest protections and not seeking the correct balance between the public domain and the realm of private property.¹⁶

By the 1980s, the USA had realized that it was a net producer of intellectual property based goods and along with the EC and Japan started to advocate for higher levels of intellectual property protection on a global basis. After the experience of WIPO-controlled treaty negotiations, the USA sought to bring intellectual property protection within the General Agreement on Tariffs and Trade system (GATT)¹⁷. In 1986, "Trade Related Aspects of Intellectual Property Rights" (TRIPS) was included on the agenda of the GATT negotiations. The Uruguay Round of the GATT was concluded on 15 December 1993 with a series of agreements including the TRIPS Agreement¹⁸ and this agreement is now administered by the World Trade Organization (WTO). The TRIPS Agreement lays down minimum standards of protection for intellectual property on the basis that adequate and effective protection must be given in such a way that the enforcement of intellectual property rights does not create barriers to legitimate trade.¹⁹

The TRIPS agreement covers all areas of intellectual property. The most significant difference between TRIPS and the existing treaties is the inclusion of better enforcement provisions. Prior to TRIPS matters of procedure, remedies and criminal sanctions had largely been left to national law. This thesis will explore the reasons for multilateral protection of the subject matter and also its effectiveness compare to national policies. Since there is a coordination problem in setting intellectual

¹⁶ Boyle, *op. cit.*, p. 8.

¹⁷ GATT, Ministerial Declaration on the Uruguay Round of Multilateral Trade Negotiations, September 20, 1986, XXV(6) International Legal Materials, 1623.

¹⁸ Agreement on Trade-Related Aspects of Intellectual Property Rights (1994) XXXIII International Legal Materials 1197-1225.

¹⁹ Bainbridge, *op. cit.*, p. 16.

property policies, negotiations to harmonize intellectual property protection can solve this coordination problem.

Although the intellectual property instruments internationally recognized the peculiar needs of the developing and the least developed countries, little attention has been given to the question of whether Western legal concepts are appropriate for these nations.²⁰ Though WIPO and TRIPS both make claims to flexibility, critics have pointed out that the actual practice has been to push the developing countries to adopt ‘TRIPS-plus’ levels of protection.²¹ So the balance has been set by international instruments in favor of developed countries and they also became instruments of the increasing encirclement of the private domain by high protection mechanisms. This ‘one size fits all’ attitude has been widely condemned in both developed and developing world. In the words of the UK Commission on Intellectual Property, “Intellectual property systems may, if we are not careful, introduce distortions that are detrimental to the interests of developing countries. Developed countries should pay more attention to reconciling their commercial self-interest with the need to reduce poverty in developing countries, which is everyone’s interest.”²²

1.5. EU Context

After analyzing intellectual property in a global framework, regional influences should also be discussed to understand some of the basic aspects of the intellectual property protection. In this context familiarity with European Union law is essential. Articles 28 and 30 of the EC Treaty reflect the desire to establish an internal market that is a single European market with no internal frontiers or national barriers to trade. On the other side there is Article 295 of the EC Treaty, which states that nothing in the Treaty shall prejudice the rules in member states governing the system of property ownership. These provisions were reconciled by permitting the maintenance and use of different national intellectual property laws while limiting

²⁰ Lionel Bently and Brad Sherman, *Intellectual Property Law*, Oxford University Press, 1st ed., 2001, p. 8.

²¹ Boyle, *op. cit.*, p. 3.

²² Boyle, *op. cit.*, p. 4.

the negative effects of the territorial nature of such rights through the doctrine of exhaustion. The extent of this doctrine is very wide and case law on this doctrine has developed significantly in recent years.

If the intellectual property rights are implemented similarly in each member state, trade within the Community is facilitated. In this regard, the process of harmonization of national laws in the field of intellectual property has been proceeding for some time. European Community directives have been instrumental in this harmonization process by which domestic laws protecting computer programs, semiconductor products, databases and trademarks have been changed. European Community regulations have also had an impact on domestic intellectual property laws.

Community involvement with intellectual property can be divided into four stages. In the 1970s, the focus of attention was on the establishment of a Community patent system, in which a single patent would be granted for the whole of the Community, enforceable in Community patent courts. To this end, in 1975 the Community Patent Convention was agreed to at an intergovernmental level but it was never materialized. Community patent system will be a unitary system and granted patent will take effect throughout the Community. In 1973, a separate instrument for the granting of patents, The European Patent Convention had been agreed to between states. So harmonization of patent law was effected through the European Patent Convention, which has a larger membership than that of the European Community. It gives a bundle of national patents. The two Regulations on Supplementary Protection Certificates were adopted. The Directive on the Legal Protection of Biotechnological Inventions was presented.

In the 1980s, attention turned to the harmonization of trademark law. The Community trademark was introduced by way of a Council Regulation 40/94 and in 1996 the Office for Harmonization in the Internal Market (OHIM) was established. The OHIM started accepting applications to register Community trademarks on 1 January 1996. At the end of the 1980s, the third wave of harmonization began when the Commission set out to harmonize a number of aspects of copyright law. The need

for harmonization arose because the different levels of copyright protection in different member states was seen to constitute potential barrier to trade.

The 1990s also witnessed Community intervention in relation to a number of *sui-generis* intellectual property rights. A Community Plant Variety Regulation established a Community Office. Directive was also passed relating to the harmonization of the law relating to designs. The OHIM is also responsible for registration of the Community wide registered design. All of these efforts for harmonization ensure that the EC has begun to achieve its long-term goal of creating unitary intellectual property rights for the whole of its ever-growing territory.

1.6. Challenges to the Intellectual Property

From the beginning, in the field of intellectual property, on the one hand the demand for increased protection has arisen and on the other hand the level of suspicion and criticism of intellectual property has increased. In many intellectual property forums the question of whether extensions of protection are justifiable has been discussed.

First of all, the developing countries, which are only beginning to exploit intellectual property of their own, have often enough found themselves with an inheritance of protectionist laws from colonial days.²³ Yet in the race for development, there is a real need to acquire technology from the advanced nations and for this reason they need to pay enough attention to the intellectual property rights to continue to attract foreign investment. They on the other side need for freer access to technical and educational materials, which require derogation from some basic principles of property. Intellectual property policy must maintain a balance between developed and developing nations in order to overcome challenges arising from the urgent requests of the developing nations for self-sufficiency and independent initiative for national business concerns.

²³ William Cornish and David Llewelyn, “*Intellectual Property: Patents, Copyrights, Trademarks and Allied Rights*”, 5th ed., London, Sweet & Maxwell, 2003, p. 31.

Secondly, there remains a tendency amongst the developed capitalist states to limit the monopolistic tendencies of successful private enterprises by drawing limits to the extension of intellectual property rights. A new politics of intellectual property is needed to counteract the industry's drive toward ever-stronger rights. More importantly, a broader awareness is needed for the changes of the deeply affected information environment since the digital networked environment has surely changed the economics of production of intellectual property.²⁴

Globalization of intellectual property rights will be one of the most important intellectual property legal issues of the twenty-first century. Technology and the Internet are the primary reasons for this economic globalization.²⁵ One of the most important challenges for the intellectual property is the conflict that comes up on the one side due to the lack of standards between countries and on the other side the transnational character of those rights because of the decreasing importance of national frontiers and globalization trends in the world. The enforcement of those rights over multi-country jurisdictions became much more important than the older times. The traditional rules of intellectual property need to be rethought when they are applied to the cyberspace in the 21st century.

1.7. Enforcement of the Intellectual Property Rights

Even intellectual property enforcement has not been traditionally viewed as a part of substantive intellectual property law, it should be clear that enforcement is the central issue for the right holders. Without effective enforcement those rights will be meaningless. When a right holder realizes that his intellectual property rights have been infringed, or are about to be infringed, the procedural rules of intellectual property enforcement become more important than the substantive rules for the right owner. At first, the rules of acquiring those rights and exploitation of respective rights might be important, but after infringement his attention will concentrate on making sure that the rights he has obtained through the intellectual property system

²⁴ Samuelson, *op. cit.*, p. 2.

²⁵ Scott A. Turk, "The Most Important 21st Century Intellectual Property Issue", *Chicago-Kent Journal of Intellectual Property*, 2005, Vol. 4, p. 153.

are respected. This includes stopping unauthorized use, deterring future infringements, and obtaining recovery for damages resulting from the infringing act. In short, intellectual property enforcement can be defined as a set of relief measures provided by the different public authorities to the benefit of the right holders when their intellectual property rights have been infringed intentionally or unintentionally by the third parties. The proper recourse to those relief measures whenever the rights are infringed designates the effectiveness of the enforcement policies.

An effective intellectual property enforcement regime depends on a number of different elements. Intellectual property enforcement policies may cover a range of different issues such as the rules of civil and criminal procedure, available remedies, structure and specialization of courts and appellate bodies, cost of litigation, alternative dispute settlement mechanisms and legal advice. In addition, technological measures that right holders may take to prevent others from illegal uses of their intellectual property rights, criminal sanctions, or the role of customs authorities may be relevant, as well for the right owners. In order to enforce his intellectual property rights successfully, the right holder should take into account a large number of legal issues and practical considerations.

As the intellectual property rights are private rights, it is therefore the primary responsibility of the right holder to seek remedies in order to protect those rights. He must watch the activities of his competitors as well as developments in the marketplace, and he must be in an alerting position to take action to stop any infringement of his rights or to obtain recovery of losses. In most jurisdictions, remedies that may be available to right owners are injunctions, damages, or provisional measures. They are all handled in civil courts.

In the case of criminal offenses, there is no need to the commencement of the proceedings from the right owner side. Mostly, the respective authorities of the state take *ex officio* actions against those kinds of infringements. In most countries, criminal sanctions are available for serious intellectual property infringements, which are undertaken intentionally and for commercial purposes as in the case of counterfeiting and piracy. However, in case of criminal offences, action by the

competent authorities in some legal systems can be facilitated and supported by, the initiative of the right owner.

Accordingly, effective enforcement may require the involvement of a number of persons or entities, such as attorneys, judges, customs, police, prosecutors, administrative authorities, and, in the area of copyright, collective management societies to the infringement proceedings. National organizations or right holder associations may provide information and assistance in case of fighting with counterfeiting, piracy and other forms of intellectual property infringement.

An effective enforcement cycle starts with the careful assessment of the alleged infringement by the right holder. The identity of the infringer, the real intention of the infringer, the impact of the infringement on the business, the seriousness and the extent of the infringement, or the repeated infringement are the crucial questions that must be answered by the right holder in order to determine how to struggle against the infringement.

Generally, it is worth attempting to settle the situation in a friendly way by informing the infringer of the activities in question and pointing out the existence of the right owner's intellectual property rights. In cases of non-voluntary infringements, an infringer may stop his action upon being informed of the illegality of his behavior. This first notice is important in future court proceedings for the plaintiff. If the right holder does not have sufficient reasons for proving an infringement, he could become liable for damages resulting from an unjustified warning and subsequent action. In case of intentional infringement cases, this first notice given to the infringer will not generally work.

Alternative dispute settlement procedures such as arbitration, negotiation are increasingly recognized as effective instruments for settling disputes concerning intellectual property. The facts of the case and the intention of the parties will determine the success of such a settlement instead of court litigation.

Throughout this thesis various dimensions of the enforcement issue will be analyzed. Chapter two specifically deals with the jurisdictional issues. Firstly, a general evaluation is made about jurisdiction, recognition and enforcement of foreign judgments. Peculiarities of the intellectual property rights create some problems in case of multiple litigation cases. In this regard determination of the competent courts in the intellectual property infringement cases presents important uncertainties. For solving these problems, some efforts have been carried out in the international platforms in crafting a new convention dealing with these matters. Hague Convention as a multilateral framework for determining jurisdiction in civil and commercial cases is examined under this section. In addition Brussels Convention and the Regulation 44/2001 ('Brussels I') on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters are assessed in order to explain the situation in the EU context. As an alternative to the court litigation, most important categories of the alternative dispute settlement procedures are analyzed such as arbitration, mediation and expert examination. Since remedies provided by the courts are the crucial signs of effective enforcement polices for the intellectual property right' holders, various remedies available in intellectual property infringement cases such as provisional measures, injunctive relief and damages are all mentioned in a general framework by referring to the important case law mainly developed by the ECJ (European Court of Justice) and the UK courts. Finally, enforcement by technological means such as optical protection mechanisms and technological protection mechanisms are touched upon briefly with an introduction to the legal framework for technological measures.

In the third chapter, enforcement of the intellectual property rights in the international legal framework is analyzed. First of all, role of the various organizations that have close connections with the enforcement of the intellectual property is explained. Mainly international and intergovernmental organizations are touched upon. In the EU context, the responsibilities carried out by the European Commission structured under different Directorate Generals are also dealt with. Main component of this chapter is separated for the assessment of the enforcement provisions laid down under the TRIPS Agreement. In addition, World Trade Organization Dispute Settlement Understanding is mentioned in order to demonstrate

the differences brought about by the TRIPS to the traditional dispute settling procedures under national courts and other international conventions. The ways in which the intellectual property systems can be made more relevant for developing country aspirations are reviewed within the TRIPS perspective. The conflicting interest of the developed and developing countries with regard to the level of enforcement measures under TRIPS are assessed.

Fourth chapter is in general based on the assessment of the enforcement issue within the EU context. EU initiatives for the enforcement of the intellectual property rights are explained by referring to the recently adopted EU Directive 2004/48/EC on the enforcement. The cons and pros of this Directive will be discussed in detail. How it is considered in the EU area in terms of personal liberties and the exclusive interests of the intellectual property right holders will be analyzed from various angles. Discussions on the tensions between the objectives of the free movement the goods and the higher protection levels provided for the intellectual property rights; the need for the harmonization of the enforcement mechanisms in the member states and possible solutions for these problems will constitute the core of this chapter. In addition, Council regulations on enforcement matters will be explained by referring to the specific articles.

In the fifth chapter, the concepts of counterfeiting and piracy are discussed from many dimensions. The definitions, scope, causes and effects of counterfeiting and piracy are analyzed. Moreover, economic and social consequences of counterfeiting and piracy, cultural effects, impacts on competition, impacts on consumers' health and safety are all dealt with under this chapter. After laying down the general picture about these concepts and harmful consequences of those illicit activities, the ways of combating counterfeiting and piracy is questioned in terms of roles that must be fulfilled by many stakeholders such as governments, international organizations, private sector and the right holders.

In general, the first objective in this thesis is to lay down the general framework for the enforcement of intellectual property rights both in the international and in the EU context. Second objective is to analyze the weaknesses and problems of the

enforcement policies for the intellectual property infringement cases in order to find out acceptable solutions. The basic incentives behind this thesis are to understand the general nature of those rights and to understand how remedies employed in the area of intellectual property rights affect the extent of protection. The evaluation of the EU law regarding intellectual property enforcement strategies by giving special emphasis to some national practices constitute the core of this thesis and the pressures for development of intellectual property enforcement means are dealt with from a frame set by the EU.

This study, which draws upon a theoretical perspective of intellectual property rights, applies methods of discourse analysis and historiography in examining the evolution of the intellectual property protection mechanisms in international and regional milieus. Furthermore, the study seeks to clarify the discourse on challenges raised by technological and political changes to the old politics of intellectual property rights. The digital networked environment has surely changed the economics and politics of intellectual property. In addition the competing interests of developed and developing countries on the issue will be examined in detail. Is TRIPS pro trade? Who will benefit and who will lose from its implementation? What are the costs of intellectual property right infringements? What are the costs and benefits of increasing enforcement of intellectual property rights? All these questions will be examined within the legislative framework set by the TRIPS Agreement and the EU regulations.

This study in short addresses some of the basic principles underlying enforcement of the intellectual property rights, examines the nature of intellectual property law and discusses some crosscutting themes that transcend national boundaries.

2. CURRENT ISSUES IN THE ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS

This chapter explores the current problems and issues concerning the intellectual property enforcement. Firstly, jurisdictional problems and proposals are discussed by reference to the international conventions and the EU legislation on jurisdiction, and recognition of foreign judgments. Secondly, alternative dispute settlement mechanisms are examined by demonstrating both advantages and disadvantages in comparison to the court litigation. Thirdly, general definitions of the remedies available in intellectual property disputes are dealt with under this chapter. Finally brief enlightenment is provided for the criminal proceedings and the technological enforcement measures. Main aim of this chapter is to give general explanations about the current issues regarding intellectual property enforcement in order to make forthcoming chapters more comprehensive for the reader.

2.1. Jurisdiction

Intellectual property rights are territorial as indicated in the previous parts. This feature poses serious problems in the case of enforcement of the intellectual property rights involving foreign elements in a single jurisdiction. Litigating parties in intellectual property cases with international aspects may encounter difficult problems of private international law.

The territorial nature of intellectual property rights creates special problems in international litigation. Also, infringement of intellectual property rights can take place in many countries simultaneously, so that intellectual property owners wishing to remedy the situation may have to sue infringers in as many countries. This could result in an increase in litigation costs for holders of intellectual property rights,

heavy burdens on courts in various countries and an increased risk of inconsistent judgments on intellectual property rights.²⁶

As exemplified hypothetically by Professor C.J.J.C. Van Nispen, when the American owner of an Italian patent wishes to bring infringement proceedings against an Australian company that infringes the patent in Italy, she must consider where to sue the Australian company. Another question is which law applies to the dispute. Suppose that the patent holder obtained judgment against the Australian company and that she now wishes to enforce this judgment in jurisdictions where assets of the Australian company are located. The patent holder then comes across rules of recognition and enforcement of foreign judgments.²⁷

In general, matters of jurisdiction, applicable law and recognition and enforcement of foreign judgments are subject to a country's national rules of private international law, unless treaties dealing with these issues have been concluded. As different from the harmonization of the substantive rules of the protection of the intellectual property rights under Paris Convention or TRIPS Agreement, international harmonization of issues of jurisdiction is relatively limited. Various international conventions dealing with the harmonization of specific areas of law contain provisions on jurisdiction over disputes arising in the specific field. However, as regards jurisdiction and the enforcement of foreign judgments in general, a widely accepted multilateral instrument - which would also cover intellectual property disputes - does not yet exist.

However there are some attempts in the international platforms for the enactment of such an instrument. A draft Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters has been proposed by the United States at the Hague

²⁶ Rochelle C. Dreyfuss, "An Alert to the Intellectual Property Bar: The Hague Judgments Convention", *University Of Illinois Law Review*, Vol. 2001, No. 1, p.102.

²⁷ C.J.J.C. Van Nispen, *Association Internationale pour la Protection de la Propriete Industrielle ("AIPPI") Reports*, Working Session, 12 April 2000, Question Q153, Extraordinary Session on Draft Hague Conference on Private International Law, 2000, p. 2, at <http://www.aippi.org/reports/q153/m-q153-e.htm>.

Conference on Private International Law (Hague Conference).²⁸ On October 30, 1999, the Hague Conference adopted a preliminary draft Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters.²⁹ Due to some difficulties in the discussion period, in 2003 a draft Convention with a narrower scope was suggested, focusing on jurisdiction based on choice of court agreements, as well as the recognition and enforcement of judgments resulting from proceedings based on such agreements. Following a Special Commission session in December 2003, a revised draft was proposed. Since then, the effect of the Hague Convention on intellectual property matters has been the subject of debate.³⁰

On a regional scale, in Europe, the fundamental instrument on jurisdiction is the Regulation 44/2001 ('Brussels I') on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters. Before enactment of this Regulation, two other jurisdiction regimes exist in Europe. One of them is the Convention on Jurisdiction and Enforcement of Judgments in Civil and Commercial Matters, ('Brussels Convention') concluded among the member states of the then European Community in Brussels on September 27, 1968.³¹ A similar treaty was concluded between the member states of the then European Community and the European Free Trade Association in Lugano on September 16, 1988.³² 'Brussels Convention' remains in force between Member States of Brussels I and Denmark, and the Lugano Convention on jurisdiction and the enforcement of judgments in civil and commercial matters applies between Members States of the Brussels Convention/Brussels I, and European Free Trade Association (EFTA) countries.

²⁸ The Hague Conference on Private International Law is an intergovernmental organization as being the principal forum for the adoption of international instruments in the area of private international law codification with the purpose of unifying the rules of private international law.

²⁹ The draft is available at <http://www.hcch.net/e/conventions/draft36e.html>

³⁰ See, WIPO Forum on Private International Law and Intellectual Property, Geneva, January 30 and 31, 2001 (January 24, 2001)(WIPO/PIL/01/8), p. 12, at <http://www.wipo.org/pil-forum/en>.

³¹ 29 I.L.M. 1413.

³² 28 I.L.M. 620.

Although such treaties provide some relief for problems of international litigation, the limits of their scope and territorial application diminish their practical importance. A need is felt for an international or global treaty dealing with the issues mentioned above, especially in the field of intellectual property. As a starting point of such a purpose, Professors R.C. Dreyfuss and J.C. Ginsburg proposed a draft Convention on Jurisdiction and Recognition of Judgments in Intellectual Property Matters on January 30-31, 2001, and in the context of WIPO.³³

2.1.1. Competent Courts in Intellectual Property Infringement Cases

In intellectual property disputes arising within the national boundaries of a country, national law of that country will determine which court is competent to adjudicate the case. Since intellectual property infringement cases generally involve some technical matters especially in the case of patents, industrial designs, in some countries specialized tribunals have been established to deal with those cases according to the special rules of procedure.

However, intellectual property infringement cases do not always confront to a single nation jurisdiction. In cases of cross-border litigation, the situation is more complicated. In the area of private international law, generally related to the matters of jurisdiction, as well as questions of applicable law, and recognition and enforcement of foreign judgments, a country's national rules are determinative. Three systems established multilaterally and regionally, the Hague Convention, Brussels Convention and Lugano Convention, do not create a universally harmonized rules in those matters. The question of how to handle civil law cases involving an international element (e.g., where a party to a litigation is resident abroad) is still dependent on national rules of private international law.

The lack of harmonization in the rules of private international law exacerbates the questions of jurisdiction in the cross-border litigation. In addition, international trade

³³ Rochelle C. Dreyfuss and Jane C. Ginsburg, Draft Convention on Jurisdiction and Recognition of Judgments in Intellectual Property Matters, WIPO Forum on Private International Law and Intellectual Property, Geneva, January 30 and 31, 2001, (January 24, 2001) (WIPO/PIL/01/7), at <http://www.wipo.org/pil-forum/en/>.

has been growing each day and this causes increase of the cross border cases involving foreign elements. Trade does not bound to the national frontiers any more. The expanding use of new communication tools such as the growth of Internet businesses intensified this problem. The abolition of the barriers in the worldwide traveling and increased migration changed the nature of the globe and the traditional ways of trading. Consequently, cross border litigation increased rapidly requiring a complex analysis of the question of jurisdiction.

Nevertheless, several general principles exist in the area of private international law. There are mainly two complementary concepts of ‘general jurisdiction’ and ‘special jurisdiction’. General jurisdiction is based primarily on the ‘*actor sequitur forum rei*’ principle, the idea behind which is that the plaintiff must bring suit against the defendant in the state of his domicile, habitual residence, or principal place of business. Special jurisdiction rules focus more on the issue at stake, and refer jurisdiction in intellectual property matters for example to the place where a registration or deposit has been issued, or, in cases of intellectual property infringements considered as tort, where the harmful event took place or the damage occurred. Finding location of the harmful event can cause considerable problems when infringements occur on the Internet, since the global accessibility of the Internet makes the discernment of the physical location where the damages or infringing acts occurred difficult.³⁴

In common law systems, courts tend to establish jurisdiction by requiring having either personal jurisdiction over the defendant or subject matter jurisdiction over the controversy at hand. The latter has sometimes been denied by courts in disputes concerning intellectual property rights because of the territorial nature of these rights. Additionally, common law countries adhere to the *forum non conveniens* doctrine. This doctrine allows courts to decline jurisdiction and refer the case to a court abroad if there is no genuine connection to a legal venue in the country, or the foreign court is considered to be more adequate to deal with the dispute.³⁵

³⁴ <http://www.wipo.int/enforcement/en/faq/judiciary/faq01.html>

³⁵ *ibid.*

Where two or more jurisdictions are able to hear a dispute, a plaintiff can “*forum shop*,” or choose among alternative fora, often with an opportunity to preempt a defendant’s choice. By strategically choosing the forum, a plaintiff can maximize the expected return from litigation. The selection of a forum initially belongs exclusively to the plaintiff who files the lawsuit. In a world characterized by a great variation in substantive and procedural rules among different jurisdictions, the litigants can benefit by strategically engaging in forum selection. The advent of the Internet has facilitated borderless commerce. For intangible property rights the potential for simultaneous infringement in multiple international jurisdictions is high. The result is that intellectual property rights holders will have choices among possible jurisdictions to bring their lawsuit.³⁶

2.1.2. Choice of Court Clause

‘Choice of court clauses’ in which parties of a contract determine, a specific court, or the courts of a specific country, to have jurisdiction over disputes arising between them in connection with that contract, is widely utilized. A survey prepared for the Hague Conference on Private International Law in 2002 found that such clauses are particularly common in certain industries, such as insurance contracts, cross-border distributorships, loan contracts, guarantees and international commercial agreements.

Despite their prevalence in contracts, national systems vary considerably as to the prerequisites of choice of court clauses. While a number of countries place strict formalities on the acceptance of such clauses, such as the identification of a particular court, other countries also limit the possibility of choice of court clauses to business-to-business (B2B) contracts, or provide special requirements and limitations for clauses involving consumers. For instance, the Brussels I Regulation allows choice of court clauses in consumer contracts, which depart from the specific consumer jurisdiction rules set out in the Regulation, only under strictly limited

³⁶ Kimberly A. Moore and Francesco Parisi, “Rethinking Forum Shopping In Cyberspace”, *Chicago-Kent Law Review*, 2002, Vol. 77, p. 1328.

conditions, for example if the agreement is entered into after the dispute has arisen (Art. 17).³⁷

Under the auspices of the Hague Conference on Private International Law, a convention on exclusive choice of court agreements is discussed in order to harmonize at least some of these issues, and to create greater predictability and reliability in this field. In the draft Hague Convention and the proposed Intellectual Property Convention³⁸, even though there is a great need, choice of law rules are absent. The advantage of choice of law rules consists of efficiency gains for litigants, countries and courts and simplification in international intellectual property issues.³⁹ Also, they would create more clarity as to what law governs legal relationships.⁴⁰ However, agreement to international choice of law rules may be difficult to achieve since there is no real harmonization in this area yet.

2.1.3. The Brussels Convention

Article 2 of the Brussels Convention confers general jurisdiction upon the court of the state where the defendant domiciles. Articles 5(1), 5(3) and 16(4) of the Convention are relevant with respect to intellectual property cases.⁴¹

³⁷ <http://wipo.int/enforcement/en/faq/judiciary/faq03.html>

³⁸ Dreyfuss and Ginsburg, *loc. cit.*

³⁹ Graeme Austin, Private International Law and Intellectual Property Rights, A Common Law Overview, WIPO Forum on Private International Law and Intellectual Property, Geneva, January 30 and 31, 2001 (January 15, 2001)(WIPO/PIL/01/5), at 13 and 15, at <http://www.wipo.org/pil-forum/en>.

⁴⁰ Masato Dogauchi, Private International Law on Intellectual Property: a Civil Law Overview, WIPO Forum on Private International Law and Intellectual Property, Geneva, January 30 and 31, 2001 (January 24, 2001)(WIPO/PIL/01/8), at 2, at <http://www.wipo.org/pil-forum/en>.

⁴¹ Article 6(1) of the Brussels Convention is also relevant and has played an important role in patent cases. The article provides that, in case of multiple defendants, the plaintiff may choose to sue before the courts of the place of domicile of one of them. The European Court of Justice has required that actions against multiple defendants are related when the proceedings are instituted. (*Kalfelis/Schroder*, ECJ, September 27, 1988, NJ 1990, 425.) Dutch courts found such a connection whenever the defendants infringed the same patent and issued injunctions that also regarded infringements abroad. However, the Court of Appeal of The Hague considered that actions regarding patents stemming from the same European bundle of patents are not necessarily related. The Court of Appeal considered that, where companies belong to the same group and sell identical products in different national markets, there is joint action based on a joint business plan, constituting a sufficient relationship among the defendants. (*EGP/Boston Scientific*, Hof Den Haag April 23, 1998, IER 1998, 170.)

In matters relating to a contract, Article 5(1) of the Brussels Convention provides that, the place of performance of the obligation in question determines which courts have jurisdiction. If the contract contains multiple obligations, a suit may be brought before the courts of the place where the obligation that forms the basis of the legal proceedings must be performed.⁴² If the basis of the legal proceedings consists of more than one obligation, then the principal obligation on which the suit is based will be decisive.⁴³ If the obligations resulting from the contract must be performed in different member states of the Brussels Convention, this results in a number of states on which jurisdiction is conferred.⁴⁴

On the basis of article 5(3) of the Brussels Convention, a defendant may be sued in matters relating to tort, delict or quasi-delict in the courts of the place where the harmful event occurred. According to the European Court of Justice, this means that a defendant may, at the option of the plaintiff, be sued in the courts of the place where the damage occurred or in the courts for the place of the event which gives rise to, and is at the origin of, that damage.⁴⁵

The European Court of Justice further interpreted Article 5(3) in the case of *Shevill v. Presse Alliance*.⁴⁶ In that case the European Court held that the courts of the state where the publisher of a defamatory publication is established have jurisdiction to award damages for all the harm caused by the defamation, whereas other courts can award damages only with respect to harm suffered in the state of the court seized.

Tonny Driessen simplifies this case by giving a hypothetical example in her article.⁴⁷ According to this example, a German company that is confronted with an

⁴² Case 14/76 *Etablissements De Bloos v. Societe en Commandite par Actions Bouyer* [1976] ECR 1497.

⁴³ Case 266/85 *Shevanai v. Kreischer* [1987] ECR 239.

⁴⁴ Peter North and James J. Fawcett, *Cheshire and North's Private International Law*, 13th ed., 1999, p. 208.

⁴⁵ *Handelskwekerij G.J. Bier B.V. v. Mines de Potasse d'Alsace SA* [1976], 1976 Celex Lexis 1284.

⁴⁶ Case C-68/93 *Fiona Shevill v. Presse Alliance SA* [1995], 1995 Celex Lexis 4862.

infringement of its copyright by someone domiciled in the Netherlands suffering damages in Germany, the Netherlands and Belgium. The defendant may be sued before the Dutch courts, which may award damages for the harm suffered in Germany, the Netherlands and Belgium. If the defendant is sued in Belgium or Germany, the Belgian or German courts may award damages for injury suffered in their respective territories only on the basis of article 5(3) of the Brussels Convention.

Apart from general jurisdiction stated in Article 2, Article 16(4) of the Brussels Convention provides for exclusive jurisdiction in matters regarding intellectual property rights as follows:

[t]he following courts shall have exclusive jurisdiction, regardless of domicile: (...) in proceedings concerned with the registration or validity of patents, trademarks, designs or other similar rights required to be deposited or registered, the courts of the Contracting State in which the deposit or registration has been applied for, has taken place or is under the terms of an international convention deemed to have taken place.

What is understood from this provision is that whenever the issue of registration or validity of intellectual property rights arises in proceedings, the court of the country of registration is exclusively competent. Main reason behind this attribution of exclusive jurisdiction is to preserve the national sovereignty of each contracting state in granting and assessing the validity of intellectual property rights, which are registrable such as patents and trademarks. This provision makes a difference between registered and unregistered rights. According to this article, registered and unregistered rights may be subject to different regimes.

In *Duijnstee v. Goderbauer* case, the European Court of Justice pointed out that “proceedings concerned with the registration or validity of patents” should be interpreted restrictively.”⁴⁸ Not every aspect of the intellectual property disputes

⁴⁷ Marieke Germa Tonny Driesse, “International Jurisdiction and Recognition and Enforcement of Foreign Judgments in Intellectual Property Cases”, Submitted for the Seminar International and Comparative Protection of Intellectual Property to Professor Jane C. Ginsburg, for the degree of Master of Laws, School of Law, Columbia University, March 2001, p. 13, 14.

⁴⁸ *Duijnstee v. Goderbauer*, ECJ 15 November 1983, case 288/82, Jur. 1983, p. 3662, NJ 1984, 695.

could be brought to the courts according to this article. With regard to patent disputes, article 16(4) of the Brussels Convention is limited to disputes involving the validity, existence or termination of patents. According to the European Court of Justice, article 16(4) of the Brussels Convention does not cover a dispute between an employee and an employer about their respective rights to a patent granted for an invention by the employee in the course of his employment. The scope of article 16(4) does not also include unfair competition⁴⁹ or patent infringement actions.⁵⁰

Since the question of infringement could not be determined without taking a decision on the validity of an intellectual property right such as a patent, this produced a dilemma in respect of Article 16. According to Bainbridge, there were two possibilities. First, the court first seized should divest itself of jurisdiction immediately the validity of a foreign patent is put in issue, as in *Coin Controls*.⁵¹ The second possibility is for the court first seized to stay proceedings until the question of validity has been determined in the other jurisdiction.⁵²

In accordance with the *forum non-conveniens* doctrine, Article 19 of the Brussels Convention provides that when proceedings are principally concerned with a matter over which courts of another contracting state have exclusive jurisdiction by virtue of article 16, other courts shall declare of their own motion that they have no jurisdiction. For example, if proceedings mainly concern the validity of a French patent, the courts of states other than France must decline jurisdiction in favor of the French courts. However, if the proceedings would concern infringement of the French patent, the other courts may assume jurisdiction as to the infringement, but not as to the validity of the French patent. As to validity, French courts have exclusive jurisdiction.⁵³

⁴⁹ In such cases articles 2 and 5 of the Brussels Convention apply. See *Rechtbank Amsterdam* 15 juni 1977, NJ 1979, 146.

⁵⁰ Fritz Blumer, Patent Law and International Private Law on Both Sides of the Atlantic, WIPO Forum on Private International Law and Intellectual Property, Geneva, January 30 and 31, 2001, p. 11, at <http://www.wipo.org/pil-forum/en/>.

⁵¹ *Coin Controls Ltd v Suzo International (UK) Ltd* [1997] FSR 660.

⁵² Bainbridge, *op. cit.*, p. 445.

Therefore, the result in practice may be that one court will decide on validity and another court on infringement of intellectual property rights. In intellectual property cases discernment of the validity and infringement issues from each other is a very complicated task for the courts and in most of the cases they are intermixed because in many infringement cases, defendant would counterclaim the invalidity of the so-called patent or the trademark at the same time with the infringement claims of the plaintiff. So Article 16 (4) in this regard does not produce a desirable result for the solution of the jurisdictional problems.

This result is avoided in the approach of English courts as adopted in *Fort Dodge*.⁵⁴ In that case, Akzo brought patent infringement proceedings in the Netherlands. Fort Dodge sought to enjoin Akzo from pursuing these proceedings before the English court on the ground that the proceedings involved the validity of English patents, which could be assessed only by an English court on the basis of article 16(4) of the Brussels Convention. The English court considered that the question whether an English patent is infringed necessarily involves an assessment of the scope and validity of the English patent. Thus, in the English view, also a patent infringement claim must be brought before the court of the place where the patent is registered. This is considered by Fawcett and Torremans as the wrong interpretation of article 16(4) of the Brussels Convention.⁵⁵ In *Fort Dodge v Akzo*, the English Court of Appeal accepted that, where a substantial issue of invalidity is to be raised in response to an allegation of infringement, the exclusive jurisdiction applies to both elements in the proceedings. This would result that the proceedings for infringement and invalidity may be integrated.

According to article 57 of the Brussels Convention, other conventions concluded between member states of the European Union governing jurisdiction or the recognition and enforcement of judgments, take preference over the Brussels

⁵³ Driesse, *op. cit.*, p.16.

⁵⁴ *Fort Dodge Animal Health v. Akzo Nobel N.V.*, 1998, 3 All ER 45, (1997) FSR 660.

⁵⁵ James J. Fawcett and Paul Torremans, *Intellectual Property and Private International Law*, 1998, p. 203.

Convention. For example, the Regulation on the Community Trademark and the European Patent Convention of 1973 take preference over the Brussels Convention. The European Patent Convention of 1973 was accompanied by a Protocol on Jurisdiction and the Recognition of Decision in Respect of the Right to the Grant of a European Patent.

Articles 2 and 5 of the Protocol provide that an applicant for a European Patent must be sued in the country where the applicant has his residence or principal place of business, unless the parties concluded an agreement in writing or with written confirmation that the courts of a particular state shall decide on the dispute, in which case this court has exclusive jurisdiction. If the Protocol does not apply, article 16(4) of the Brussels Convention comes into play again. Article 16(4) might be understood as providing that only the courts of the state in which the European Patent was requested have jurisdiction. However, according to article V *quinquies* of the Protocol belonging to the Brussels Convention, exclusive jurisdiction is conferred upon the courts of every contracting state in which the European Patent is considered to have been granted.⁵⁶

2.1.4. Brussels I

The Regulation 44/2001 ('Brussels I') on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters⁵⁷ makes a separation between proceedings concerned with the registration or validity of patents, trademarks, designs and other intellectual property rights, which require registration or deposit, and jurisdiction in other disputes involving intellectual property rights. All intellectual property rights are not regarded as having identical features and it distinguishes those that require registration or deposition the one side and those that do not require such a formal procedure such as copyrights. Even in some countries like the US, copyrights are registered; in Europe whenever the work has been created copyright subsists on this work without any need for a registration or deposit by a governmental authority.

⁵⁶ Driesse, *op. cit.*, p. 19.

⁵⁷ OJ L 12, 16.1.2001, p. 1-23.

Disputes involving the registration and validity of registered intellectual property rights are dealt with explicitly in Art.22 (4) of the Regulation. According to this provision, exclusive jurisdiction is provided to the courts of the Member State in which the deposit or registration has been applied for or has taken place. For other types of intellectual property disputes, the general and special jurisdiction rules of Brussels I apply. According to Article 2 of the Regulation, general jurisdiction at the defendant's domicile in a Member State, irrespective of the defendant's nationality is set out.

Art. 5 of Brussels I provides relevant rules for special jurisdiction in two different matters. In matters relating to a contract, the courts of the place where the contractual obligation in questions was to be performed is to be accepted as the competent court (Art. 5 (1) (a)). In cases of tort, the court of the place where the harmful event occurred or may occur (Art. 5 (3)) is set out as the competent court. Some clarification on the definition of this 'place of performance', referred to in Art. 5 (1), is also provided. As it is clear from these explanations, there is no great difference between the provisions of the Brussels Convention dates back to 1968 on the matter of competent courts.

2.1.5. Hague Convention

In 1997, during the second meeting of the Special Commission of the Hague Conference, inclusion of the intellectual property in to the scope of the Draft Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters was discussed from many sides. There are both pros and cons of this proposal. Opponents point out that as the industrial property matters are too complicated and too specific, they should not be included in such a general convention instead a new and unique convention should be designed for the cases dealing with the intellectual property matters. Proponents on the other hand, stress that intellectual property matters are closely linked with matters such as contracts and should be dealt with in one convention. Considering the difficulty to distinguish between cases involving intellectual property and cases not involving intellectual property, the Special

Commission decided not to exclude intellectual property matters from the scope of the Hague Convention.

As the scope of Hague Convention is very general, articles of the Convention only directly related with the intellectual property will be dealt with in this part.⁵⁸ Under Article 3 of the Hague Convention, a defendant may be sued in the courts of the state where the defendant is habitually resident.

Article 6 of the Hague Convention provides that actions in contract may be brought in the courts of a state in which performance of the principal obligation took place in whole or in part. In case of supply of goods, or provision of services, the courts of the state where the goods were supplied, or the services were provided, have jurisdiction.⁵⁹ However the determination of the place where goods were supplied, or where services were provided is problematic in the case of electronic commerce. Increasing volume of trade over Internet blurred the clarity of the Article 6. For example, if goods or services are delivered via the Internet, the seller may be sued in a number of countries. Parties to a contract can overcome this difficulty by adding a provision, a choice of court clause, to the contract. According to article 4 of the Hague Convention, any suits in connection with contracts containing a choice of court clause must be brought before the chosen court.

Article 10 deals with additional jurisdiction in cases of torts or delicts, such as infringement of intellectual property cases. Article 10(1) of the Hague Convention provides an additional basis of jurisdiction for courts of the state (a) in which the act or omission that caused the injury occurred or (b) in which the injury arose, unless the defendant establishes that the person claimed to be responsible could not reasonably have foreseen that the act or omission could result in an injury of the

⁵⁸ Article 3, Article 6, Article 10 and Article 12(4) are directly related to intellectual property matters. Obviously, other articles of the Hague Convention are relevant for litigation in intellectual property cases as well. For example, under article 12(1) of the Hague Convention, proceedings which have as their object rights *in rem* in immovable property, must be brought before the court of the state where the property is situated. If a domain name would be considered to be an immovable property situated in the state where the domain name holder has his residence, proceedings must be brought in that state.

⁵⁹ WIPO Electronic Commerce, Primer on Electronic Commerce and Intellectual Property Issues, p. 12, at <http://ecommerce.wipo.int/primer/primer.html>.

same nature in that state.⁶⁰ In the case of transnational torts for example the infringement of trademarks on the Internet, the question of the place where the infringement occurred or injury arose is very vague.⁶¹

Article 5(3) of the Brussels Convention is different from the Article 10 of the Hague Convention as interpreted by the European Court of Justice in the *Shevill* case.⁶² Under the *Shevill* decision, a plaintiff may bring action before the courts of the state in which the injury arose. Thus, a plaintiff who has suffered injuries in different countries has to bring suit in each of these countries.⁶³ In order to overcome this difficulty, article 10(4) of the Hague Convention provides that the limitation of recovery to injury that arose in the state where suit is brought, does not apply when the injured person has his or her habitual residence in that state. If the injured person habitually resides in the state where action is brought on the basis of article 10(4), the courts of that state can decide that action, also with respect to damages caused in other states.⁶⁴ This is of particular importance for cases involving infringement of intellectual property rights, e.g. trademarks on the Internet. In theory, infringement of trademarks on the Internet and the resulting injury can be considered to have taken place in every country of the world. This means that plaintiff should bring action in every country, the result of which is the increased risk of contradictory judgments and decreased litigation efficiency.

Article 12(4) confers exclusive jurisdiction on courts of the contracting states where intellectual property rights are deposited or registered. Article 12(4) of the Hague Convention attributes exclusive jurisdiction as follows:

⁶⁰ Driesse, *op. cit.*, pp. 23-25.

⁶¹ Dreyfuss, *op. cit.*, p. 103.

⁶² *Shevill v. Press Alliance SA*, Case 68/93, Rep. 1995, p. I-415.

⁶³ It is suggested that the Brussels Convention be amended in this respect. See Andre Lucas, Private International Law Aspects of the Protection of Works and of the Subject Matter of Related Rights Transmitted Over Digital Networks, WIPO Forum on Private International Law and Intellectual Property, Geneva, January 30 and 31, 2001 (December 17, 2000)(WIPO/PIL/01/1 Prov.), p. 24, at <http://www.wipo.org/pil-forum/en>.

⁶⁴ Driesse, *op. cit.*, p. 26.

In proceedings which have as their object the registration, validity, [or] nullity[, or revocation or infringement,] of patents, trademarks, designs or other similar rights required to be deposited or registered, the courts of the Contracting State in which the deposit or registration has been applied for, has taken place or, under the terms of an international convention, is deemed to have taken place, have exclusive jurisdiction. This shall not apply to copyright or any neighboring rights, even though registration or deposit of such rights is possible.

This provision reflects article 16(4) of the Brussels Convention and incorporates a system which is familiar and in regular use.⁶⁵ Although in the Brussels Convention, the wording of the Article 16(4) does not include ‘infringements’ of the registered rights within this exclusive jurisdiction, the proposed Hague Convention covers validity, nullity, revocation or infringement at the same time. Many countries are of the opinion that disputes regarding registration, validity, nullity and revocation of registered rights should be subject to exclusive jurisdiction, so as to avoid an obligation to recognize or enforce a judgment regarding the registration, validity, nullity and revocation of registered rights created pursuant to their national laws. Main reason behind this is to protect the national sovereignty of the states.

The Hague Convention does not make clear whether article 12(4) applies to a dispute among contracting states regarding an intellectual property right that is registered in a non-contracting state. In general, the advantage of granting exclusive jurisdiction under Article 12 (4) is that holders of intellectual property rights can bring all litigated claims at the same court and that they save litigation costs and expenses and that there may be a possibility to consolidate claims. Another advantage is that forum shopping will be limited.⁶⁶

Whereas article 16(4) of the Brussels Convention relates to “proceedings concerned with” the registration or validity of registered intellectual property rights, article 12(4) of the Hague Convention deals with “proceedings which have as their object” registration, validity, nullity or revocation or infringement of registered intellectual property rights. The Hague Convention does not make clear how the “object” of

⁶⁵ Peter Nygh and Fausto Pocar, Report of the Special Commission of the Hague Conference on Private International Law, Preliminary Document no. 11, p. 67.

⁶⁶ Dreyfuss, *op. cit.*, p.119.

proceedings should be determined. Thus, it is likely that different courts will apply different standards. The “object” of proceedings could be understood as the “main” or “principal” issue in proceedings. The obvious difficulty with this standard is that the main or principal issues in proceedings are not always clear. Another suggested standard is that the “object” of proceedings should be determined by the claim brought before the court.⁶⁷

The inclusion of infringement claims in article 12(4) of the Hague Convention is the main difference from the Article 16 (4) of the Brussels Convention. It is argued that inclusion of infringement cases in the exclusive jurisdiction clause would result in multiple forums with exclusive jurisdiction to assess infringement of intellectual property rights registered in more than one country.⁶⁸ This would cause huge problems in the context of trademark infringement via the Internet. Also, in some countries it is possible to refer disputes regarding infringement of intellectual property rights to arbitration, so that the courts of the country where the intellectual property rights are registered are deprived of jurisdiction. By the same token, exclusive jurisdiction for foreign courts should be accepted. These are arguments against the proposal to include infringement actions in article 12(4). The debate has not yet led to consensus on the issue of whether infringement should be included in article 12(4) of the Hague Convention.⁶⁹

An obvious problem about the proposed Hague Convention is that it would not provide for a supranational court that maintains uniformity in law and decisions of courts addressed to interpret the Hague Convention like the existence of the European Court of Justice as in the case of the European Union. For example, the characterization of a matter involving a contract or tort is too vague. So the court hearing the case should decide whether the matter should be dealt with under article 6 or article 10. The national courts that are called upon to interpret the Hague

⁶⁷ Association Internationale pour la Protection de la Propriete Industrielle, Special Committee Q153, Hague Conference on Private International Law, Questionnaire and Explanatory Memorandum (2000).

⁶⁸ *ibid.*, p 13.

⁶⁹ Driesse, *op. cit.*, p. 36.

Convention, may find guidance in the decisions of the European Court of Justice about the Brussels Convention.

2.1.6. Proposed Intellectual Property Convention

On January 30-31, 2001, a proposal was made by Rochelle C. Dreyfuss and Jane C. Ginsburg for a Convention on Jurisdiction and Recognition of Judgments in Intellectual Property Matters on WIPO Forum on Private International Law and Intellectual Property.⁷⁰ The idea behind this proposal is the realization of an international convention specifically covering intellectual property litigation. One of the advantages of a separate Intellectual Property Convention is that such a convention can focus more efficiently on intellectual property litigation. As the intellectual property rights have some specific and technical features and there are some variations among the different categories of intellectual property, such a convention can take into account unique aspects of intellectual property litigation. An additional advantage is that membership to the convention can be limited to countries that are a member of WTO.⁷¹

The scope of the Intellectual Property Convention includes “copyright, neighboring rights, [patents,] trademarks, and other intellectual property rights covered by the Agreement on Trade Related Aspects of Intellectual Property, and its successor Agreements.” There are some uncertainties in this convention on the question of how to decide which rights are included within the scope of it. According to conventional conflict of law rules, courts that are addressed to adjudicate a dispute will apply their own national law as to the question whether the dispute comes within the scope of the Intellectual Property Convention. These national laws may diverge to a great extent. The absence of a supranational court, which ensures the uniform interpretation of the Intellectual Property Convention, leaves these questions unanswered.

⁷⁰ Rochelle C. Dreyfuss and Jane C. Ginsburg, “Draft Convention on Jurisdiction and Recognition Of Judgments in Intellectual Property Matters”, *Chicago-Kent Law Review*, 2002, Vol. 77, pp. 1065-1153.

⁷¹ *ibid.* p.1067.

For the time being, provisions regarding patents are included in brackets in the Intellectual Property Convention, which means that patents are excluded from the scope of the Intellectual Property Convention. One of the reasons is that patent cases involve technically difficult laws and facts, which require a high degree of judicial expertise.⁷² In many jurisdictions specialized courts are designated for the adjudication of the patent cases. For example, in the United States the U.S. Court of Appeals for the Federal Circuit was created for appellate patent litigation. In the European Union, disputes regarding patent validity must be brought before the courts of the state designated by article 16(4) of the Brussels Convention. The national laws of that state may designate a specialized court to assess patent disputes. The designers of this convention thought that it is undesirable to create a convention according to which courts of a country have jurisdiction to assess the validity of foreign patents.⁷³

In relation to domain names, even they are not as such covered by Agreement on Trade Related Aspects of Intellectual Property Rights; they are still under consideration for inclusion in the Intellectual Property Convention.⁷⁴

The general idea behind this Intellectual Property Convention has been expressed in article 3 as that a defendant must be sued in the courts of the state where the defendant is habitually resident. Since there is no clear-cut definition for the term “habitually resident” in the Intellectual Property Convention, it is likely to result in diverging views among member states of the Intellectual Property Convention if it is ratified.

Article 7 of the Intellectual Property Convention creates additional jurisdiction for agreements pertaining to intellectual property rights for any country whose rights are covered by the agreement. In addition, an action may be brought before the court of the country with the most significant relationship to the contract. Article 7(2) sets

⁷² *ibid.*, p. 1068.

⁷³ *ibid.*

⁷⁴ *ibid.* p. 1074.

out factors to be taken into account when assessing which country has the most significant relationship. The residence of the parties, the country where intellectual property rights were developed and the country where the principal obligation is to be performed are relevant.⁷⁵

Article 7 has some weak points in itself. It is not clear when an agreement pertains to intellectual property and when a country's rights are covered by the relevant agreement. The connection required between the country and the intellectual property right is not obvious. Whether the existence of the trademarks under the common law countries by mere use will be considered as fulfilling the requirement of this connection is very vague. In addition, according to this article, if an agreement pertains to intellectual property in any country whose intellectual property rights are covered by the agreement, action must be brought in every such country and at the end causing the numerous forums. Furthermore, the country with the most significant relationship to the contract may be difficult to identify. Parties to a contract may deviate from the general jurisdiction provisions by a choice of court clause or arbitration clause.

Article 6 of the Intellectual Property Convention deals with infringement actions. A definition of "infringement actions" is not provided. The forums provided for in article 6 are substantially different from the ones provided by the Hague Convention and the Brussels Convention. Infringement actions may be brought in (a) any state where the defendant substantially acted in furtherance of the alleged infringement, or (b) any state to which the infringement was intentionally directed or (c) any state in which the infringement foreseeably occurred. The foreseeable test in article 6(1)(c) does not require that the infringement was reasonably foreseeable to occur in a particular state. The criticism directed to the Hague Convention on the vagueness of the foreseeable test could again be stated towards this Convention.

The Intellectual Property Convention does not make a distinction between registered and non-registered intellectual property rights. It provides no basis for exclusive

⁷⁵ Driesse, *op. cit.*, p. 46.

jurisdiction for the courts of the country in which intellectual property rights are deposited or registered. This means that courts of country A may have jurisdiction in disputes relating to intellectual property rights established or developed in country B. This is an important difference from the Hague Convention and the Brussels Convention.

The Intellectual Property Convention does not provide for rules governing the relationship of the Intellectual Property Convention with other conventions or international instruments. Such provisions seem crucial in order to prevent increased forum shopping in intellectual property matters and an increased risk of inconsistent judgments.

2.1.7. Exclusion to the Recognition and Enforcement of Foreign Judgments

Public policy considerations of the courts are accepted as a ground for refusing recognition or enforcement of foreign judgments under three above-mentioned international instruments. With this deviation from the rules of the jurisdiction involving foreign elements, some countries will not enforce foreign judgments involving the validity or infringement of patents granted under the laws of that country due to public policy concerns.⁷⁶

Articles 27(1) and 34 of the Brussels Convention lay down the rule that a foreign judgment will not be recognized or enforced if recognition or enforcement are “contrary to public policy” of the state in which recognition or enforcement is sought. Similarly, Article 28(1)(f) of the Hague Convention provides that recognition or enforcement of judgments may be refused on the basis that enforcement is manifestly incompatible with “public policy”. However, there is no definition for “public policy” in the Hague Convention. In the same manner, Article 25(1)(f) of the Intellectual Property Convention, provides that recognition or enforcement of foreign judgments may be refused if recognition or enforcement would be “manifestly

⁷⁶ John E. Kidd, *ADR: the Future of Dispute Resolution in International Intellectual Property Disputes in International Intellectual Property*, Insight Conference, February 9-10, 1998, p. 19.

incompatible with the public policy” of the state addressed.⁷⁷ As the intellectual property cases affect public policy directly regarding the health, safety of the consumers, intellectual development, expressive capacity and quality of life of the populace of the enforcing state, it is argued that courts should be given wider discretion to refuse enforcement on the basis of incompatibility with public policy in intellectual property cases.⁷⁸

The discussion about public policy in the international platforms goes around the desirability of this exclusion. Whether it is desirable that courts of a particular jurisdiction designated by international conventions to have jurisdiction assess cases involving intellectual property rights stemming from other jurisdictions is not always clear. Some countries like the US and the UK are very reluctant to assess intellectual property rights created under the laws of another country. Conversely they are not positive to the idea that intellectual property rights created under their laws are assessed by the courts of another country. They do not want to assume jurisdiction over cases regarding infringement of foreign registered rights.

This is a concern for developed nations in particular. They usually are the exporters of intellectual property and therefore have advanced intellectual property law. These countries may find that under the Hague Convention jurisdiction is attributed to foreign courts that are not familiar with or not generous towards intellectual property rights.⁷⁹ This difficulty might be overcome by requiring membership to the TRIPS Agreement for accession to the Hague Convention and the Intellectual Property Convention for all states in order to satisfy minimum levels of protection granted to the intellectual property rights.

2.1.8. General Assessments

All these three international instruments explained in the previous parts have been prepared for providing bases of jurisdiction to enhance litigation efficiency,

⁷⁷ Dreyfuss and Ginsburg, *op. cit.*, p. 1086.

⁷⁸ Dreyfuss, *op. cit.*, p.109.

⁷⁹ Driesse, *op. cit.*, p. 59.

consolidate claims and limit forum shopping. This framework is based on the obligations of the contracting states to recognize and enforce judgments rendered in other contracting states. However, the specific nature of intellectual property poses some problems in this regard.

Although under both the Brussels Convention and the Hague Conference, the principal obligation of the contract on which an action is based is decisive to establish jurisdiction, in intellectual property contracts, negative obligations that are performable everywhere play an important role. This situation leads to multiple forums having jurisdiction to assess a dispute.

In the case of torts, similar concern that the Brussels Convention and the Hague Convention lead to many competent forums also exists. According to these conventions, the courts of the place where the tort occurred or where the injury arose have jurisdiction. Torts involving intellectual property rights may easily be committed on the Internet and this blurs the determination of the place where the tort occurred so a suit on the basis of such tort may be brought before many forums.

Both the Hague Convention and the Intellectual Property Convention are likely to suffer from the absence of a supranational court interpreting the rules of these conventions. This may have particular importance in view of the public policy provisions of the conventions. The question of public policy addresses issues of applicable law, especially in intellectual property matters.

2.2. Alternatives to the Court Litigation

In recent years, alternative dispute resolution (ADR) mechanisms have been commonly utilized in order to solve commercial conflicts arising among the contractual parties or the competitive firms. ADR mechanisms, such as arbitration and mediation, are increasingly recognized as offering an effective alternative to court litigation for resolving intellectual property disputes. Even though it is called as

“alternative dispute resolution”, ADR does not offer a complete alternative to court litigation; there are circumstances in which court litigation will be preferable.⁸⁰

Although an intellectual property dispute can be resolved through court litigation, parties are, with increasing frequency, submitting disputes to mediation, arbitration or other ADR procedures. ADR is appropriate for most intellectual property disputes, especially between parties coming from different jurisdictions. The difficulties in the cross border enforcement and recognition of the judgments given by the foreign courts have been discussed in detail above. There are some problems for deciding the applicable law in some cases involving foreign elements. Court litigation may take long time for the parties and the coming result might be too late for the parties. Court litigation in international intellectual property disputes involving a multitude of procedures in different jurisdictions carries a risk of inconsistent outcomes.

The possible solutions to the multiple litigation dilemmas have been adjudicatory, that is the approaches have been based on solutions where courts resolve the dispute between the parties in a traditional adversarial manner. This means essentially that the court decides the case after the parties have presented their claims, grounds and evidence. The decision of the court is final and binding, often it is subject to appeal.⁸¹

On the other side, ADR allows parties to avoid such issues and resolve their disputes in a single neutral forum. ADR can empower the parties by enhancing their control over the dispute resolution process. ADR can save money and time for the parties. Moreover, it is less adversarial compare to the court litigation for the parties. Its consensual nature allows the parties to begin, continue and improve profitable business relationships with each other. For these reasons, parties increasingly started to use those alternative mechanisms for resolving intellectual property disputes. In parallel, public recognition enhances the legitimacy of ADR as a means for resolving disputes between private parties.

⁸⁰ Marcus Norrgard, “International IP Infringements and Alternative Dispute Resolution”, p. 11, <http://www.iprinfo.com/tiedostot/4oVZGtM4.pdf>

⁸¹ *ibid.*

Marcus Norrgard summarizes several reasons for the parties to try ADR instead of litigation or, at least, before going to court.⁸² It has been said that there are six characteristics of intellectual property conflicts that make them suitable for ADR. First, if the conflict involves inventors or artists (not only companies) they attach more weight to things such as fame and recognition than monetary compensation. Second, intellectual property litigation can be very expensive. Third, time is of the essence in intellectual property cases. Intellectual property can become obsolete very quickly through technological or similar changes in the business environment. Furthermore intellectual property rights are as a rule limited in time. Fourth, intellectual property disputes are often complex and require a high level of knowledge in some technical field. Fifth, confidentiality is an important aspect. Lastly, intellectual property disputes often transcend national borders and there may thus be jurisdictional issues that lessen the interest for traditional litigation.

Since 1994, the WIPO Arbitration and Mediation Center⁸³ provides ADR services for the resolution of commercial disputes involving intellectual property. The Center has advised parties and their lawyers on ways to resolve intellectual property disputes, and provided them with access to high-quality, efficient and cost-effective ADR procedures. Cases submitted to the Center have included both contractual (e.g. patent and software licenses, trademark coexistence agreements, distribution agreements for pharmaceutical products and research and development agreements) and non-contractual disputes (e.g. patent infringement).⁸⁴

⁸² *ibid.*, p.12.

⁸³ Based in Geneva, Switzerland, the WIPO Arbitration and Mediation Center was established in 1994 to promote the resolution of intellectual property disputes through alternative dispute resolution. To achieve this objective, it created – with the active involvement of many of the foremost ADR and intellectual property practitioners and scholars – the WIPO Mediation, Arbitration, and Expedited Arbitration Rules and clauses. The Center is the only international provider of specialized intellectual property ADR services. It provides advice on, and administers, procedures conducted under the WIPO Rules. For this purpose, the Center also maintains a detailed database of well over 1,000 outstanding intellectual property and ADR specialists who are available to act as neutrals. Together with its extensive network of relationships with intellectual property and ADR experts, the Center's position within the World Intellectual Property Organization, ensures that the WIPO procedures are at the cutting edge of IP dispute resolution. The Center also plays a leading role in the design and implementation of tailor-made dispute resolution procedures. The Center's staff consists of highly qualified and multilingual legal professionals with expertise in intellectual property and ADR.

All forms of ADR require mutual consent from the parties. In contractual disputes, the use of ADR is more frequent because the requirement of mutual consent can be fulfilled easily. However in infringement cases the requirement of mutual consent decreases the parties' interest for ADR. Since there is no prior contract between the parties in which the method of dispute resolution is provided for, it is quite unlikely that such a submission agreement would be concluded after the rights holder has made his allegation about infringement. Usually, in that case the infringer and the rights holder have diverging interests and a quick and easy solution to the dispute is in the traditional thinking not in the interest of the alleged infringer. The problem is how to stimulate the use of ADR in non-contractual disputes, and especially intellectual property infringement cases.⁸⁵ Norrgard proposes that through education ADR can be brought to the attention of interested parties, companies and counsel. In addition voluntary nature of the ADR can be changed into mandatory, which in essence means that parties are obliged to try some ADR technique before the case is tried in court. The court would thus order the parties to engage in ADR proceedings before the trial on the merits. If the parties would refuse, the court could take this into account in the division of legal costs or find contempt of court or the like. According to Norrgard, mandatory ADR could be a viable solution instead of dealing with international, cross-border, multiple intellectual property litigation. ADR can be mandatory in whole or in part.

2.2.1. Advantages of the ADR

The WIPO Arbitration and Mediation Center have pointed out advantages of the ADR in comparison with the court litigation as follows:⁸⁶

- **A single procedure:** Through ADR, the parties can agree to resolve in a single procedure a dispute involving intellectual property that is protected in a number of different countries, thereby avoiding the expense and

⁸⁴ WIPO, Dispute Resolution for the 21st Century, Publication No. 779(E) (<http://arbitrator.wipo.int/center/publications/21st-century-en.pdf>), p. 1.

⁸⁵ Norrgard, *op. cit.*, p. 13, 14.

⁸⁶ WIPO, "Dispute...", *op.cit.*, p. 2,3.

complexity of multi-jurisdictional litigation, and the risk of inconsistent results.

- **Party autonomy:** Because of its private nature, ADR affords parties the opportunity to exercise greater control over the way their dispute is resolved than would be the case in court litigation. In contrast to court litigation, the parties themselves may select the most appropriate decision-makers for their dispute. In addition, they may choose the applicable law, place and language of the proceedings. Increased party autonomy can also result in a faster process, as parties are free to devise the most efficient procedures for their dispute. This can result in material cost savings.
- **Neutrality:** ADR can be neutral to the law, language and institutional culture of the parties, thereby avoiding any home court advantage that one of the parties may enjoy in court-based litigation, where familiarity with the applicable law and local processes can offer significant strategic advantages.
- **Confidentiality:** ADR proceedings are private. Accordingly, the parties can agree to keep the proceedings and any results confidential. This allows them to focus on the merits of the dispute without concern about its public impact, and may be of special importance where commercial reputations and trade secrets are involved.
- **Finality of Awards:** Unlike court decisions, which can generally be contested through one or more rounds of litigation, arbitral awards are not normally subject to appeal.
- **Enforceability of Awards:** The United Nations Convention for the Recognition and Enforcement of Foreign Arbitral Awards of 1958, known as the New York Convention, generally provides for the recognition of arbitral awards on par with domestic court judgments without review on the merits. This greatly facilitates the enforcement of awards across borders. There are, of course, circumstances in which court litigation is preferable to ADR. For example, ADR's consensual nature makes it less appropriate if one of the two parties is extremely uncooperative, which may occur in the context of an extra-contractual infringement dispute. In addition, a court judgment will be preferable if, in order to clarify its rights, a party seeks to establish a public

legal precedent rather than an award that is limited to the relationship between the parties.

2.2.2. Disadvantages of the ADR

As it is indicated in the previous parts, ADR is not suitable for all kinds of cases. Contractual disputes can be cited as the best cases to refer to the ADR procedures. However, infringement cases involve some difficulties for the solution of the case through ADR. Especially in the cases of counterfeiting and piracy, ADR would most likely produce very bad results for the intellectual property right holders. These cases often involve an element of criminal behavior, which in turn means that they require some measure of ‘punishment’.

In addition, if one party or both parties in an infringement case are in need of a legal precedent, ADR is not the best of options. Only court judgments are public and always based on the law. Since ADR is interest-driven and not rights-driven, there is a risk that the stronger party coerces the weaker party into an unbalanced settlement. This risk is also present in traditional litigation in (pre-trial) settlement negotiations. One could perhaps say that the risk of coercion is to some extent higher the more emphasis is put on negotiations and other forms of ADR. Possibly some of the risk could be mitigated through the use of good mediators.⁸⁷

If ADR does not end with success and the parties decide to go to court after the use of the ADR, the total costs of dispute resolution would be higher than if only litigation had been conducted.

Even the court litigation has some problems in international, cross border and multiple litigation cases; ADR would not solve the multiple litigation problems in all cases. For example, if unrelated infringers infringe the same intellectual property right in different countries, there is no commonly accepted way of consolidating proceedings to ADR.

⁸⁷ Norrgard, *op. cit.*, p.15.

2.2.3. Types of the ADR

There are several types of alternative dispute resolution. All dispute resolution methods that do not depend on the traditional court system can be described as ‘alternative’. Arbitration, mediation and WIPO Domain Name Dispute Resolution will be discussed in the following parts as three different types of ADR. Others will be touched upon generally.

a) Arbitration:

Arbitration is a dispute resolution method whereby a dispute is submitted by the mutual consent of the parties to one or more arbitrators whose decisions are binding on the parties of the agreement. Instead of going to the court litigation, parties choose to go to arbitrator to solve their dispute. Parties to a contract may prefer to add an arbitration clause to the relevant contract for the solution of the future disputes. One of the parties of a dispute if they decided to submit the case to arbitration cannot unilaterally withdraw from arbitration. The parties choose the arbitrator(s).

Arbitration is neutral resolution mechanism. In addition to the selection of neutrals of an appropriate nationality as arbitrators; parties are able to choose such important elements as the applicable law, language and venue of the arbitration. This allows them to ensure that no party enjoys a home court advantage.⁸⁸

A great advantage for the disputing parties of the arbitration in comparison to court litigation is its confidentiality. WIPO Arbitration Rules make available for the parties to restrict access to trade secrets or other confidential information submitted to the arbitral tribunal. The decisions given by the arbitrator is final and there is no appeal procedure in the case of arbitration. Under the WIPO Rules, the parties agree to carry out the decision of the arbitrator without delay.

⁸⁸ WIPO, “Dispute...”, *op.cit.*, p. 12, 13.

In the court litigation, multiple proceedings under different laws, with the risk of conflicting results have been overcome by a single proceeding under the law determined by parties in the arbitration process. In case of traditional court litigation, one of the parties may exploit the advantage of home court, however in arbitration, arbitral procedure and nationality of arbitrator can be neutral to law, language and institutional culture of parties. Since intellectual property rights are related to very complicated, specific and technical matters, a judge may not have relevant expertise on the issue of the case. On the contrary, parties in the arbitration may select arbitrator with necessary capabilities on these technical matters. In the court litigation, the procedures in most of the cases are longer than the procedures in arbitration. Even injunctive relief is available in the court litigation, in the arbitration, parties are not precluded from seeking court ordered injunction. Possibility of appeal for the parties is very limited in case of arbitration contrary to the court litigation. Arbitration is binding and final, just like litigation. In many cases it is cheaper and faster than litigation.

b) Mediation:

In a mediation procedure, the mediator assists the parties of a dispute to reach a mutually acceptable settlement by acting as a neutral intermediary. Mediation is an efficient and cost-effective way of achieving the settlement for the parties. It preserves, even sometimes enhances the relationships between the parties. Mediation could be described as a form of assisted settlement conference at which all parties are present and represented by counsel.⁸⁹

As contrary to the case in the arbitration and court litigation, mediation is a non-binding procedure controlled by the parties. A party cannot be forced to accept the result of the mediation. Mediator is not a decision maker in the sense of a judge or arbitrator. Even it is not the case in most of the mediation procedure, parties in accordance with their own interest can decide to abandon the procedure at any time. Since the parties of a dispute are very active in shaping the directions and outcome of the procedure, mediation is very advantageous for the intellectual property disputes.

⁸⁹ WIPO, "Dispute...", *op.cit*, p. 7-9.

Mediation is a confidential procedure. Under the WIPO Mediation Rules, the existence and outcome of the mediation are also confidential. Mediation's confidentiality allows the parties to negotiate more freely and productively, without fear of publicity. Unlike the court litigation and arbitration, mediation is a voluntary and interest based procedure. Outcome in mediation does not only depend on the facts of the dispute or the applicable law, but also the business interests of the parties shape the outcome of the mediation. Because mediation is non-binding and confidential, it involves minimal risk for the parties and generates significant benefits.

Mediation procedure can be classified in two categories as facilitative and evaluative mediation. In facilitative mediations, the mediator endeavors to facilitate communication between the parties and help each side to understand the other's perspectives, positions and interests with a view to settling the dispute. In evaluative mediations, the mediator takes a more active role by providing a non-binding evaluation of the dispute, which the parties may then accept as the settlement of the dispute or reject.⁹⁰

c) Others Types of ADR:

WIPO Domain Name Dispute Resolution:

In recent times, Internet has created an appropriate platform for the infringers of the intellectual property rights leading to many difficulties for the right holders to protect their rights through traditional mechanisms. Cyber squatting as an abusive registration and use of Internet domain names has become very common type of infringement and necessitated some urgent solutions for the prevention of such kind of abusive challenges. The WIPO Arbitration and Mediation Center is internationally recognized as the leading dispute resolution service provider for challenges of cyber squatting.

⁹⁰ *ibid.*

The Uniform Domain Name Dispute Resolution Policy (UDRP) is the principal domain name dispute resolution policy administered by the Center. Based on recommendations made by WIPO, the UDRP provides trademark owners worldwide with an effective administrative remedy against clear cases of bad faith registration and use of domain names infringing on their rights. The procedures used to resolve domain name disputes involve time and cost effective facilities such as model pleadings, online filing and e-mail case communication. The outcome of domain name cases is limited to the transfer or cancellation of the domain name.⁹¹

Early Neutral Evaluation (ENE):

Early neutral evaluation (ENE) is a preliminary assessment of facts, evidence or legal merits. ENE is designed to help parties avoid further unnecessary stages in litigation and/or serve as a basis for further negotiations. In the case of intellectual property, not only a high level of dispute resolution skill but also specialized knowledge of the subject matter of the dispute is required from the neutral. The success of the ADR procedure in most of the cases depends on the quality and capability of the neutral.

Expert Determination:

Expert determination is a form of ADR. Expert determination is a process in which an independent third party, acting as an expert rather than judge or arbitrator, is appointed to decide the dispute or evaluate certain aspects of the dispute. Expert determinations are especially suitable where it is necessary to determine issues of a technical or scientific nature. The expert's involvement is based on a contract between the parties. The expert's determination may be binding on, or have effect as a recommendation to, the parties.⁹²

⁹¹ The Center also administers specific policies designed to resolve disputes occurring during the initial phase of operation of more recently introduced domains such as .aero, .biz, .coop, .info, .museum, .name, and .pro. The Center is also working with country code top-level domain registration authorities to provide domain name dispute resolution services. An increasing number of such authorities have been retaining the Center as dispute resolution service provider through their voluntary adoption of the UDRP or similar procedures. (see WIPO publication, "Dispute Resolution for the 21st Century", <http://arbiter.wipo.int/center/publications/21st-century-en.pdf>).

⁹² Examples of disputed issues that may benefit from expert determination include: the valuation of an intellectual property asset or the establishment of royalty rates; the interpretation of the claims of a patent; the extent of the rights that are covered by a license. The Center administers expert proceedings under the WIPO Rules for Expert Determination. The Center can recommend contract

2.3. Remedies Available in Intellectual Property Disputes

Intellectual property rights once they have been subsisted in a piece of work as in the case of copyrights or granted protection under a registration system such as trademarks, patents, designs donate the right owner with exclusive rights for the exploitation of those rights. They are rights that depend for their effectiveness, to a peculiar degree, upon the speed and cheapness with which they can be enforced. The precise value of a right must be measured in terms of the remedies that lie for its enforcement.⁹³

If a right holder finds that his intellectual property rights have been infringed, or are about to be infringed, it is in his interest to stop such infringement as soon as possible, and to recover damages rising from the infringing act. The obvious person to bring proceedings for the infringement of one of the types of intellectual property is the owner at law. Most claimants make use of the civil process, partly because its technique and atmosphere are appropriate to the assertion of private property rights amongst businessmen, partly because the types of remedy - in particular the injunction and damages - are more useful than punishment in the name of the state.⁹⁴

According to Cornish and Llewelyn, in the intellectual property cases the right owner usually prefers the civil route instead of criminal proceedings for the reasons mentioned below.⁹⁵

clauses or submission agreements to parties and is able to appoint or recommend neutrals with relevant expertise. (see WIPO publication, "Dispute Resolution for the 21st Century", <http://arbiter.wipo.int/center/publications/21st-century-en.pdf>).

⁹³ Cornish and Llewelyn, *op. cit.*, p. 66.

⁹⁴ The decision to prefer criminal proceedings, where they are open, remains with the right owner, not the court: *Thames & Hudson v DACS* [1995] F.S.R. 153.

⁹⁵ Cornish and Llewelyn, *op. cit.*, p.61.

- There is no possibility in criminal procedure of securing an interim order to desist from conduct pending for trial; nor are there pre-trial procedures, such as discovery, for the extraction of information from a defendant.
- There is a high burden of proof on the prosecution in criminal proceedings: the defendant must be shown to be guilty beyond reasonable doubt, not merely on a balance of probabilities.

The most common remedies for right holders in intellectual property civil proceedings are provisional measures, injunctive relief, and damages. In addition, depending on the legal system, courts may order additional expedient measures, such as the destruction of goods, or the recovery of legal costs where appropriate.

Court proceedings depending on a number of different elements of the case, such as its complexity, the availability of evidence, and the workload of the court, may take an extensive period of time. In order to prevent further damage arising from the continuation of the infringing behavior during this court period, a plaintiff often wants to take immediate action to stop the allegedly infringing action and to prevent infringing goods from entry into the channel of commerce. On the other hand, it is equally important for an innocent defendant not to have his business stopped for a period without reason. The court using its discretionary power in deciding whether to give provisional measures must balance these conflicting interests between the claimant and the defendant. Especially uncompleted evidence provided by the claimant should also be considered at an early stage of litigation and that the final decision may lead to another result.

2.3.1. Provisional Measures

As it is required under Art. 50 of the TRIPS Agreement, most of the legal systems either in the civil law or common law tradition provide for preliminary injunctions, or referred as interlocutory injunctions. It is an order of the court directing a party to litigation to do or refrain from doing an act. Injunctions can be granted either in the beginning of a trial in interim form for not enforcing an established right but to maintain the status quo until the trial of the merits of the case can take place or in the

form of final injunctions after a trial establishing infringement of the plaintiff's rights.

Typically, two main principles govern this type of proceeding. First, the infringement of an intellectual property right has to be reasonably likely to occur. This is a determination that is usually decided in a summary proceeding, without full examination of evidence. Second, there normally has to be urgency to justify the court's order at this early stage. Particular criteria are generally employed to take into account the balance of interests involved. The Court will consider factors such as the risk for the applicant of not being able to recover any losses occurred if the injunction was not granted, and the likelihood for the accused infringer to recover losses if the injunction is ordered. In practice, such interlocutory injunctions are particularly relevant in copyright and trademark infringement cases.⁹⁶

During the procedure for a preliminary order, normally a notice has to be given to the defendant of the application and the opportunity to present his arguments, even if time is very limited. However, in extremely urgent cases, or if there is strong evidence that a defendant is dishonest and would hide the suspected illicit goods or destroy essential evidence, the interlocutory injunction order can also be made *ex-parte*, without hearing of the defendant's side.

2.3.2. Interim Injunction

In many cases, there may be a considerable delay between the time when a rights holder discovers that their rights are being infringed and the time when the matter is heard at trial. In order to ensure that a rights holder's interests are not undermined during this period, this civil remedy called as interim injunction or interlocutory relief exists. Interim injunction is a court order to stay events pending a final determination. An interim injunction will only be granted if the matter is urgent or is otherwise desirable in the interests of justice.⁹⁷

⁹⁶ <http://wipo.int/enforcement/en/faq/judiciary/faq06.html>

⁹⁷ Bently and Sherman, *op. cit.*, p.1008.

During injunctive proceedings, the right holder aims to order a party to desist from an infringement of a patent right, a trademark right, a copyright, or another intellectual property right in the future. The basis for an injunction is the existence of a threat that the defendant is about to violate the rights of the plaintiff. This threat has to be demonstrated by the plaintiff to the satisfaction of the court. Whether such an injunction should be granted has always been a matter of discretion of the court.⁹⁸

American Cyanamid case⁹⁹ is very crucial in assessing the criteria whether to give injunctive relief or not. The correct approach established by this case is that the court must first be satisfied that there is a “serious question to be tried”. Then the court should assess the balance of convenience. The court should compare then possible effects of granting and not granting the injunction on the defendant and the claimant. If it appears that damages awarded at the trial will adequately compensate the plaintiff, and that the defendant is likely to be able to pay them, interim relief should not normally be granted. If damages will not be adequate to compensate the plaintiff, it becomes necessary to consider whether the defendant would be adequately compensated by damages upon the plaintiff’s cross-undertaking should the plaintiff not make good his claim at trial. If these damages would be adequate, the injunction will be granted. Where there is doubt about the adequacy of damages to one or both sides, any factor, which may affect the balance of convenience, is brought into account.¹⁰⁰ In short, the courts will focus on three factors when deciding to grant an interim injunction: whether damages would be an adequate remedy, the balance of convenience, and the relative strength of the parties’ cases.¹⁰¹ The courts should not, however, embark upon mini-trials of disputed questions of fact or difficult questions of law.

Three factors stated in American Cyanamid case in particular are important for the assessment of the balance of convenience doctrine. First, is the degree to which

⁹⁸ *Series 5 Software v Clarke* [1996] F.S.R 273.

⁹⁹ *American Cyanamid v Ethicon* [1975] A.C. 396, [1975] R.P.C. 513.

¹⁰⁰ *Cornish and Llewelyn, op. cit.*, p.70.

¹⁰¹ *Bently and Sherman, op. cit.*, p.1013.

plaintiff and defendant are successfully established in business: for loss of market share during the interim period until trial may well be thought to have wide-ranging effects that cannot be easily quantified in damages. If the defendant has not yet set up in production, but the plaintiff is already on the market, the balance may well be in the plaintiff's favor. Secondly, if either party appears to lack the financial ability or backing to meet any ultimate liability in damages this may operate against him. Thirdly, unnecessary delay on the plaintiff's part will weigh against him, at least if the defendant has materially altered his position in consequence.¹⁰²

If the defendant has previously infringed the plaintiff's rights in the past, it is usually easy to prove such a threat. Such an existing violation normally will be deemed sufficient proof of likely repetition in the future. When the defendant has not yet committed a violation of the plaintiff's intellectual property rights, the plaintiff has to reasonably assert to the court that an infringement is imminent. National laws provide the various elements that properly identify the imminence of such a danger to the court.

According to the TRIPS Agreement (Art. 44 (1)), Member States are allowed to provide that an injunction may not be ordered for infringements undertaken prior to knowing or having reasonable grounds to know of the infringing nature of the action. In such cases, a cease and desist letter will first have to be sent to the infringer who subsequently will no longer be in a position to plead unknowing behavior.

When a defendant does not comply with an injunction that has been issued, a court order compelling compliance can be handed down upon application of the plaintiff. Normally, a fine, or, rarely in practice, imprisonment, is ordered against the defendant for breaching the injunction. This principle exists in many legal systems and it is called as civil contempt in common law systems.

¹⁰² Cornish and Llewelyn, *op. cit.*, p.71, 72.

2.3.3. Final Injunction

A final or perpetual injunction is usually granted to an intellectual property right owner who proves at trial that his rights have been infringed by the defendant.¹⁰³ A final injunction will order the defendant not to carry on with certain activities. As such, it is directed at future conduct, whereas the financial remedies operate in relation to past acts. The question of whether an injunction should be granted usually depends on the facts of the case.¹⁰⁴

2.3.4. Damages

In most legal systems, a right holder is entitled to recover compensation for the infringement of his intellectual property rights. The normal aim of an award of damages is to compensate the plaintiff for the harm caused him by the legal injury.¹⁰⁵ So it does not aim to punish the defendant, on the contrary the aim is to restore the victim to the position he or she would have been in if no wrong had been committed.¹⁰⁶

The TRIPS Agreement provides that Member States must endow their judicial authorities with the respective power to order payment of adequate damages to compensate the right holder for infringing activities undertaken knowingly, or with reasonable grounds to know (Art. 45 (1)).

The question how damages can be assessed is of great practical importance. A starting point in assessing damages is to ask whether the plaintiff and the defendant are in actual competition. Where this is so, the next question is whether the defendant

¹⁰³ *Chiron v Organon* (no.10) [1995] FSR 325.

¹⁰⁴ Bently and Sherman, *op. cit.*, p.1020.

¹⁰⁵ Cornish and Llewelyn, *op. cit.*, p.74.

¹⁰⁶ *General Tire & Rubber v Firestone Tyre & Rubber* [1976] RPC 197, 214.

might have had the plaintiff's license if only he had sought it. Then the measure of damages will likely be what the plaintiff would have charged for a license.¹⁰⁷ The award for infringements already perpetuated may well be based on a royalty for each infringement.¹⁰⁸ There are various methodologies under different jurisdictions to determine the amount of damages some of which have been mentioned here below:¹⁰⁹

- Actual loss and defendant's profits
- License analogy
- Immaterial or moral damages
- Pre-established damages / statutory damages

Actual loss and defendant's profits

Two criteria of calculation for the amount of damages has been set out in most of the legal systems as the actual loss of the right owner and the defendant's profits. This is called account of profits in common law countries. As a corollary of the injunction, court might order a defendant to account to a plaintiff for profits made from the infringement of an intellectual property right. A modern view of account of profits is that it is restitutionary in character, aiming to put paid to an unjust enrichment to the defendant at the plaintiff's expense.¹¹⁰

In determining actual loss, the goal of the court is to put upon the infringed party in the position it would have been if the infringement had not occurred. To establish legal grounds for recovery, the plaintiff has to show that he has suffered a loss, for instance through a decline in sales figures, because of the infringement.

¹⁰⁷ *General Tire v Firestone* [1976] R.P.C. 197, p. 212 *et seq.*

¹⁰⁸ Cornish and Llewelyn, *op. cit.*, p. 75.

¹⁰⁹ <http://www.wipo.int/enforcement/en/faq/judiciary/faq08.html>

¹¹⁰ Cornish and Llewelyn, *op. cit.*, p. 78.

In the alternative, many countries allow successful claimants to recover net profits that the infringer has made from the infringement. This remedy aims at preventing the defendant from enriching himself at the plaintiff's expense. The infringer therefore must account for the profits he has made. It is only where the plaintiff's and defendant's anticipated profits are the same in the same market that the defendant's gain will be the plaintiff's loss.

Under the TRIPS Agreement, this remedy is optional (Art. 45 (2)) and may be made available even if the infringer did not know, nor had no reasonable grounds to know that he was engaged in infringing activity. This is significantly different from the requirements for the general order of payment for adequate damages (Art. 45 (1)), which requires damages payment based on the notion that the infringer knew or should have known of the infringing character of his actions.

Damages based on license

In addition to these traditional ways of assessing damages, some countries offer a third option, compensation based on a license analogy. The rationale behind this assessment is that the infringer must not be in a better position than he would have found himself if he entered a license agreement with the right holder. Here the damages compensate for the misappropriation and represent the fee that the defendant would have paid for a license for the use of the rights he infringed.

Hence, the plaintiff is entitled to reasonable royalties for an infringement. This is permitted even if the plaintiff had no intention, or the capability, to grant the respective license. The most important - and typically most controversial - aspect of the license analogy assessment concerns the calculation of this fictitious license. The court generally determines the value of the license based on rates, which are customary in license agreements for a similar product and a similar use.¹¹¹

¹¹¹ <http://www.wipo.int/enforcement/en/faq/judiciary/faq08.html>

Immaterial or moral damages

Some countries also provide for immaterial damages for intellectual property infringements. This remedy is frequently utilized where the violation of rights is considered particularly serious, or where the infringement has been undertaken intentionally. In practice, such damages are typically ordered in cases where the plaintiff's reputation has been undermined by the infringement.

An example of this remedy can be found in article 13 (1 (a)) of the EU Directive 2004/48 on the Enforcement of Intellectual Property Rights which sets forth that the judicial authorities, when they set the damages, shall take into account, in appropriate cases, also elements other than economic factors, such as the moral prejudice caused to the right holder by the infringement.

Pre-established damages / statutory damages

The provision of evidence for the calculation of actual damages may be very difficult or even impossible for the right holder to establish. In copyright piracy cases, for example, it is notoriously difficult for right owners to meet the burden of proof in establishing the true volume of the infringement. Such a burden is magnified when the infringement happens in an online environment and the right holder has to show the number of illegal downloads from the Internet.

In order to address the difficulties of a high burden of proof, as well as to provide for harsher damage awards, some countries have set forth pre-established, or statutory, damages. These would lessen the burden of the right holder to quantify the actual impact of the infringement in addition to offering the court an alternative means of granting fixed-rate damages. The concept of statutory damages as a remedy is subject to some debate because a number of legal systems see them as too close conceptually to punitive damages. Many countries do not recognize punitive damages, based on

the principle that any punishment requires pre-established criminal provisions (nulla poena sine lege principle).¹¹²

In many countries, though, statutory damages are not considered predominantly punitive, but rather as a remedy that aims to provide full compensation for the harm suffered by the right holder. Statutory damages accomplish this goal by taking into account additional expenses of the right holder (i.e., administrative expenses in identifying the infringement and its origin, etc.) while having also a deterrent effect.

The recent EU Directive 2004/48 on the Enforcement of Intellectual Property Rights includes a provision which allows the judicial authorities to set the damages as a ‘lump sum on the basis of elements such as at least the amount of royalties which would have been due if the infringer has requested authorization to use the intellectual property right in question’ (Art. 13 (1 (b))).

2.3.5. Other Measures

In addition to injunctive relief, provisional measures and damages, national civil procedures provide for additional expedient measures that a court can order. While conditions vary from country to country, some general standards exist.

In many cases, upon the filing for injunctive relief, a plaintiff also asks the court to seize or destroy the stocks of the infringing goods. If a court grants the order, the defendant must - without compensation - deliver or destroy any infringing goods in his possession. In order to ensure that injunctions are properly effective, courts maintain discretion to order delivery up of infringing articles or documents for destruction, or else to require their destruction under oath by the defendant, or some equivalent step such as erasure of a trademark.¹¹³

¹¹² <http://www.wipo.int/enforcement/en/faq/judiciary/faq08.html>

¹¹³ *Mergenthaler Linotype v Intertype* (1927) 43 R.P.C. 381; *Slazenger v Feltham* (No.2) (1889) 6 R.P.C. 531 at 538.

In considering whether the discretionary order for destruction or forfeiture is appropriate, the court is directed to take into account whether other remedies available in an action for infringement would be adequate to compensate the right owner and protect their interests.¹¹⁴

This order, if it is provided by the court, may have an important economic impact both on the plaintiff, who is ensured that the infringing goods will not be used in the future, and the defendant, who may have invested in the production or acquaintance of the goods. As a result, such orders also remove economic incentives for IP infringers. Many countries provide for such remedies, in accordance with their obligation under Art. 46 of the TRIPS Agreement.

Additionally, the courts of a number of countries may grant orders for the disclosure of information. This remedy, which is optional under the TRIPS Agreement (Art. 47), has been introduced in various national legal systems. The right of information can be a powerful instrument, particularly in situations where the defendant is only a part of a distribution chain of infringing goods. In such a case the plaintiff may apply for a court order to force disclosure of information about the defendant's suppliers and customers.

Another significant court order addresses the question of compensation for legal costs of the parties, including fees for lawyers, expert witnesses, court fees, etc. In many countries, this order follows the decision on the merits of the case; in other words, the losing litigant will in principle have to pay both his own legal costs and those of the other party.

2.3.6. Evidence

Evidence presented to a court, which assists in its determination of factual issues, is of great importance in intellectual property litigation. Depending on the respective national civil procedure provisions, various categories of evidence may exist, such as real evidence, documentary evidence, and witness evidence. In intellectual property

¹¹⁴ Bently and Sherman, *op. cit.*, p. 1022,1023.

litigation, two particular forms of evidence have been shown to be useful. These forms are expert evidence and consumer surveys.

Many courts rely upon expert evidence in intellectual property litigation, in particular in the area of patent litigation. The technical content in many patent cases can be very complex. In these circumstances, expert evidence is a valuable tool for the judge in determining highly specialized and technical issues of fact.

The consumer or market survey has arisen as an important evidentiary tool in particular in the area of trademark litigation, as well as in unfair competition cases. The results of such a survey can provide evidence on the state of public opinion in relation to a particular trademark. Consumer surveys also can demonstrate whether a trademark has acquired such reputation that it can be accepted as a well-known mark. Survey results may be used in cases where the question of confusion is relevant; in practice, however, reliance on surveys in this context is rather limited.

Apart from the evidence mostly required by the courts during the trial period as in the case of expert evidence and consumer survey, the plaintiff may want to obtain some evidence from the defendant under the urgency and seriousness of the case by a court order as a part of provisional measures. In this regard, *Anton Pillar v Manufacturing Processes*¹¹⁵ case originating in the UK is of major practical importance to some right owners. The claimant applies to the High Court or Patent County Court in camera without any notice to the defendant, for an order that the defendant permit him to inspect the defendant's premises and to seize, copy or photograph material relevant to the alleged infringement.

This order will be made under the fulfillment of three conditions specified below:

1. if the plaintiff provides an extremely strong prima facie case of infringement
2. shows that the damage, actual or potential, to him is very serious and

¹¹⁵ [1976] R.P.C. 719.

3. provides clear evidence that the defendant has in possession incriminating documents or things and that there is a real possibility that this material will be destroyed before any application *inter partes* can be made.

This kind of orders have been very common in many countries as a response to growing concern over the current volume of sound recording, video and other copyright piracy and the counterfeiting of popular trademarks.¹¹⁶

These court orders can allow the right holder to secure evidence from an alleged infringement by way of an *ex-parte* order if there is strong evidence that evidentiary material is likely to be destroyed. Often combined with a preliminary injunctive order, such court order allows for inspection of the defendant's premises and the seizure of relevant evidence. An Anton-Pillar order can also compel the production of information on the distribution chain of the infringing goods. Given the strong impact of such orders, legitimate interests of the defendant also have to be taken into account. This can be done, for example, by building protections into the formal orders, requiring that service and execution of the orders must be done in the presence of an independent supervisory solicitor, or undertakings to pay compensation should the orders be improperly executed.

In general, Anton-Pillar orders have often proven to be extremely effective and have become very common in countries that execute such *ex- parte* orders. Recently, some civil law countries are beginning to move closer towards this approach.

2.4. Criminal Proceedings for the Infringements of IPRs

Civil remedies are not the only way of enforcing intellectual property rights. Most countries provide for criminal proceedings in cases of deliberate infringements or infringements done for commercial purpose or which have resulted in particular harm to the right holder.

¹¹⁶ Cornish and Llewelyn, *op. cit.*, p.81.

Recently, there has been increased interest in the scope of criminal liabilities and sanctions, especially in the case of piracy and counterfeiting. Criminal prosecution is attractive because of the publicity that a criminal trial can attract and the deterrence effect of the sanction.¹¹⁷

On the multilateral level, Art. 61 of the TRIPS Agreement requires Member States to provide for criminal procedures and penalties in cases of willful trademark counterfeiting and copyright piracy on a commercial scale. Such penalties, according to the TRIPS Agreement, must include imprisonment and/or monetary fines which are sufficient to deter from infringement and, in appropriate cases, seizure, forfeiture and destruction of the infringing goods and related materials. Members are free to add criminal procedures for other infringements of IP rights, in particular if they are committed willfully and on commercial scale. So unlike primary civil liability, criminal relief requires proof of knowledge or reason to know that the right was being or would be infringed. The punishment will depend largely on the gravity and the scale of the infringement and the persistence of the defendant.

If a right holder finds out that his rights have been infringed upon in a manner that is criminal according to the applicable national law, he may contact the police or other competent authority in this country. The right holder should be prepared to provide the authorities with all available information on the infringement. The authorities will then decide whether to initiate action such as prosecution.

2.5. Enforcement by Technological Means

The prevention of intellectual property infringements by technological means is one of the most dynamic areas related to the enforcement of intellectual property rights, in both the legal and technological arenas. Faced with an ongoing period of dramatic commercial losses caused by counterfeiting and piracy as well as intellectual property infringements in general, intellectual property right owners have made, over the past years, vast efforts to develop measures and technologies, which aim to protect their products from being copied. Generally speaking, technological

¹¹⁷ Bently and Sherman, *op. cit.*, p.1030.

enforcement describes the use of technologies for the protection of intellectual property protected products. In particular, such technologies enable the original product to be identified, or, notably in the online environment, prevent copying or other unauthorized uses of copyright protected content. The most common groups of such protection measures are optical measures and, in the context of uses over digital networks, electronic measures, also known as technological protection measures.

2.5.1. Optical Protection Technologies

In many countries, so-called ‘anti-piracy devices’, such as holograms, stickers, microscopic labels, or banderoles, have been developed, which are placed on products prior to their distribution on the market. Such devices aim at marking each legitimate copy of a work by optical means, so that they could be easily identified when offered and distinguished from fake products. Such a system enables customers to be aware of the legitimacy of a product and allows the authorities to act quickly when infringing content appears on the market. The most prevalent technology in this respect today probably is the hologram, mainly because copying is relatively costly and technically complicated.

However, if such an authentication system is not well established and controlled, there is a risk that the infringers themselves abuse the system, for example by producing and using fake devices. In order to avoid such vulnerabilities, governmental authorities frequently try to supervise the production of anti-piracy devices.

2.5.2. Technological Protection Measures

In general, right holders seek to control the use of their works in the online environment by utilizing specialized technologies. Technological protection measures take various forms and their features are continually changing.

These measures can broadly be grouped into two categories: first, measures that are deployed to limit access to protected content to users who are authorized to such

access. Common access control features are, for example, cryptography, passwords, and digital signatures that secure the access to information and protected content.

The second major group of technologies aims at controlling the use of protected content once users have access to the work. According to the corresponding license agreement, certain uses of protected content may be allowed for certain purposes. To make sure that these obligations are complied with and no unauthorized reproductions are made, the respective technological measures attempt to track and control copying, and thus prevent the user from surpassing the right he has been granted. Examples of such copy control measures are serial copy management systems for audio digital taping devices, and scrambling systems for DVDs that prevent third parties from reproducing content without authorization.

2.5.3. The Legal Framework for Technological Protection Measures

The so-called ‘WIPO Internet Treaties’, the WIPO Copyright Treaty (WCT) and the WIPO Performances and Phonograms Treaty (WPPT) which both entered in force in 2002, have established the international legal framework for protection of these technological protection measures. Key provisions in each of these treaties address the concern that technological protection solutions themselves are not invulnerable. In a digital environment therefore, the respect of works and their uses requires provisions, which ensure that technologies, used by the right owners to protect the copyrighted content against illegal uses, may not be circumvented. In this regard, the two treaties oblige Member States to provide adequate legal protection and effective remedies against the circumvention of effective technological measures in Art. 11 WCT and Art. 18 WPPT, respectively.¹¹⁸

The process of implementation of the WIPO Internet treaties is accomplished or underway today in a number of Member States. The process has provided differing approaches to meeting treaty obligations. For example, variations appear on the issue whether only acts of circumvention are covered, or whether also preparatory acts or

¹¹⁸ <http://www.wipo.int/enforcement/en/faq/technological/faq04.html>

making available of equipment that aid in circumvention are covered. Variations also appear concerning the kind of legal remedies that are provided for, or the interrelation between the use of technological protection measures on the one hand, and the limitations and exceptions of copyright, as foreseen by national copyright laws, on the other. Many countries allow free uses under certain conditions, for example for certain educational purposes, which may be rendered more difficult when protection measures for copyrighted content are deployed. These complex issues require well-balanced legislative solutions.

3. ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS IN THE INTERNATIONAL LEGAL FRAMEWORK

This chapter analyzes the enforcement issue in the international legal framework. Firstly, organizations dealing with the intellectual property enforcement concerning different dimensions of the issue are examined by referring to their main functions and roles in the implementation process. Evaluation of the TRIPS enforcement measures constitutes the main component of this chapter. Main critiques about TRIPS enforcement measures and the future expectations are questioned in order to find some valuable solutions to the differing and conflicting interests of the developed and developing countries.

3.1. Organizations Concerned with Intellectual Property Enforcement

Intellectual property right holders may claim infringement of their exclusive rights arising from the protection of their intellectual property rights before national administrative and judiciary bodies. National intellectual property offices in charge of the registration of intellectual property rights, professional intellectual property courts and other judiciary bodies, police, customs authorities are all taking crucial roles in a better functioning intellectual property systems in a country. Better enforcement of the intellectual property rights requires cooperation and joint initiatives among the various international and regional actors including national administrative and judiciary bodies.

Since there is no supranational system of enforcement, national legislatures and the national courts are still the enforcing organs of the rules laid down by the international organizations. WIPO administered treaties and the TRIPS Agreement set minimum standards of enforcement and they all rely on national legislatures and judicatures to give effect to the provisions. The reliance on national authorities creates a risk to the effective enforcement of intellectual property rights due to the differing interpretations of the same provisions in different legal cultures. In addition,

slow and expensive litigation in the intellectual property cases necessitates close interaction between various actors working on the better practices of the intellectual property enforcement.

Various intergovernmental and non-governmental organizations, which have a particular expertise in the field of intellectual property enforcement, are briefly mentioned below with short descriptions of their activities in the field of intellectual property enforcement.

3.1.1. International Organizations

a) The United Nations

Counterfeiting is a steadily growing phenomenon that is threatening the economic growth of countries all over the world. It has become a form of organized crime with proven ties to other forms of criminal activity. The extent of the phenomenon is causing great concern to the international organizations such as UN, Interpol, the WIPO and the European Commission.

On the initiative of the United Nations Office of Drug Control and Crime Prevention, a new UN Convention against Transnational Organized Crime was promulgated in December 2000. The Convention is a legally binding instrument for the States, which ratify it. They undertake a series of measures against transnational organized crime. These include the creation of domestic criminal offences to combat the problem, the adoption of new, all-encompassing frameworks for mutual legal assistance, extradition, law enforcement cooperation, technical assistance and training. The Convention deals with, among other things, issues related to contraband and money laundering and it identifies the exclusion of criminal groups from legal businesses and markets as a key strategy for dealing with organized crime. To that end, the Convention requires from governments to:

- Tighten cooperation between law enforcers and private entities, including industry;

- Promote codes of conduct for relevant professions, in particular lawyers, notaries public, tax consultants and accountants;
- Prevent organized crime groups from manipulating bidding procedures for public contracts as well as public subsidies and licenses for commercial activity.

Moreover, the Convention notes the important contribution to the fight against organized crime that be made by improving training and technical assistance in relation to monitoring the movement of contraband. Its ultimate intention is to close the major loopholes that allow organized crime to flourish and that block international efforts to combat it. The convention is intended to serve as a blueprint for countries to improve their systems to shut down international criminal organizations, eliminate ‘safe havens’, protect witnesses and block money laundering.¹¹⁹

In addition, The United Nations Economic Commission for Europe (UNECE), one of five regional commissions of the United Nations has established a specific Advisory Group on the protection and implementation of intellectual property rights for investment, which aims at a better protection and enforcement of intellectual property rights in the region.

b) The World Intellectual Property Organization (WIPO)

WIPO is the principal specialized agency of the United Nations system of organizations, which is concerned with the protection of intellectual property. It administers many international treaties dealing with different aspects of intellectual property protection. It also administers an extensive program of co-operation for development with developing and least developed countries under which it provides

¹¹⁹ Michael Blakeney, “Guidebook on Enforcement of Intellectual Property Rights”, Queen Mary Intellectual Property Research Institute, Queen Mary, University of London, April 18, 2005, p.17.

assistance in the drafting of legislation, as well as training courses in all aspects of intellectual property protection.

This Cooperation for Development Program undertakes its activities in close cooperation with other WIPO activities and programs. These activities include expert advice on intellectual property legislation in a number of specialized intellectual property areas, awareness raising and training activities as well as specific projects for the modernization of national or regional intellectual property systems. The Cooperation for Development Program offers special services to developing countries in the area of collective management of copyright and related rights and gives special attention to the needs of least developed countries (LDCs).

WIPO has close connections with other organizations while carrying out its own mission in the policy formulation and administration of intellectual property protection. The TRIPS Agreement expressly envisaged the possibility of cooperation between the WTO and WIPO in Article 63.2. As a matter of practice, the TRIPS Council has consulted with WIPO concerning the evolution of multilateral intellectual property norms. In December 1995 the WIPO and the WTO signed an agreement, which establishes a framework for cooperation in providing technical assistance to developing countries in relation to the implementation of the TRIPS Agreement. The Agreement also provides for the mutual exchange of the laws and regulations of both organizations. The TRIPS Council has agreed that both organizations should use a uniform system for notification by members of their intellectual property laws and that this system should be administered by WIPO. The TRIPS Council has also agreed that assistance will be provided by WIPO to members in drafting TRIPS-compliant legislation.

In 2002, WIPO established an Advisory Committee on Enforcement (ACE), in charge of global enforcement issues, covering both industrial property, copyright and related rights. The mandate of the ACE¹²⁰ is defined as technical assistance and coordination on the matters related to enforcement. The objectives of the Committee are coordination of private sector and relevant organizations to combat counterfeiting

¹²⁰ Document [WO/GA/28/7](#), paragraphs 114(ii) and 120.

and piracy; public education; assistance; coordination to undertake national and regional training programs for all relevant stakeholders and exchange of information on enforcement issues through the establishment of an Electronic Forum.

The Intellectual Property Enforcement Issues and Strategies (IPEIS) Electronic Forum was established pursuant to the endorsement of the WIPO Consultation Meeting on Enforcement (CME), held in Geneva from September 11 to 13, 2002. The IPEIS Electronic Forum serves mainly two purposes. First, it provides a forum where enforcement and intellectual property office officials, as well as other stakeholders with a specific expertise in the field of intellectual property enforcement, can share information on their respective experiences, which are of general interest. Second, it facilitates the collection of information related to work undertaken by the International Bureau¹²¹ in the field of intellectual property enforcement. This function is accomplished by responding to requests for information in the form of surveys, questionnaires posted on the Electronic Forum by the International Bureau.

At the same time WIPO established the Enforcement and Special Projects Division to serve as a focal point for enforcement activities in the International Bureau. The Division has, *inter alia*, the many responsibilities such as the convening and supporting the annual meeting of the Advisory Committee on Enforcement to consider intellectual property enforcement issues and strategies; preparation of working documents, studies and surveys on topical issues relating to the enforcement of intellectual property rights; administering the Electronic Forum on Intellectual Property Enforcement Issues and Strategies (IPEIS), as a forum where all relevant stakeholders can share information on national experiences pertaining to the enforcement of intellectual property rights; cooperation and coordination with multilateral and regional organizations and with non-governmental organizations in order to share expertise and experiences in the field of the enforcement of intellectual property rights, including the attendance of seminars, workshops and other meetings; promoting the understanding of the international obligations and principles relating to the enforcement of intellectual property rights and addressing the needs of

¹²¹ International Bureau is an administrative organ of the WIPO.

Member States in developing and strengthening their national and regional systems for the enforcement of intellectual property rights, including correspondence, human resource development, participating in seminars and workshops, advising national governments on the implementation of enforcement strategies, providing legislative advice and technical assistance; and developing projects and information material to enhance public awareness in the fight against counterfeiting and piracy.¹²²

In order to best coordinate activities and to take due account of a broad spectrum of different experiences and interests in the field of intellectual property enforcement in planning and carrying out its activities, WIPO is working closely together with the competent national authorities in the Member States including the intellectual property offices. In addition, WIPO also closely cooperates with various intergovernmental and non-governmental organizations, which have a particular expertise in the field of intellectual property enforcement.

3.1.2. Inter-Governmental Organizations

a) The World Trade Organization (WTO)

The WTO is an intergovernmental body dealing with the rules of trade between nations. The WTO came into being in 1995 and is the successor to the General Agreement on Tariffs and Trade (GATT). The WTO administers the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (the TRIPS Agreement), which was concluded at the end of the Uruguay Round. Signature and implementation of the TRIPS Agreement is a membership obligation of WTO Member States.

Oversight of the TRIPS Agreement is conferred upon the Council for TRIPS, which was established by Article IV of the WTO Agreement. The functions of the Council for TRIPS include monitoring the operation of the Agreement (Art.68); review and, where appropriate, amend the Agreement (Art. 71). The Council for TRIPS is also

¹²² Blakeney, Guidebook ..., *op. cit.*, p.18.

required by Art.68 ‘to afford Members the opportunity of consulting on matters relating to the trade related aspects of intellectual property rights’.

The TRIPS Agreement includes provisions on the enforcement of intellectual property rights. These cover certain general principles applicable to all intellectual property enforcement procedures, as well as provisions on civil and administrative procedures and remedies, provisional measures, special requirements related to border measures and criminal procedures, which specify, in a certain amount of detail, the procedures and remedies that must be available so that right holders can effectively enforce their rights.

Article 69 of the TRIPS Agreement contains agreement on the part of Members that ‘they will cooperate with each other with a view to eliminating international trade in goods infringing intellectual property rights’. This cooperation will include the establishment and notification of contact points in their administrations and preparedness to ‘exchange information on trade in infringing goods’. In particular, Art.69 identifies the promotion of ‘the exchange of information and cooperation between customs authorities with regard to trade in counterfeit trademark goods and pirated copyright goods’. Article 67 provides for ‘technical and financial cooperation in favor of developing and least developed country Members’ on request and on mutually agreed terms and conditions, ‘in order to facilitate the implementation’ of the TRIPS Agreement. The technical cooperation envisaged in Art.67 includes “assistance in the preparation of laws and regulations on the protection and enforcement of intellectual property rights as well as on the prevention of their abuse, and shall include support regarding the establishment or reinforcement of domestic offices and agencies relevant to these matters, including the training of personnel’. Assistance with legislative drafting and training for WTO Members is provided by WIPO, pursuant to its cooperation agreement with WTO.¹²³

¹²³ *ibid.*, p.19.

b) World Customs Organization (WCO)

Established in 1952 as the Customs Cooperation Council (CCC) and it was renamed, as the World Customs Organization (WCO) with the beginning of the TRIPS. It is an independent intergovernmental body whose mission is to enhance the effectiveness and efficiency of customs administrations worldwide. The WCO is the competent global intergovernmental organization in customs matters. It now comprises more than 150 member customs administrations. Commencing on an informal basis with business funding, the WCO has established an IPR Division and is an observer at the inaugural meeting of the TRIPS Council.

In 1991, the G7 Group of Nations recommended that the CCC should develop an Action Plan to strengthen cooperation between carriers and the enforcement authorities. The recommendation led directly to the WCO "ACTION/DEFIS" program (Alliance of Customs and Trade for the Interdiction of Narcotics), a Customs and Trade partnership which aimed initially at the interdiction of illicit narcotic drugs, but which has been gradually extended to embrace other forms of border related crime, including intellectual property rights' violations.¹²⁴

The WCO has promulgated model customs legislation, which is designed to assist members in the implementation of the TRIPS provisions. The model is designed to provide customs administrations with a guide of best practices in the field of intellectual property enforcement. In particular, it is intended for those customs administrations implementing intellectual property rights legislation for the first time and those conducting legislative reviews or reforms. The model law is based on the border control provisions of the TRIPS Agreement.

Furthermore, the "WCO IPR Strategic Group" was established as a joint venture with international business sponsors. In addition to providing an overview of the global counterfeiting phenomenon from a customs perspective, the WCO IPR Strategic

¹²⁴ *ibid.*

Group offers a full range of services for the exclusive benefit of members and sponsors.

c) **The International Criminal Police Organization (ICPO-Interpol)**

The International Criminal Police Organization (ICPO-Interpol) was established in 1923 to facilitate cross-border criminal police cooperation. It is the largest international police organization in the world. It supports and assists all organizations, authorities and services whose mission is to prevent or combat international crime.

The Interpol Intellectual Property Crime Action Group (IIPCAG) was created in cooperation with representatives from the police, customs, inter-governmental organizations and private sector associations to provide a forum to coordinate and enhance international action regarding intellectual property crime. The IIPCAG aims to facilitate international law enforcement action against intellectual property crime; raise awareness of the economic and social impact of the trade in counterfeit products and pirated goods; create intellectual property crime investigation training programs; and improve coordination between police, customs and the private sector in intellectual property enforcement matters.

During the initial meeting, the IPR working group identified the following areas as main points of focus for the committee to review and provide recommendations, to enhance cooperation and facilitate enforcement actions:

- **Training:** to identify international training needs at the strategic, operational and legislative levels and to develop tailored IPR training programs.
- **Best Practices:** to identify methodologies for circulating details of successful IPR programs (new legislation, training, IPR awareness, enforcement actions)

- **Information Exchange/Databases:** to identify best-suited format and opportunities to the exchange of timely information regarding emerging trends, product notices and enforcement actions.
- **Contact Points:** to establish a centralized repository of key worldwide contact representatives within the law enforcement community and the private sector regarding IPR matters.
- **Public Awareness:** to identify and formulate strategies to highlight the overall IPR impact and the efforts of Interpol and the working group and to focus message on key audiences.

d) World Health Organization

The World Health Organization, the United Nations specialized agency for health, was established in 1948, and there are 192 Member States to this organization. Increasing volume of trade in counterfeit products and especially rising levels of counterfeit medicine production giving serious signs of safety risks for the public urged the role of the WHO within the ambit of the intellectual property enforcement. The WHO operates a specific program on counterfeit and substandard medicines, which aims at strengthening international cooperation and prevention in this field.

3.1.3. European Commission

The European Commission is the politically independent institution that represents and upholds the interests of the European Union (EU). It is the driving force within the institutional system of the EU.

Initiatives to ensure an effective enforcement of intellectual property rights have become increasingly prominent in the Commission's work in the last 10 years. In 1994 the EU adopted the Customs Regulation (Regulation (EC) No 3295/94), allowing border control of imports of fake goods. Later, in 1998, the Commission issued its Green Paper on Combating Counterfeiting and Piracy in the Single

Market.¹²⁵ As a result of responses to the Green Paper, the Commission presented an Action Plan, on 30 November 2000, comprising the following elements:

- Harmonization among all EU members of legislation to protect intellectual property rights.
- Improved law enforcement training programs.
- Education programs to raise awareness among consumers of the negative consequences of purchasing counterfeit and pirated products.
- The launching of a study for defining a methodology for collecting, analysing and comparing data on counterfeiting and piracy.

This Action Plan has been translated into a Directive¹²⁶ published in April 2004, harmonizing the enforcement of intellectual property rights within the Community and a Regulation improving the mechanisms for customs action against counterfeit or pirated goods set by the previous Customs Regulation.¹²⁷ The Action Plan also extended the Europol's powers to cover piracy and counterfeiting. Regarding the situation outside the borders of the Community, the European Commission has adopted a Strategy for the Enforcement of Intellectual Property Rights in Third Countries¹²⁸ in November 2004. The European Community and its Member States devote substantial resources to technical cooperation with states, wishing to accede to the European Union membership and with countries of other continents. These include either specific bilateral cooperation or actions fitting into a more general framework, such as preparation programs for the WTO accession, or general programs for developing business skills.

The European Commission is organized into departments, known as "Directorates-General" (DGs) and "services" such as the Legal Service. A number of the Directorates General of the European Commission are concerned with the

¹²⁵ COM (98) 569 Final.

¹²⁶ Directive 2004/48/EC, of the European Parliament and of the Council of 29 April 2004.

¹²⁷ Council Regulation (EC) No 1383/2003 of 22 July 2003.

¹²⁸ Commission Communication COM (2004) 709.

enforcement of intellectual property rights. Some of them are DG Trade, DG Taxation and Customs Union, DG Internal Market, DG Justice and Home Affairs and DG Enterprise. The technical cooperation undertaken by the DGs of the European Commission include legislative advice, exchanges on how to organize the administrative infrastructure, awareness promotion in the private sector and civil society and human resources training and capacity building.

a) Directorate General for Trade

DG Trade has responsibility, among other things, for devising and monitoring internal or external intellectual property policies in accordance with the trade policies of the EU. A key policy of the EU is to secure the better recognition and enforcement of intellectual property rights. DG Trade's policy in the field of intellectual property consists of promoting the implementation of effective standards for intellectual property protection worldwide; promoting an adequate enforcement of intellectual property rights worldwide and participating in the fight against violations; ensuring that intellectual property rights are supportive to public health objectives, to innovation and to technology transfer; and cooperating with developing and least developed countries, for which the introduction and enforcement of intellectual property laws is quite a challenge.¹²⁹

DG Trade has been the main driving force of the recently approved Strategy for the Enforcement of IPR in Third Countries. The Enforcement Strategy focuses on the implementation and enforcement of existing IPR laws. It proposes to describe, prioritize and coordinate the instruments available to the European Commission for achieving its goal. This Strategy has been dealt with in detail in chapter 4.

b) Directorate General, Taxation and Customs Union

The Customs Union is an essential element in the creation of an integrated single European market and it is a crucial component of a common commercial policy. The

¹²⁹ Blakeney, Guidebook ..., *op. cit.*, p.23.

role of DG Taxation and Customs Union is to maintain and defend the Customs Union and to ensure the uniform application of the nomenclature and origin rules. The growth of world trade due to the elimination of barriers between states, widespread use of electronic trade, the current EU enlargement process and the development of fraud and organised crime are many factors forcing the customs administrations to adopt a new strategies to deal with counterfeiting and piracy.

c) Directorate General, Internal Market

The Internal Market DG focuses in particular on the knowledge-based aspects of the Single Market. Its work is partly concerned with traditional instruments regulating the market, such as harmonizing the laws of the Member States relating to industrial property rights to avoid barriers to trade. The aim is also to create unitary systems for the protection of intellectual property rights with Community-wide effect through the filing of one single application for protection as in the case of Community trade marks, designs and patents. The Internal Market DG is also increasingly concerned with ensuring that the Single Market functions properly in the Information Society and the fight against counterfeiting. One of the most important phenomena for limiting the abuse of intellectual property rights by the right holder that is the principle of Community exhaustion of trade mark rights and its economic effects on innovation, employment and prices are also handled by the Internal Market DG.

There has been significant intellectual property harmonization in the EU to remove barriers to trade and to adjust the framework to new forms of exploitation. The Internal Market DG's task is to enforce the EU legislation on the intellectual property subject and to modernize and adapt it to new developments in technology or the markets concerned. For example, a Directive on Copyright and Related Rights in the Information Society was enacted for responding the challenges and problems created in the digital framework for the copyright holders. It is also involved in international negotiations to improve intellectual property rights internationally.

One of the most important contributions of the Internal Market DG in this field has been the Directive on the Enforcement of Intellectual and Industrial Property

Rights¹³⁰ that was adopted in April 2004. The Directive requires all 25 EU Member States to apply effective, dissuasive and proportionate remedies and penalties against those engaged in counterfeiting and piracy and it creates a level playing field for right holders in the EU. It sets a two years' deadline for implementation by all Member States. Consequently, by April 2006, all EU Member States started to have a similar set of measures, procedures and remedies available for right holders to defend their intellectual property rights if they are infringed. This Directive is an important step in the way of harmonizing procedural rules of the enforcement. This Directive will constitute the main focus of the study in Chapter 4 and it will be analyzed from many directions very deeply in that chapter.

d) Directorate General, Enterprise

DG Enterprise has established a particular website called as the IPR-Helpdesk.¹³¹ Main objective behind the formation of such as a website is to assist potential and current contractors taking part in European Community funded research and technological development projects on intellectual property rights issues. The IPR-Helpdesk advises also on Community diffusion and protection rules and other issues relating to IPR in international research projects. Another more global objective of the action is to raise awareness of the European research community on IPR issues, emphasizing their European dimension. Additionally, the IPR Helpdesk runs a number of training courses and information seminars on intellectual property matters.

e) Directorate General Justice, Freedom and Security

DG Justice, Freedom and Security has shared regulatory responsibilities when IPR enforcement is linked with law enforcement both within and outside the Community. This DG is currently working on a legislative initiative on approximation of national legislation and sanctions on counterfeiting and piracy.

¹³⁰ Directive 2004/48/EC.

¹³¹ <http://www.IPR-Helpdesk.org>

f) DG Development and DG External Relations

DG Development and DG External Relations coordinate, both centrally and via the EU Delegations in third countries, Community assistance to developing countries and least developed countries. In addition, the Europe Aid Cooperation Office (AIDCO) manages any technical assistance programs.

g) DG Agriculture

DG Agriculture is responsible for internal and external EU policy and for EU legislation concerning geographical indications in agriculture and leads negotiations in these matters. Geographical indications are also cited under various categories of the intellectual property rights. As different from other categories, they do not establish monopoly rights for individual persons instead; they give the right for the exclusive use of the geographical indication to a group of producers or members of an association on the condition of satisfying certain standards defined by the specifications of the concerned geographical indication.

3.1.4. Industry Bodies

As it is examined in detail in Chapter 5, combating counterfeiting and piracy could not be achieved by uncoordinated activities of the single units, instead it requires multisided approach by all the stakeholders in this framework. Industry bodies in this regard fulfill important functions. In order to combat counterfeiting and piracy measures, various industry associations have begun to concern themselves with observing market trends, advising and supporting the industries concerned, collaborating with the enforcement authorities, 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. The key industry-based organizations, which are concerned with intellectual property enforcement, are listed at the Appendix.

3.2. The Enforcement of Intellectual Property Rights Under TRIPS

3.2.1. Overview

Enforcement of intellectual property provisions was one of the main issues negotiated by members of the General Agreement on Tariffs and Trade (GATT) on the occasion of the Uruguay Round. These discussions took place in the decade that preceded the adoption of the Marrakech Agreement on April 15, 1994 whereby the World Trade Organization was created including Annex IC, which comprised the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS).¹³² TRIPS provides extremely important linkage between intellectual property rights protection and the trade portions of the Uruguay Round Agreements establishing the World Trade Organization. So TRIPS arose out of the same Uruguay Round Agreements that launched the WTO.¹³³

TRIPS was one of a number of new agreements to emerge from the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). Part III¹³⁴ of TRIPS is entitled “Enforcement of Intellectual Property Rights” and sets out, within its provisions, obligations relating to domestic procedures and remedies for the enforcement of intellectual property rights held by both foreign and national rights holders. The provisions have application to all of the categories of intellectual property subject matter covered by the Agreement, including enforcement.

While previous international agreements on harmonizing standards contained provisions on enforcement, it is the strength of the dispute settlement mechanism under the WTO that sets TRIPS apart. Because of these strengthened dispute

¹³² Horacio Rangel-Ortiz, “Intellectual Property and GATT’S Uruguay Round”, *Copyright World*, Issue 5, Intellectual Property Publishing Ltd., 1989, pp. 38-40.

¹³³ Christopher Roberts and Stanford K. McCoy, “TRIPS Around the World, Enforcement Goes Global in 2000”, *Legal Times*, April 10, 2000, p.46.

¹³⁴ Part III comprises Arts 41-61 (inclusive) and has five sections.

settlement provisions, countries need to consider what changes may be needed to bring their laws and enforcement systems into compliance with TRIPS.

TRIPS Agreement sets minimum standards for the content and enforcement of intellectual property law. Implementation date of this Agreement is designed as different for the developed, developing and least developed countries. As of 01 January 2000, developing country members of the WTO met almost all obligations of the TRIPS Agreement just as developed country members have been required to do since the adoption of the Agreement in 1995. The transition period allowed for least-developed countries ended January 1, 2006.

The principal motive for including intellectual property rights as a subject of the Uruguay Round of the GATT was the perception that the existing international intellectual property regime lacked effective enforcement. The Ministerial Declaration of 20 September 1986, which launched the Uruguay Round, explained that:

*In order to reduce the distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade, the negotiations shall aim to clarify GATT provisions and elaborate as appropriate new rules and disciplines. Negotiations shall aim to develop a multilateral framework of principles, rules and disciplines dealing with international trade in counterfeit goods, taking into account work already undertaken in the GATT.*¹³⁵

The acceptance of this linkage between intellectual property rights and trade brought intellectual property onto the Uruguay Round agenda and was eventually to result in the TRIPS Agreement. The Agreement represented the culmination of concerted attempts over many years by, largely but not exclusively, U.S. business interests to bring intellectual property concerns within the ambit of the GATT.¹³⁶ Previously, developing countries had consistently questioned the relevance of intellectual

¹³⁵ Ministerial Declaration on the Uruguay Round, 1986.

¹³⁶ Chris Arup, "The Prospective GATT Agreement for Intellectual Property Protection", *Australian Intellectual Property Journal*, 1993, Vol. 4, p. 181-185.

property matters for the GATT especially in light of the existence of the WIPO.¹³⁷ Developing countries still insist on the negotiations shaped under the auspices of the WIPO due to the suspicious concerns about the WTO as a platform where the US business interests easily dominates the outcome of the negotiations. However, both the United States and Europe had countered that the significant incidence of counterfeiting and copyright piracy, principally in Asian countries, warranted the GATT being considered an appropriate additional forum in which to secure the enforcement of intellectual property rights.¹³⁸

Viewed as a whole, the Uruguay Round of multilateral trade negotiations succeeded largely because the developing countries were offered greater access to markets for traditional manufactured goods and for their agricultural products in exchange for codified obligations to respect intellectual property rights in the non-traditional products and processes that are the stock in trade of the technology-exporting countries.¹³⁹ Even this situation seems a bilateral success for both developing and developed countries, according to Reichman and Lange, TRIPS Agreement elevated standards of intellectual property protection reflect the interests of high-tech producers at the expense of users and consumers generally, and especially of those in technology-importing countries.¹⁴⁰

The short-term social costs that most of these countries are destined to incur even under the most optimistic scenarios stem largely from the need to purchase essential goods and services, including food, medicines, and high-tech components of new industrial projects, on the global market for legitimate goods covered by intellectual property rights rather than on the shrinking market for counterfeit or copied

¹³⁷ Michael Blakeney, "The Origins of the World Trade Organization", *Int.T.L.R.*, 1995, p. 11-14.

¹³⁸ Mike Willis, "A Survey Of Enforcement Measures For International Intellectual Property Rights Under The WTO: Compliance Issues For Developing Countries" *Int. T.L.R.* 2000, 6(6), p. 180-188.

¹³⁹ Frederick M. Abbott, "The New Global Technology Regime: The WTO TRIPS Agreement and Global Economic Development", *Chi.-Kent L. Rev.*, 1996, 72, p. 385-399.

¹⁴⁰ J.H. Reichman and David Lange, "Bargaining Around The Trips Agreement: The Case For Ongoing Public- Private Initiatives To Facilitate Worldwide Intellectual Property Transactions", *Duke Journal of Comparative and International Law*, Fall 1998, p.2.

substitutes.¹⁴¹ In order to eliminate these costs, developing countries are likely to exploit ambiguities in the international legal standards;¹⁴² to adopt countervailing regulatory measures, especially measures sounding in competition law;¹⁴³ to devote minimum resources to enforcing intellectual property laws of primary interest to foreign rights holders; and to invoke safeguards embodied in the TRIPS Agreement to counteract some of the hardship the Agreement may cause.¹⁴⁴

Even there are some pessimistic views about the success of the TRIPS Agreement, it is an agreement, which provides great emphasis on effective enforcement, and this is one of the most remarkable features of TRIPS. It gives the treaty better and sharper “teeth” than the World Intellectual Property Organization (WIPO) agreements that formed the core of international intellectual property law before TRIPS first came into force in 1995. Rightly or wrongly, the lack of any similar standards in the Paris Convention for the Protection of Industrial Property of 1883 and the Berne Convention for the Protection of Literary and Artistic Works of 1886 was often blamed for contributing to the weakness of the international intellectual property system, and the closing of this gap was deemed indispensable to the creation of an efficient global market for the free circulation of knowledge goods.¹⁴⁵

Consequently, Part III of the TRIPS Agreement obliges Members to establish a comprehensive enforcement regime. The provisions of TRIPS Part III deal with procedures and remedies for the enforcement of all the intellectual property rights covered by TRIPS with some particular emphasis on remedies against counterfeit trademark goods and pirated copyright goods. These provisions have two basic objectives. The first is to ensure that effective means of enforcement are available to

¹⁴¹ *ibid.*

¹⁴² Rochelle Cooper Dreyfuss & Andreas F. Lowenfeld, “Two Achievements of the Uruguay Round: Putting TRIPS and Dispute Settlement Together”, *Virginia Journal of International Law*, 1997, Vol.37, p. 275.

¹⁴³ See TRIPS, art. 40(2) (“Nothing in this agreement shall prevent Members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market.”)

¹⁴⁴ Reichman and Lange, *op. cit.*, p.4.

¹⁴⁵ *ibid.*, p.10.

right holders. The second is to ensure that enforcement procedures are “applied in such a manner as to avoid the creation of barriers to legitimate trade, and to provide for safeguards against their abuse.”¹⁴⁶

The TRIPS provisions on enforcement are divided into five Sections:

- The first Section lays down **general obligations** that all enforcement procedures must meet. These are aimed at ensuring their effectiveness and that certain basic principles of due process are met.
- The second Section deals with **civil** and **administrative** procedures and remedies.
- The third and fourth Sections provide for **provisional measures** and special requirements related to **border measures**.
- The fifth Section deals with **criminal** procedures and remedies that must be made available to enforce rights and deter infringement.

The TRIPS enforcement standards require a regime that provides:¹⁴⁷

- effective action against infringements, including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements (Article 41.1).
- procedures that are fair and equitable, are not unnecessarily complicated or costly, and do not entail any unreasonable time limits or unwarranted delays (Article 41.2).

¹⁴⁶ WTO, “*Overview of the TRIPS Agreement*”, <http://www.wto.org/wto/intellect/intell2.html>

¹⁴⁷ The International Intellectual Property Alliance (IIPA), Paper on Copyright Enforcement under the TRIPS Agreement, October 2004, p. 2.

- transparency in the form of written decisions on the merits, made available to the parties to a proceeding without undue delay (Article 41.3).
- adequate civil or administrative procedures and remedies, including the availability of civil injunctions (Article 44); the disposal or destruction of pirate goods (Article 46); and the disposal or destruction of materials and implements the predominant use of which has been in the creation of the infringing goods (Article 46).
- provisional measures, including the availability of *ex parte* civil search orders (Article 50).
- adequate border measures, such as applications to “suspend” the release of infringing goods at the border (Articles 51 and 52); and the disposal or destruction of infringing goods (Article 59).
- adequate criminal procedures, including deterrent penalties (Article 61); the availability of seizure, forfeiture and destruction of infringing goods (Article 61); and seizure, forfeiture and destruction of materials and implements the predominant use of which has been in the commission of the offense (Article 61).

The Agreement makes a distinction between infringing activity in general, in respect of which civil judicial procedures and remedies must be available, and counterfeiting and piracy - the more blatant and egregious forms of infringing activity - in respect of which additional procedures and remedies must also be provided, namely border measures and criminal procedures. For this purpose, counterfeit goods are in essence defined as goods involving slavish copying of trademarks, and pirated goods as goods, which violate a reproduction right under copyright or a related right.¹⁴⁸

A failure to comply with any of these procedural standards of due process could, in

¹⁴⁸ World Trade Organization, A Training Package, Module: Intellectual property rights (TRIPS), Section: The Agreement, Unit: TRIPS: IPRs Enforcement, 15 December 1998, Slide no: 22.

principle, trigger the recalcitrant states' international responsibility and subject them to the dispute-settlement machinery of the WTO Agreement.¹⁴⁹

TRIPS in its preamble recognizes that intellectual property rights are private rights. In Anglo-American jurisdiction, most claimants in the intellectual property rights' enforcement make use of civil process, partly because its technique and atmosphere are appropriate to the assertion of private property rights amongst businessmen, and partly because the types of remedy - in particular the injunction (interlocutory and permanent) and damages - are more useful than punishment in the name of the state.¹⁵⁰ Technically, there are two further factors in common law jurisdiction which weight in favor of civil proceedings:

- In most jurisdictions, there is no possibility in criminal procedure of securing an interim order to desist from conduct pending the trial.
- There is a high burden of proof on the prosecution in criminal proceedings. The defendant must be shown to be guilty beyond reasonable doubt, and not merely on a balance of probabilities. This quantum of proof may be specially hard to demonstrate if the type of offence requires proof of *mens rea* in the defendant, for example that he knew, or had reason to believe, that he was committing an infringing act or other offence.¹⁵¹

On the contrary, conventional wisdom in the enforcement of intellectual property rights in most Asian countries has always been conducting police raids and treats intellectual property rights as 'public rights'.¹⁵² The TRIPS recognizes the new philosophy of enforcement of IPR by civil proceedings as private rights in accordance with legal culture of the common law countries.

¹⁴⁹ Reichman and Lange, *op. cit.*, p.10.

¹⁵⁰ William Cornish, *Intellectual Property*, 4th ed., London: Sweet & Maxwell, 1999, p 60.

¹⁵¹ *ibid.*, p.61.

¹⁵² Vichai Ariyanuntaka, "Enforcement of Intellectual Property Rights under TRIPS: A Case Study of Thailand", http://www.us-asean.org/us-thai-fta/IPR_study.pdf

3.2.2. General Enforcement Obligations

Article 41.1 of the TRIPS Agreement imposes upon members of the WTO the general obligation to make available the enforcement procedures listed in the Agreement ‘so as to permit effective action against any act of infringement of intellectual property rights’ covered by the Agreement. These procedures are required also to include ‘expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements’. Consistent with the general trade liberalization objectives of the WTO, these procedures are required to be ‘applied in a manner as to avoid the creation of barriers to legitimate trade and to provide for safeguards against their abuse’.¹⁵³ Therefore, it provides for effective action against infringement of intellectual property rights without creating barriers to legitimate trade or opportunities for abuse.

The following three paragraphs contain certain general principles, the aim of which is to guarantee due process. Art.41.2 requires that ‘procedures concerning the enforcement of intellectual property rights shall be fair and equitable’. More specifically, the paragraph requires that procedures ‘shall not be unnecessarily complicated or costly, or entail unreasonable time-limits or unwarranted delays’. In most countries some degree of delay is an inevitable consequence of the generally increasing workload, which the court system has to bear. To restructure the situation, as far as the enforcement of intellectual property rights is concerned, some countries, such as the UK, have adopted the expedient of conferring an intellectual property jurisdiction upon lower courts in relation to smaller matters. Alternatively, countries such as Thailand, have announced the establishment of entirely new courts to hear intellectual property matters. However, it should be noted that Art.41.5 declares that it should be understood that the scheme for the enforcement of intellectual property rights contained in the TRIPS Agreement did not ‘create any obligation to put in

¹⁵³ Blakeney, Guidebook..., *op. cit.*, p.28

place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general'.¹⁵⁴

Article 41.3 requires that 'decisions on the merits of a case shall preferably be in writing and reasoned' and that they 'shall be made available at least to the parties to the proceeding without undue delay'. Due process is also required by the paragraph, which insists that 'decisions on the merits of a case shall be based only on evidence in respect of which parties were offered the opportunity to be heard'.

An opportunity for judicial review of final administrative decisions and 'the legal aspects of initial judicial decisions on the merits of a case' is required by Art.41.4. However, paragraph 4 provides that there is 'no obligation to provide an opportunity for review of acquittals in criminal cases'.

Article 41.5 contains a general declaration of the understanding that the enforcement of intellectual property rights in a Member country should be in no better position than the enforcement of any other rights. Thus not only is there no obligation to establish a separate court system for the enforcement of intellectual property rights, but also Art.41.5 provides that there is no 'obligation with respect to the distribution of resources as between the enforcement of intellectual property rights and the enforcement of law in general'. However, this provision is subject to the preceding obligations to provide enforcement procedures which are, for example, expeditious and which provide interested parties an opportunity to be heard and with an opportunity for appeal on the merits of a case.

The general enforcement obligations of Article 41 of TRIPS can be summarized in six "performance standards":¹⁵⁵

- enforcement procedures to permit effective action against infringement.
- expeditious remedies to prevent infringements.

¹⁵⁴ *ibid.*

¹⁵⁵ IIPA, *loc. cit.*

- deterrence to further infringements.
- enforcement procedures that are not unreasonably complicated.
- enforcement procedures that are not unreasonably costly.
- time limits that do not cause unwarranted delays or are not unreasonably fast.

These obligations will inevitably involve the deployment of resources and, depending on the existing level of funding received by the judicial sector in a country, may require the preferential allocation of resources to the judicial enforcement of intellectual property rights. For satisfying the obligations arising from these provisions, a number of countries have found it helpful to establish special enforcement units that pool together required experience needed to effectively fight against counterfeiting and piracy. Moreover, some countries have centralized certain types of intellectual property issues in one or a limited number of courts in order to ensure the availability of necessary expertise.

3.2.3. Civil Procedures

The second Section requires that civil judicial procedures must be available in respect of any activity infringing intellectual property rights covered by the Agreement. The provisions of the Section elaborate in more detail basic features that such procedures must provide for.

Article 42 contains certain principles aiming at ensuring due process. Defendants are entitled to written notice, which is timely and contains sufficient details of the claims. Parties must be allowed to be represented by independent legal counsel, and procedures may not impose overly burdensome requirements concerning mandatory personal appearances. All parties are entitled to substantiate their claims and to present all relevant evidence, while confidential information must be identified and protected.

3.2.4. Evidence

Article 43 deals with how the rules on evidence should be applied in certain situations. In a situation where evidence that is likely to be important for one party is in the possession of the opposing party, the court must be empowered, provided that certain conditions are met, to order the latter party to produce that evidence. Article 43.1 provides that the production of evidence may be compelled, ‘subject in appropriate cases to conditions which ensure the protection of confidential information’. In addition, courts may be authorized to make their decisions on the basis of information presented to them, if a party refuses without good reason access to evidence that is in his or her possession, subject to providing the parties an opportunity to be heard.

In cases of copyright piracy or trademark counterfeiting, the defendant will not usually remain available to answer interrogatories or to discover documents. Indeed, on detection, relevant evidence will immediately be removed or destroyed. To deal with this situation the English Court of Appeal in *Anton Piller v Manufacturing Processes*¹⁵⁶ approved a procedure whereby on an *ex parte* application *in camera*, an order would be granted to an applicant that the defendant, advised by his legal representative, grant access to the applicant to inspect the defendant’s premises to seize, copy or photograph material which may be used as evidence of the alleged infringement. It derives from the rule that the court has an inherent jurisdiction to prevent the defendant frustrating the process of justice by destroying the subject matter of an action or documents or other relevant evidence. The defendant may be obliged to deliver up infringing goods, and tooling and may also be obliged to provide information about sources of supply and about the destination of infringing products. Refusal to comply with a seizure order will result in a contempt of court. On the other hand the use of the order for abusive purposes may result in the grant of substantial compensation to a defendant.

¹⁵⁶ *Anton Piller v Manufacturing Processes*, [1976] RPC 719.

Anton Piller order is adopted in the scheme, which is provided in Art.50 of the TRIPS Agreement for the making of ‘provisional measures’ by the judicial authorities. Article 50.1 provides that the judicial authorities shall have the authority ‘to order prompt and effective provisional measures: ‘(b) to preserve relevant evidence in regard to the alleged infringement’.

3.2.5. Remedies

The section on remedies contains provisions on injunctions, damages and other remedies.

- **Injunctions:** Article 44 requires that the courts be empowered to order injunctions, i.e. to order a party to desist from infringements, including the possibility to prevent imported infringing goods from entering into domestic distribution channels.

This is particularly the case where infringement may damage or undermine the establishment of a commercial reputation immediately upon the launching of a new product. Similarly, where the widespread counterfeiting of a trademarked product may have the effect of destroying the distinctiveness of a proprietor’s mark, thereby rendering the trademark registration voidable.¹⁵⁷ In this kind of situations, injunctive relief is an important civil remedy provided for the right holders in order to minimize negative effects of the infringement.

- **Damages:** Article 45 provides that the courts must be empowered to order an infringer, at least if he or she acted in bad faith, to pay the right holder adequate damages. They must also be authorized to order the infringer to pay the right holder's expenses. These expenses may include appropriate attorney's fees. In appropriate cases, the courts may be authorized to order recovery of profits and/or payment of pre-established damages even where the infringer acted in good faith.

¹⁵⁷ Blakeney, Guidebook..., *op. cit.*, p.29.

- **Other remedies:** In order to create an effective deterrent to infringement, Article 46 requires that the judicial authorities must have the authority to order infringing goods to be disposed of outside the channels of commerce, or, where constitutionally possible, destroyed. Similarly, it must be possible to dispose of materials and instruments predominantly used in the production of the infringing goods. In considering such requests, the courts must take into account proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties. In respect of counterfeit trademark goods, it is clarified that the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channels of commerce.

3.2.6. Right of Information

Judicial authorities may be authorized to order the infringer to inform the right holder of the identity of third persons involved in the production and distribution of the infringing goods or services and of their channels of distribution (Article 47). This option is aimed at assisting the right holders to find the source of infringing goods and to take appropriate action against other persons in the distribution channels. This provision must be applied in a way that is in proportion to the seriousness of the infringement. However, to determine the seriousness of the infringement is not obvious in every case and also there is a question of according to whom this seriousness will be decided. In some cases infringement may not cause any significant harm to the right holder since the infringer and the right holder are not running business in competitive sectors but the infringement may cause crucial damages to the public interest.

In the House of Lords case of *Rank Film Distributors v. Video Information Centre*¹⁵⁸, the defendants to an action for breach of copyright successfully sought the discharge of an *Anton Piller Order* which ordered them to disclose the names and addresses of their suppliers and customers for illicit copies of the plaintiffs' films, on

¹⁵⁸ [1982] A.C. 380; [1981] 2 All E.R. 76.

the ground that this would tend to expose them to proceedings for a criminal offence. The House of Lords held that the privilege against self-incrimination is capable of being invoked in such a case.

Rank Film was a 1981 House of Lords decision. In the same year, the Parliament in England enacted the Supreme Court Act 1981 and in section 72 the Act reverses the effect of *Rank Film* and restores the full effectiveness of *Anton Piller Order* by taking away the privilege against self-incrimination in intellectual property and passing off cases. This might be considered as a fine example of how powerful and effective the lobbyists on the part of the intellectual property rights owners in the UK are.

3.2.7. Indemnification of the Defendant

The Section contains certain safeguards against abuse of enforcement procedures. Article 48 provides that the judicial authorities must have the authority to order the applicant who has abused enforcement procedures to pay an adequate compensation to the defendant who has been wrongfully enjoined or restrained to cover both the injury suffered and expenses. Such expenses may include appropriate attorney's fees. Public authorities and officials are exempted from liability to appropriate remedial measures only where actions are taken or intended in good faith in the course of the administration of that law.

3.2.8. Application of the Principles to Administrative Procedures

Article 49 provides that, to the extent that any civil remedy can be ordered as a result of administrative procedures on the merits of a case, such procedures shall conform to principles equivalent in substance to those set forth in the Section.

3.2.9. Provisional Measures

Article 41 requires that enforcement procedures must permit effective action against infringements and must include expeditious remedies. As these judicial procedures

may take a fair amount of time, it is necessary for the judicial authorities to have the authority to order prompt and effective provisional measures in order to stop an alleged infringement immediately. The provisions on provisional measures are contained in Article 50. It requires each country to ensure that its judicial authorities have the authority to order prompt and effective provisional measures. Such measures must be available in respect of any intellectual property right.

Provisional measures have to be available in two situations. One is where they are needed to prevent an infringement from occurring, and to prevent infringing goods from entering into the channels of commerce. This includes preventing imported infringing goods from being dispersed into domestic distribution channels immediately after customs clearance. The other situation is where such measures are needed to preserve relevant evidence in regard to the alleged infringement.

Effective use of provisional measures may require that action be taken without giving prior notice to the other side. Therefore, the judicial authorities must have the authority to adopt provisional measures *inaudita altera parte*, i.e. without prior hearing of the other side, where appropriate, in particular where any delay is likely to cause irreparable harm to the right holder, or where there is a demonstrable risk of evidence being destroyed (Article 50, paragraph 2).

The courts may require the applicant to provide any reasonably available adequate evidence that the applicant is the right holder and that the applicant's right is being infringed or that such infringement is imminent (paragraph 3). The applicant may also be required to supply information necessary for the identification of the goods (paragraph 5). Where provisional measures have been adopted *inaudita altera parte*, the parties affected must be given notice, without delay after the execution of the measures at the latest. The defendant has a right to review with a view to deciding, within a reasonable period after the notification of the measures, whether these measures shall be modified, revoked or confirmed (paragraph 4).

The provisions on provisional measures contain certain safeguards against abuse of such measures. The judicial authority may require the applicant to provide a security

or equivalent assurance sufficient to protect the defendant and to prevent abuse (paragraph 3). Provisional measures shall, upon request by the defendant, be revoked or otherwise cease to have effect, if the applicant fails to initiate proceedings leading to a decision on the merits of the case within a reasonable period to be determined by the judicial authority ordering the measures. In the absence of such a determination, this period may not exceed 20 working days or 31 calendar days, whichever is the longer (paragraph 6). Where the provisional measures are revoked or where they lapse due to any act or omission by the applicant, or where it is subsequently found that there has been no infringement or threat of infringement of an intellectual property right, the judicial authorities shall have the authority to order the applicant to provide the defendant appropriate compensation for any injury caused by these measures (paragraph 7).

The above principles apply also to administrative procedures to the extent that any provisional measure can be ordered as a result of such procedures (paragraph 8).

3.2.10. Obligation to Provide Right Holders the Assistance of Customs Administration

The emphasis in the enforcement part of the TRIPS Agreement is on internal enforcement mechanisms, which, if effective, would enable infringing activity to be stopped at source, the point of production. However, the Agreement recognizes that such enforcement at source will not always be possible and that in any event not all countries are WTO Members, and therefore bound by the TRIPS Agreement. The Agreement therefore also recognizes the importance of border enforcement procedures that will enable right holders to obtain the cooperation of customs administrations so as to prevent the release of infringing imports into free circulation. The special requirements related to border measures are contained in Section 4 of the enforcement part of the Agreement.

3.2.11. Border Measures

According to Article 51 of the Agreement, the goods, which must be subject to border enforcement procedures, must include at least counterfeit trademark and pirated copyright goods that are being presented for importation. The Article leaves flexibility to member governments on whether to include imports of goods, which involve other infringements of intellectual property rights.

The imposition of border controls against imports of counterfeit goods operates as “a safety net in the event that enforcement at the source has not taken place.”¹⁵⁹ They could become the most promising feature of the TRIPS enforcement exercise, provided that states implement them in a genuinely nondiscriminatory fashion and do not erect disguised barriers to trade. For these controls to remain effective, however, all the participating states must enforce border controls vigilantly, without allowing any weak links to appear in the chain, and this requires both developed and developing countries to curb powerful vested interests.¹⁶⁰

Members are also free to determine whether to apply these procedures to parallel imports. This is confirmed in footnote 13 to Article 51, according to which it is understood that there shall be no obligation to apply such procedures to imports of goods put on the market in another country by or with the consent of the right holder. In accordance with Article 60, Members may exclude from the application of these procedures *de minimis* imports, i.e. small quantities of goods of a non-commercial nature contained in travelers’ personal luggage or sent in small consignments.

¹⁵⁹ Adrian Otten & Hannu Wager, “Compliance with TRIPS: The Emerging World View”, 29 *Vand. J. Transnat’l L.* 391, 1996, p. 407-409

¹⁶⁰ J.H. Reichman, “Enforcing the Enforcement Procedures of the TRIPS Agreement”, 37 *Va. J. Int’l L.* 335, 1997. p. 356.

Article 51 leaves it to Members to decide whether to apply corresponding procedures to the suspension by customs authorities of infringing goods destined for exportation from their territories, or to goods in transit.

The basic mechanism required by the Agreement is that each Member must designate a “competent authority”, which could be administrative or judicial in nature, to which applications by right holders for customs action shall be lodged (Article 51). The right holder lodging an application to the competent authority shall be required to provide adequate evidence of a prima facie infringement of his IPR and to supply a sufficiently detailed description of the goods to make them readily recognizable by the customs authorities. The competent authorities shall then inform the applicant whether the application has been accepted and, if so, for what period, and give the necessary directions to customs officers (Article 52). After this, it is the responsibility of the applicant to initiate proceedings leading to a decision on the merits of the case. The Agreement requires a system to be put in place under which action will be taken on the basis of an application from a right holder, but leaves it to determine whether they require competent authorities to act upon their own initiative. Article 58 contains certain additional provisions applicable to such ex officio action.

The provisions on border measures require the taking of what are essentially provisional measures against imports of infringing goods. Many of the same types of safeguards against abuse as appear in Article 50 on provisional judicial measures are provided for. The competent authority may require the applicant to provide a security or equivalent assurance sufficient to protect the defendant and the competent authorities and to prevent abuse. However, such security or equivalent assurance may not be such as to unreasonably deter recourse to these procedures (Article 53.1). The importer and the applicant must be promptly notified of the detention of goods (Article 54). If the right holder fails to initiate proceedings leading to a decision on the merits of a case within ten working days, the goods shall normally be released (Article 55). Where goods involve the alleged infringement of industrial designs, patents, layout-designs or undisclosed information, the importer must be entitled to obtain their release on the posting of a security sufficient to protect the right holder from any infringement, even if proceedings leading to the decision on the merits

have been initiated (Article 53.2). Once judicial proceedings on the merits of a case have been initiated, the judicial authority may continue the suspension of the release of goods in accordance with a provisional judicial measure. In that case, the provisions on provisional measures in Article 50 shall be applied.

The applicant may be required to pay appropriate compensation to persons whose interests have been adversely affected by the wrongful detention of goods or through detention of goods released pursuant to the failure of the applicant to initiate in time proceedings leading to a decision on the merits of the case (Article 56).

The competent authorities must be able to give the right holder sufficient opportunity to have any goods detained by the customs authorities inspected in order to substantiate his or her claims. Where goods have been found infringing as a result of a decision on the merits, the Agreement leaves it to Members whether to enable the right holder to be informed of other persons in the distribution channel so that appropriate action could also be taken against them (Article 57).

In regard to remedies, the competent authorities must have the power to order the destruction or disposal outside the channels of commerce of infringing goods in such a manner as to avoid any harm to the right holder. The principles contained in Article 46 on civil remedies, such as the need for proportionality, apply also to border measures. In regard to counterfeit trademark goods, the authorities may not allow the re-exportation of the infringing goods in an unaltered state or subject them to a different customs procedure, other than in exceptional circumstances. These remedies are without prejudice to other rights of action open to the right holder, such as to obtain damages through civil litigation, and are also subject to the right of the defendant to seek review by a judicial authority (Article 59).

3.2.12. Criminal Procedures

The fifth and final section in the enforcement chapter of the TRIPS Agreement deals with criminal procedures. Effective criminal enforcement has two major elements: (a) effective searches and seizures of pirate product by the police without notice to

the infringer (raids), and (b) the existence in statutory law of deterrent criminal penalties and, in combination with Article 41, their imposition in practice (Article 61).

According to Article 61, provision must be made for these to be applied at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale. The Agreement leaves it to Members to decide whether to provide for criminal procedures and penalties to be applied in other cases of infringement of intellectual property rights, in particular where they are committed willfully and on a commercial scale.

Criminal enforcement must be used by governments against copyright piracy “on a commercial scale.” Does the infringing act have significant commercial ramifications to right holders? This test would not be met by criminalizing only the sale or distribution of pirate product. For example, unlicensed copying of software within a corporate environment, because it impacts significantly on the principle market for business software, would be “copyright piracy on a commercial scale.”

Similarly, even where an infringer does not directly profit from his act (such as by posting software on a website and inviting users to download it without permission) it can have a severe “commercial” impact of significant “scale” and therefore such act must be made subject to criminal penalties. Article 41 combined with Article 61 (which should be understood as subsumed within the requirements of Article 41), requires countries to “provide for” or make “available” remedies not just in the law but in practice as well. The “deterrent” effect of imprisonment and fines can be objectively determined by piracy levels. It will be difficult for a country to claim that its criminal remedies comply with Article 61 of TRIPS if no significant fines or imprisonments have been meted out against commercial pirates, or if sentences are commuted to fines of only a minimal amount.¹⁶¹

Sanctions must include imprisonment and/or monetary fines sufficient to provide a deterrent, consistent with the level of penalties applied for crimes of a corresponding

¹⁶¹ IIPA, *op. cit.*, p. 4.

gravity. Criminal remedies in appropriate cases must also include seizure, forfeiture and destruction of the infringing goods and of materials and instruments used to produce them.

A consequence of providing for ‘criminal procedures’ in the case of certain willful infringements is that a higher standard of proof will apply than that which is required in civil proceedings. In systems of justice derived from the British model the standard will be beyond reasonable doubt. The burden of proof will usually be carried by the prosecution. Where defenses exist, the defendant will usually carry the burden of making out the defense, usually on the balance of probabilities.¹⁶²

3.2.13. Other Enforcement Provisions

Certain ancillary provisions of the TRIPS Agreement may also bear on the enforcement procedures. For example, article 62 governs registration and other formalities needed to perfect some intellectual property rights under the domestic laws, including formalities covered by existing conventions. Article 63 strengthens the enforcement procedures by requiring “transparency” with regard to the relevant domestic laws and judicial decisions, which must be “made publicly available”, and by empowering the Council for TRIPS to obtain the pertinent laws and decisions in contentious cases. These powers are further reinforced by article 69, which obliges states to establish “contact points in their national administrations” with a view to exchanging information on trade in infringing goods, and they are more generally reinforced by the dispute settlement provisions of article 64.

3.2.14. WTO Dispute Settlement Mechanism

TRIPS Agreement establishes international dispute settlement machinery that permits member states in good standing to extract compensatory damages from other recalcitrant states whose laws or practices are found to nullify or impair the trade

¹⁶² Blakeney, Guidebook..., *op. cit.*, p.35.

advantages that should otherwise flow from the TRIPS Agreement.¹⁶³ Trade sanctions on the basis of the multilateral trading system were made possible with the conclusion of the GATT-TRIPS Agreement in 1994. Main reason for considering that the WIPO administered treaties are toothless is due to the lack of adequate dispute settlement procedure and TRIPS Agreement corrected this deficiency by setting up such a mechanism. Dreyfuss and Lowenfeld now take both the TRIPS Agreement and the WTO's dispute-settlement apparatus as facts of life in a new universe of international intellectual property discourse.¹⁶⁴

Under the TRIPS Agreement, adopting legislation that complies with international minimum standards becomes only the starting point. States must further apply these laws in ways that will stand up to external scrutiny, as Dreyfuss and Lowenfeld explain,¹⁶⁵ then they must adequately enforce them in compliance with detailed criteria concerning procedural and administrative matters, including remedies.

Since, as a rule, the provisions of TRIPS Agreement are not effective for all members as from the same date, it follows that the provisions of the Dispute Settlement Understanding (DSU) cannot be used against all members at this time. With the exceptions noted in the Agreement relative to situations where certain TRIPS provisions apply to all members as from the same date, use of the dispute settlement mechanism is restricted at this time to situations involving developed and developing countries as well as countries in the process of transformation from a centrally planned into a market, free enterprise economy (economies in transition) that is to say, to situations involving these countries, where a member has allegedly failed to observe one or more provision of the TRIPS Agreement.¹⁶⁶

¹⁶³ Understanding on Rules and Procedures Governing the Settlement of Disputes, Apr. 15, 1994, WTO Agreement, Annex 2, 33 I.L.M. 112.

¹⁶⁴ Dreyfuss and Lowenfeld, *op. cit.*, p. 320.

¹⁶⁵ Dreyfuss and Lowenfeld, *op. cit.*, p. 324-26.

¹⁶⁶ The provisions of TRIPS are effective for industrialized nations as from January 1, 1996 (Article 65.1 of TRIPS). Developing countries and countries in the process of transformation from a centrally planned into a market, free-enterprise economy must apply the provisions of TRIPS as from January 1, 2000. Least developed country members shall not be required to apply the provisions of TRIPS for a period of ten years from the date of application as defined in Article 65.1 of TRIPS.

The most important aspect of TRIPS is the obligation for the members to provide for availability under national laws of agreed-on enforcement procedures, in combination with the liability to the WTO dispute settlement procedures for claims of nullification and impairment of benefits with the possibility of cross sectoral trade sanctions. Under the “old” Paris, Berne framework, domestic courts interpreted the conventions with obviously varying outcomes and lines of reasoning on the contrary, TRIPS' disputes are decided by one entity i.e. WTO panel. This aspect is particularly an advantage over the previous situation in the case of trademarks, geographical indications of origin and anti-counterfeiting measures, where a more active stance is necessary from governments than just implementing some sort of intellectual property legislation and respecting the national treatment principle.¹⁶⁷

It is not surprising that the developing countries quite strongly preferred WIPO as the appropriate forum for intellectual property issues. Implementation of the concept of intellectual property and agricultural trade sanctions through GATT seemed the only way to force compliance to Western standards on them. A reason for the failure of establishing intellectual property protection in developing nations through the intellectual property conventions can be found in the fact that developing nations have always been convinced that strong intellectual property protection would increase the wealth gap between developed and developing nations because it would make acquisition of technology more expensive. This conviction was supported by Western moral considerations and the back up of international organizations such as the United Nations Commission on Technology and Development.¹⁶⁸

WTO dispute settlement mechanism will function next to the WIPO dispute resolution framework; decisions from public (WTO, TRIPS panels) and private (intellectual property conventions, domestic courts) international law will coexist. WTO deals with disputes between its Members States, and WIPO and domestic courts deal with private parties from different states. In theory, the two systems will reinforce each other. Problems will arise, nevertheless, if TRIPS starts to define

¹⁶⁷ Michael Blakeney, “International Developments in Intellectual Property”, paper presented at the 10th Annual Intellectual Property Society of Australia and New Zealand (IPSANZ) Conference “Quo Vadis? Future Directions for Intellectual Property Law”, Canberra, June 28, 29 and 30, 1996.

¹⁶⁸ Martine De Koning, “Why The Coercion-Based GATT Approach Is Not The Only Answer To International Piracy In The Asia-Pacific Region”, *E.I.P.R.* 1997, 19(2), p. 59-77.

intellectual property rights that are not covered under the intellectual property conventions framework, and when intellectual property rights copied from the intellectual property conventions are interpreted by TRIPS panels. How far can TRIPS panels go in their decisions? What role is there, then, for domestic case law interpretations? For the definition of authority of TRIPS dispute settlement panels, the expected future of TRIPS direction in this matter will be relevant.¹⁶⁹

An interesting aspect is the question of whether TRIPS provides for any regulations regarding sustained unilateral actions. The Uruguay Round Agreement forced the United States in 1994 to adjust its 301 provisions to remain in compliance with GATT/WTO, but the new 301 provision still gives room for the conclusion that intellectual property breach may exist even though perfect compliance with TRIPS is achieved. Whether this gives an opening to apply 301-based unilateral sanctions in practice, and what other consequences of TRIPS in relation to this amended 301 provision there will be, remains to be seen.¹⁷⁰

Three basic stages are contemplated in the Understanding with a view to settling a dispute between members concerning their rights and obligations under the provisions of the Marrakech Agreement including TRIPS,¹⁷¹ namely,

- Consultations (Article 4, DSU);
- Establishment of a panel (Article 6, DSU); and
- Appellate review by an appellate body (Article 17, DSU)

In addition to the dispute settlement mechanism comprising the basic stages referred to above, the Understanding contemplates the possibility that the dispute be decided through arbitration, but not as an alternative to any of the three stages previously mentioned. Instead, binding arbitration is contemplated in the Understanding in

¹⁶⁹ *ibid.*, p.70.

¹⁷⁰ *ibid.*, p.71.

¹⁷¹ Jayashree Watal, “*Punta del Este to Marrakesh: The TRIPS Negotiating Process in: Intellectual Property Rights in the WTO and Developing Countries*”, Kluwer Law International, The Hague / London / Boston, 2001, p. 11.

situations where neither the parties to the dispute nor the Dispute Settlement Body have been able to reach an agreement as to the period of time within which the recommendations and rulings of the Dispute Settlement Body are to be implemented by the member concerned. The resolutions of the Dispute Settlement Body, i.e. the recommendations and rulings thereof, are issued by the Dispute Settlement Body after adoption of the panel or Appellate Body report.¹⁷² Expressed differently, arbitration is contemplated in the Understanding not necessarily as a means to settle a dispute resulting from alleged violations to a TRIPS provision by a member. Arbitration is contemplated in the Understanding as a means to determine the time within which the member concerned should comply with the recommendations or rulings of the Dispute Settlement Body.¹⁷³

Since the adoption of the TRIPS Agreement, there were four cases in relation to the enforcement of the intellectual property rights as mentioned below:

- Denmark — Measures Affecting the Enforcement of Intellectual Property Rights
— *Complainant: United States*

This request, dated 14 May 1997, is in respect of Denmark's alleged failure to make provisional measures available in the context of civil proceedings involving intellectual property rights. The US contends that this failure violates Denmark's obligations under Articles 50, 63 and 65 of the TRIPS Agreement. On 7 June 2001, the parties to the dispute notified to the DSB a mutually satisfactory solution on the matter.

- European Communities — Enforcement of Intellectual Property Rights for Motion Pictures and Television Programs
— *Complainant: United States*

¹⁷² See Article 21, 3, c) of the Dispute Settlement Understanding.

¹⁷³ Horacio Rangel-Ortiz, "Enforcement of TRIPS and the Dispute Settlement Mechanism of the WTO", Paper Submitted at the Annual Meeting of the International Association for the Advancement of Teaching and Research in Intellectual Property (ATRIP), Tokyo, Japan, August 4-6, 2003, http://www.atrip.org/upload/files/activities/tokyo2003/s07-Rangel-Ortiz_art.doc

This request, dated 30 April 1998, is in respect of the same measures raised against the EC above (DS124). On 20 March 2001, the parties to the dispute notified a mutually satisfactory solution on the matter to the DSB.

- Greece — Enforcement of Intellectual Property Rights for Motion Pictures and Television Programs
— *Complainant: United States*

This request, dated 30 April 1998, is in respect of the lack of enforcement of intellectual property rights in Greece. The US claims that a significant number of TV stations in Greece regularly broadcast copyrighted motion pictures and television programs without the authorization of copyright owners. The US contends that effective remedies against copyright infringement do not appear to be provided or enforced in Greece in respect of these broadcasts. The US alleges a violation of Articles 41 and 61 of the TRIPS Agreement. On 20 March 2001, the parties to the dispute notified a mutually satisfactory solution on the matter to the DSB.

- Sweden — Measures Affecting the Enforcement of Intellectual Property Rights
— *Complainant: United States*

This request, dated 28 May 1997, is in respect of Sweden's alleged failure to make provisional measures available in the context of civil proceedings involving intellectual property rights. The US contends that this failure violates Sweden's obligations under Articles 50, 63 and 65 of the TRIPS Agreement. In a communication dated 2 December 1998, the two parties notified a mutually agreed solution to this dispute.

As it is proved in the abovementioned cases, more than half of the complaints reported in the context of the dispute settlement mechanism of TRIPS have been

filed by the USA. The remaining complaints have been filed by the EC, Australia, Canada and Brazil.

Fortunately, a series of analytical tools are available to help WTO panels resolve complex issues like effectiveness and adequate deterrence. At the broadest level, panels can look at overall piracy rates as the foundation for a *prima facie* case of non-enforcement or under-enforcement. Where there is strong evidence that sales of pirated copies of protected works like films, music, software, and books are pervasive, intellectual property enforcement is obviously not "effective" or exercising deterrence by any measure.¹⁷⁴

To identify more discrete failures, WTO panels will almost certainly employ some kind of comparative approach. For example, if a particular country is alleged to use procedures that cause "unwarranted delays", panels could allow evidence of the shorter time to litigate in peer nations (those with similar judicial systems and development challenges) to raise a presumption that the delays are unwarranted, subject to whatever evidence the defendant can offer in rebuttal.¹⁷⁵

3.2.15. Main Critiques for the TRIPS Agreement

Increasing concerns especially coming from the technology exporting countries that can be considered as developed countries for overcoming the problem of counterfeiting and the piracy in the international trade; drastic and blatant effects of the digital and technological advances offering a suitable environment for infringing activities in the cyberspace; efforts for harmonization of the intellectual property legislations on the minimum standards; ineffectiveness of the previous agreements on the intellectual property law such as Paris and the Berne Convention for lacking necessary enforcement mechanisms created a pressing atmosphere for the crafting of the TRIPS Agreement during a phase consensus-orientated fora, such as WIPO and

¹⁷⁴ Christopher Roberts and Stanford K. McCoy, "TRIPS Around the World, Enforcement Goes Global in 2000", *Legal Times*, April 10, 2000, p.46.

¹⁷⁵ *ibid.*

Asian regional platforms, are considered “toothless” in resolving international piracy and counterfeiting.

Counterfeiting and piracy activities in developing nations are claimed to make up a large part of the gradual loss of competitiveness of primarily American, but also European, products overseas.¹⁷⁶ The basis for these claims is the fact that in developing countries intellectual property laws and enforcement mechanisms are generally less developed and piracy provides for a major source of income.¹⁷⁷ Mostly Asian and South American countries are accused for piracy and the most of the Western financial losses are considered due to the tolerance by the rapidly industrializing East-Asian countries to the piracy. Western countries became very dependent on intellectual property protection because of the service-oriented nature of their economies and a growing understanding of the importance of new technologies.

TRIPS was concluded timely and was an important step in the process to resolve conflicts over international piracy and counterfeiting, but the time has come to re-examine the boundaries of the function and effectiveness of the push for the conclusion of multilateral “black letter law” and sanction mechanisms.¹⁷⁸ The widespread assumption that these boundaries are set by historical and cultural differences of intellectual property and commercial laws may prove right to a certain extent, but it is much more important to place the process of harmonization in the broader context of the differing social and government traditions, and how these differences play a role in multilateral and regional trade agreements.¹⁷⁹ In addition, controversial interests of the developed and developing countries in respect of the protection of the intellectual property shape the outcome of the negotiation within TRIPS dispute resolution mechanisms in resolving intellectual property disputes.

¹⁷⁶ A. -P. Dow Jones, "US Attitude to China's Copyright Pirates Hardens", *The Financial Review*, May 1, 1996, p. 14.

¹⁷⁷ J. D'Alessandro, “A Trade-Based Response to Intellectual Property Piracy: A Comprehensive Plan to Aid the Motion Picture Industry”, 76 *Georgetown Law Journal* 417, 1987, p. 426.

¹⁷⁸ Koning, *op. cit.*, p.60.

¹⁷⁹ *ibid.*

Since the enforcement provisions are devised in broad legal standards rather than in specific and detailed rules, it is very difficult for mediators and dispute-settlement panels to overcome the inherent ambiguities and to decide on violations of the rules. The TRIPS Agreement expressly mandates respect for “differences in national legal systems.” Taking into account the great differences between common law countries like the US and UK legal systems and the civil law countries like continental European legal systems, decision-makers should consider the local circumstances when seeking to evaluate actual or potential conflicts between states.

Above all, Article 41(5) contains explicit safeguards that immunize WTO member countries from any “obligation to put in place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of laws in general” or even to distribute proportionately greater resources to the enforcement of intellectual property rights than would be available for law enforcement in general. In other words, foreign rights holders are merely entitled to the same legal product as their national counterparts. Because the rule of law is notoriously weak in most developing countries, and the systemic capabilities of enforcing intellectual property rights remain especially rudimentary in many of these countries, foreign rights holders could experience serious disappointments when they rely on the TRIPS enforcement procedures in actual practice.¹⁸⁰

In theory, dissatisfied rights holders might persuade their own governments to invoke the WTO’s dispute-settlement machinery, with a view to punishing states whose enforcement efforts fail to satisfy the new international minimum standards. But we remain profoundly skeptical about the efficacy of this tactic. Past experience shows that international tribunals have been notoriously reluctant to find actionable violations of those minimum standards of due process that states already recognize as binding legal obligations under public international law. This deference to local administration of justice in the name of state sovereignty seems likely to continue under the TRIPS Agreement.¹⁸¹

¹⁸⁰ Reichman and Lange, *op. cit.*, p.11.

¹⁸¹ Judith H. Bello, “Some Practical Observations About WTO Settlement of Intellectual Property Disputes”, 37 Va. J. Int’l L. 357, 1997.

Another weaknesses of the TRIPS is that the TRIPS Agreement does not expressly oblige member states to prevent exports of infringing goods, which adds to the enforcement costs and burdens of states to which “counterfeit trademarked and pirated copyright goods” are shipped.¹⁸²

In the past, moreover, states were most reluctant to allow other states to question the workings of their domestic customs authorities, and it remains to be seen whether governments in leading developed countries will be more forthcoming when they implement the TRIPS Agreement.¹⁸³

Reichman states certain difficulties inherent in the concept of internationally supervised enforcement that will tax the capabilities of the system. For example, given the rudimentary condition of the domestic legal systems in some developing and many least-developed countries and given the chronic lack of resources all these countries face, it remains to be seen how those responsible for monitoring compliance with the TRIPS Agreement will distinguish a genuine lack of means or capacity to enforce from foot-dragging in the interests of local free-riders.¹⁸⁴

For all the reasons discussed above, many people are not satisfied with the level of enforcement under the TRIPS Agreement. Even this disapproval of the standard laid down by the agreement seems harmful for the rights holders in general originating mainly from the developed countries, this will have some adverse effects also on the developing countries because shortcomings in the worldwide enforcement machinery can sometimes discourage both local innovation and much-needed foreign investment. Different countries at different stages of economic development must accordingly strike their own balance between incentives to create and the benefits of free competition, while respecting the normative guidelines established by the TRIPS Agreement.¹⁸⁵

¹⁸² Jasna Arsic, “Combating Trade in Counterfeit Goods: The GATT and the EC Approaches”, 18 *World Comp. L. & Econ. Rev.* 75, 1995, p. 84.

¹⁸³ Reichman, *op. cit.*, p.349-350.

¹⁸⁴ *ibid.*

¹⁸⁵ *ibid.*, p. 337.

While TRIPS is in many respects a revolutionary treaty, there remains room for further improvement. One possible step would be incorporation of the 1996 WIPO treaties - the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty - into the enforceable TRIPS framework. The WIPO treaties provide standards that complement TRIPS, as well as rules for works in digital form that are vital to the future of e-commerce.

Another key area will be education of the relevant government and business officials about TRIPS requirements. As developing countries keep pointing out, effective enforcement requires training and resources, some of which developed countries and industry can help to provide under the technical assistance provisions of the agreement. Already, some strong programs are in place. Developed countries have reported a wide range of assistance efforts tailored toward TRIPS compliance, including direct, industry supported programs designed to teach customs and police officials the basics of intellectual property investigation and enforcement.

Implementation of the TRIPS Agreement is a costly exercise for developing countries because of the legal, institutional and administrative enforcement procedures required. These requirements often stretch the capacities and resources of the least developed countries to the limit. All too often resources have to be allocated in favor of much more pressing basic needs. This in turn creates resentment from competitors in industrialized countries, who regard the lack of intellectual property protection as unfair competition. This suggests that there is a pressing case here for technical assistance and capacity building. We are fully aware that implementation of TRIPS is resource-intensive and introduces procedures that were previously unknown in certain WTO Members. Hence the EU's use of trade related technical assistance in this area is very supportive for the developing and least developed countries.¹⁸⁶

Ultimately, we are not looking at a shift in the focus of TRIPS so much as an overall increase in its importance, particularly in the area of enforcement. In addition to the

¹⁸⁶ Speech by Pascal Lamy, "The TRIPS agreement 10 years on, International Conference on the 10th Anniversary of the WTO TRIPS Agreement", Brussels, 23 June 2004, http://trade.ec.europa.eu/doclib/docs/2004/june/tradoc_117771.pdf

cases against developed countries that have necessarily dominated dispute resolution so far, we will see a new agenda of cases applying the same agreement in much different factual circumstances. As the TRIPS Agreement approaches maturity, the challenge will be ensuring that it provides a truly global standard to protect right holders worldwide.¹⁸⁷

¹⁸⁷ Roberts and McCoy, *op. cit.*, p.49.

4. ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS IN THE EU

This chapter examines in detail the intellectual property enforcement within the EU context. Main directives and regulations with regard to the enforcement are dealt with by giving extensive explanations about the significant provisions. EU as one of the crucial actors devising new initiatives for the effective enforcement of the intellectual property rights put into practice new legislations in order to find solutions to the challenges arising from the digital changes and the elimination of the internal frontiers within the EU. In short, this chapter gives wide-ranging explanations and critiques about the EU actions on effective enforcement.

4.1. Overview

It is from time to time said that intellectual property rights are only as good as the procedures and remedies by which they are enforced. Only if the right holders are provided with the necessary means for the enforcement of their rights against the third parties, the protection granted for their creative works under the name of the intellectual property can be meaningful.

Elimination of restrictions on freedom of movement and distortions of competition for the achievement of the internal market is the foreground objective of the European Community. In this context, both the protection and the enforcement of the intellectual property rights are essential components for the success of the internal market. The disparities in the procedural and remedial matters on intellectual property among member states is weakening the substantive law on intellectual property and hampering the effective functioning of the internal market. This causes a loss of confidence in the internal market in business circles, with a consequent reduction in investment, innovation and creation. Infringements of intellectual property rights appear to be increasingly linked to organized crime. Increasing use of the Internet enables pirated products to be distributed instantly around the globe.

Effective enforcement of the substantive law on intellectual property should be ensured by specific action at Community level. Approximation of the legislation of the member states in this field is therefore an essential prerequisite for the proper functioning of the internal market.¹⁸⁸

The growth of Community intellectual property rights – Community trademarks, plant varieties, registered and unregistered design rights and possibly to include Community patents and utility models in the future - has led to the increasing concerns in the Community context for the enactment of the Community regulation of the procedures by which rights are enforced.

As the EC Green Paper, *Combating Counterfeiting and Piracy in the Single Market* (1998) observed “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 reasons for this phenomenon are various. They include developments in reprographic technologies, where digitization has facilitated the rapid and extensive production of copies at a minimal cost, the growth in world demand for branded items, as well as economic and political developments, such as the growth of international trade, the internationalization of the economy, the expansion of means of communication and the opportunism of organized crime following the collapse of the political systems in central and eastern Europe and in the former Soviet Union.¹⁸⁹

On 4 May 2000, the European Parliament adopted a Regulation on the Border Enforcement of intellectual property rights¹⁹⁰ and on 30 January 2003 a proposal for a Directive on measures and procedures to ensure the enforcement of intellectual property rights was issued.¹⁹¹ These provisions are to a great extent modeled on the border control provisions of the WTO Agreement on Trade Related Aspects of

¹⁸⁸ Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights [2004] O.J.L.195/16-25.

¹⁸⁹ IPR Helpdesk, “Guide to Border Enforcement of IPRs in the EU”, <http://www.ipr-helpdesk.org>

¹⁹⁰ OJC C 41, 7.2.2001, p.56.

¹⁹¹ Directive 2004/48/EC, *loc.cit.*

Intellectual Property Rights (TRIPS), compliance with which is an obligation of WTO members. This border control legislation provides a range of enforcement remedies to rights holders.

4.2. Effects of Counterfeiting and Piracy in the EU

The principal cause of piracy and counterfeiting is the incentive to dishonest traders of the considerable business profits which may be made from free-riding on the creative efforts and investment of others, by passing off imitations of desired products at a lower cost than those which are incurred by the producer of genuine products.¹⁹² Obviously, this trade would not exist without consumer demand. The theft of intellectual property is not yet, equated in the public mind with other offences against property, crimes, such as fraud, theft or trespass. This is made worse by a failure of the public authorities and commercial organizations to communicate to the consuming public of the dangers from the use of unauthorized products and of the deleterious social welfare effects from this trade; and the imposition of inadequately deterrent penalties by the judicial authorities.¹⁹³

It appears there are two channels for counterfeiting and piracy that are clandestine channels and normal commercial channels. The clandestine channels are by definition organized 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, where genuine products are sold alongside counterfeits. An area in which this diverged trade occurs, is the so-called “grey goods” market in which legitimate branded products are sold as parallel imports. Since parallel products are obtained outside legitimate distribution channels, this trade lends itself to the introduction of counterfeit products.

Hansen examines the relationship between piracy and parallel imports and asks the question of is it at all possible to launch an effective battle against piracy while at the same time allowing and encouraging parallel imports. If there is a serious desire to

¹⁹² IPR Helpdesk, *loc. cit.*

¹⁹³ IPR Helpdesk, *loc. cit.*

stop piracy the most effective method will be to do away with the legality of uncontrolled parallel import. The EC Commission's official policy over the last three decades has been that parallel importers and their suppliers, the parallel exporters, are in the vanguard of free competition and integration of the market due to their encouragement of intrabrand competition and their pressure for price leveling; the time has now come to realize that the battle against piracy requires well-policed, well-organized distribution systems. Recognizing selective distribution systems may well be the most suitable remedy. Such systems have long been recognized, but only if motivated by the need for specialist shops. If the desire to protect against piracy were recognized as equally legitimate, it could well be that the undesirable side effects of parallel import could be avoided without compromising the goal of treating the EC market as one single market.¹⁹⁴

The EC Green Paper refers to the report of the Counterfeiting Intelligence Bureau set up by the International Chamber of Commerce (ICC) that counterfeiting accounts for between 5% and 7% of world trade in value terms. The immediate impact of this global trade is the loss of sales and the consequent impact upon employment. 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 CDs account for 14% of the relevant market at world level. In May 2003, the UK music industry reported that sales of pirate CDs have outstripped the sales of genuine products. The major industries suffering from the trade in infringing products are computer software industry (46%), data processing industry (35%), the audio-visual industry (25%), the toy industry (12%), the perfume industry (10%), the pharmaceutical industry (6%), and the clock and watch industry (5%).¹⁹⁵

The number of jobs lost through counterfeiting are estimated at 100 000 a year for the Community (120 000 for the United States) over the past ten years. In addition to the revenue loss to the State due to non-paid customs duties, VAT, there may also be

¹⁹⁴ Karen Dyekjaer-Hansen, "Parallel Imports and the Battle Against Piracy", *E.I.P.R.* 1992, 14(2), p. 35-36.

¹⁹⁵ International Chamber of Commerce, Counterfeiting Intelligence Bureau, *Countering Counterfeiting, A Guide to Protecting and Enforcing Intellectual Property Rights*, 1997.

infringements of labor legislation where the counterfeit or pirated goods are made in sweatshops by undeclared workers. The phenomenon is a serious threat to economies in general as it may destabilize the markets, including such fragile markets like textiles, and clothing.¹⁹⁶

In addition to its economic impact, counterfeiting and piracy has a damaging effect upon public health, such as medicinal products, medical equipment, toys, and spare parts for cars and aeroplanes. Counterfeiting is widespread in sectors involving products, which are highly sensitive from the point of view of public health and safety.

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 trademark. 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.

Counterfeiting and piracy also has an adverse effect upon public security, where profits from this trade are appropriated by organized crime, which uses them as a means of recycling and laundering the proceeds of other unlawful activities such as arms, drugs.

As the EC Green Paper emphasizes, 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, producing a loss of business confidence and a consequential under-investment in research and development in innovation and creativity, as well as in trade promotion. This has a direct impact upon the number of jobs offered by firms.

¹⁹⁶ *ibid.*

4.3. EU Initiatives

With a view to establishing the Single Market, the European Community has taken action in the intellectual property field mainly to harmonize existing national laws. The Community has also taken action to create unitary rights at Community level, valid throughout the EC, such as the Community trade mark¹⁹⁷, the Community system of protection for plant varieties¹⁹⁸, Community designs¹⁹⁹ and political agreement has been reached on the creation of a Community patent.²⁰⁰

In considering the impact of European initiatives for the enforcement of the intellectual property rights on procedural and remedial matters, we have to clarify the difference between intellectual property rights at the Community level and Community rules relating to the enforcement of national rights.

Initially, Community initiatives on regulating enforcement against counterfeit and pirated goods, concentrated on protecting external frontiers. On 22 December 1994 the Council adopted EC Regulation No 3295/94 laying down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods. Within the Single Market, the enforcement to ensure respect of intellectual property rights have tended to be of limited scope and to apply to specific sectors. For example, the Directive on the harmonization of certain aspects of copyright and related rights in the Information Society contains provisions on obligations relating to technical measures and on sanctions and

¹⁹⁷ Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trademark, OJ L 11, 14.1.1994.

¹⁹⁸ Council Regulation (EC) No 2100/94 of 27 July 1994 on Community plant variety rights, OJ L 227.

¹⁹⁹ Council Regulation (EC) No 6/2002 of 12 December 2001 on Community designs, OJ L 3, 5.01.2002.

²⁰⁰ Proposal for a Council Regulation on the Community patent, OJ C 337 E, 28.11.2000, p. 278.

remedies. In this proposal, the provisions on sanctions and remedies are couched in very general terms.

On 15 October 1998, the Commission presented a Green Paper²⁰¹ on the fight against counterfeiting and piracy in the Single Market in order to launch a debate on this subject with all interested parties. The areas of intervention suggested in the Green Paper related in particular to action by the private sector, the effectiveness of technical security provisions, penalties and other means of ensuring compliance with intellectual property rights, as well as administrative co-operation between the national authorities. Following the receipt of submissions, a public hearing in Munich on 2 and 3 March 1999 and a meeting of experts from the Member States on 3 November 1999, the European Parliament adopted a Regulation on this subject on 4 May 2000.²⁰² On 30 November, 2000, the Commission presented a follow-up Communication to the Green Paper in which it indicated that it would be presenting a proposal for a Directive aimed at harmonizing the legislative, regulatory and administrative provisions of the Member States on the means of enforcing intellectual property rights, and at ensuring that the rights available enjoy an equivalent level of protection in the Internal Market.²⁰³ The proposal for a Directive on the enforcement of intellectual property rights was generally welcomed by interested circles and was approved by the European Economic and Social Committee.²⁰⁴ A proposal for a Directive on measures and procedures to ensure the enforcement of intellectual property rights was issued on 30 January 2003.²⁰⁵

The time invested in passing the Directive was extraordinarily short. It has been argued that the enlargement of the European Union on May 1, 2004 and the subsequent elections for the European Parliament were reasons for the rapid enactment.

²⁰¹ COM(98) 569 Final.

²⁰² OJ C 41, 7.2.2001, p.56.

²⁰³ COM (2000) 789 Final.

²⁰⁴ OJ C 221, 7.8.2001, p.20.

²⁰⁵ COM (2003) 46 Final.

Overall, the Commission's primary goal is apparently to combat counterfeiting and piracy, more specifically to take action against industrial, large-scale smuggling perpetrated by criminal organizations, as distinct from domestic, small-scale seizing. The Directive follows up the Commission's (self-proclaimed "ambitious") Action Plan of November 30, 2000²⁰⁶ and the wide-ranging consultation held by the Commission in early 1999 on the basis of its Green Paper of October 15, 1998 on "Combating Counterfeiting and Piracy in the Single Market".²⁰⁷ While this Directive essentially concerns the civil weaponry for the combat, the Action Plan contemplated more forceful criminal and administrative measures as well, such as extending Europol's powers or setting up mechanisms of operational co-operation among supervisory authorities. However, those provisions providing criminal remedies for the infringing activities were eliminated at the final stage from the Directive. Such measures might be ineffectual by institutional constraints since they overstep the supranational First Pillar to get involved into the intergovernmental Third Pillar.

In short, the Commission depicts how counterfeiting and piracy ruin modern economy and society. Combating this criminal scourge surely makes a worthy policy goal, but how does the instrument of a harmonizing directive contribute to it? As its core justification, the Commission maintains that "this phenomenon [counterfeiting and piracy] takes particular advantage of the national disparities in the means of enforcing intellectual property rights". So the main aim behind this Directive is the harmonization of the Member State legislation with regard to the enforcement of intellectual property.

Counterfeiters and pirates, who have taken advantage of national differences to market their products, thereby causing diversions of trade and market disturbances, have naturally exploited these loopholes. According to Roger Lowe, one of the ironies of the European Union is the fact that free trade between Member States can benefit illegitimate businesses as well as legitimate ones - the value of counterfeit

²⁰⁶ COM (2000) 789 Final.

²⁰⁷ COM (98) 569 Final.

goods coming into the United Kingdom from other European countries runs into millions of pounds a year. Although most European countries offer roughly equivalent intellectual property rights, methods of enforcement vary widely, so major counterfeiters and pirates typically operate from those countries with the most liberal regimes, exporting their goods round the Community from underground manufacturing plants and factories in states with the loosest enforcement of IPR. This trend may accelerate with the accession of the 10 new states, many of them relatively poor and unused to Western notions of intellectual property rights and their enforcement.²⁰⁸

In contrary to the ideas of Roger Lowe, Cornish, one of the erudite academicians on intellectual property law, states that “Let us not delude ourselves: counterfeiters and pirates do not systematically exploit comparative advantages across national legislation, so increased harmonization will hardly affect the international map of counterfeiting. The rate of piracy is more a function of the weakness of local resources effectively available to right holders and competent authorities. Only if the Directive strengthens those resources will it contribute to the fight against counterfeiting and piracy.”²⁰⁹

4.4. Directive 2004/48/EC

4.4.1. Subject Matter, Scope and Objective of the Directive

Directive 2004/48/EC of the European Parliament and of the Council of 29th April 2004 on the enforcement of intellectual property rights provides specific legal measures and procedures to be taken in case of infringement of IPR.²¹⁰ The scope of the Directive encompasses all kinds of intellectual property, including that of

²⁰⁸ Roger Lowe, “Intellectual Property - Proposed EU Directive - Measures and Procedures to Ensure the Enforcement of Intellectual Property Rights”, *E.I.P.R.*, 2004, 26(7), p.116-117.

²⁰⁹ William Cornish, Josef Drexl, Reto Hilty and Annette Kur, “Procedures and Remedies for Enforcing IPRs: The European Commission's Proposed Directive”, *E.I.P.R.*, 2003, 25(10), p. 447-449

²¹⁰ Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights [2004] O.J.L.195/16-25

industrial property. The Member States can extend these harmonization measures to include the subject of unfair competition.

The Enforcement Directive is the first directive to call for harmonization across the spectrum of exclusive rights. This might be defined as a form of horizontal harmonization. In contrast to earlier directives, the Enforcement Directive provides measures, procedures and remedies for all areas of intellectual property, regardless of whether registration is required (patents, designs, or trade marks) or not (copyright). Prior directives were of a vertical nature. They dealt with very specific areas of intellectual property, such as those harmonizing various aspects of copyright law, where several directives were required to complete harmonization in stages.²¹¹

The Enforcement Directive aims to provide harmonization in the area of civil legal procedures in order to protect intellectual property and to promote creativity, to develop employment and to improve competitiveness. It helps to enforce substantive rights without affecting them.²¹² Criminal sanctions were finally, after discussions and arguments with consumer groups, omitted. The Directive's recitals merely refer to the criminal aspects of infringements.²¹³ Changes to, and the harmonization of, the laws of the Member States regarding enforcement were considered necessary in the application of injunctions and provisional measures, in the right of information and recall, and in the calculation of damages. Outside the scope of the Directive, Member States remain free to apply other, appropriate sanctions. The Directive is based on existing best practices already used in Member States.²¹⁴

²¹¹ Kirstin Huniar, "The Enforcement Directive - Its Effects on UK Law", *E.I.P.R.*, 2006, 28(2), p. 92-99.

²¹² Charles-Henry Massa and Alain Strowel, "The Scope of the Proposed IP Enforcement Directive: Torn between the Desire to Harmonize Remedies and the Need to Combat Piracy" *E.I.P.R.*, 2004, 26(6), p. 244.

²¹³ Recital 28 states that "in addition to civil and administrative measures, procedures and remedies provided for under this Directive, criminal sanctions also constitute, in appropriate cases, a means of ensuring the enforcement of intellectual property rights".

The main objective of the Directive is providing an equivalent level of intellectual property protection throughout the whole European Community. The Directive's objective is therefore to approximate the legislative systems and to assimilate disparities in civil procedure leading to the better enforcement of substantive rights.

In short, the Directive seems to proceed from two aims: (1) the need to combat counterfeiting and piracy, and (2) the desire to harmonize national civil procedures and remedies for infringements of intellectual property rights.

Article 4 stipulates that rights holders, other persons authorized to sue on those rights, for example licensees, collective rights-management bodies and trade associations can seek redress under the Directive if their rights have been infringed. The Directive provides for minimum requirements regarding IPR execution, with a stipulation that both community regulations and national regulations may provide for measures and procedures which are more favorable for those holding IP rights, as long as they are proportional, fair, and just.

Some of the legal measures provided for in the Directive such as the right of information can be applied in respect to acts carried out on a commercial scale. However, it does not affect the possibility of interested Member States to apply those measures with regard to other infringements.

The Directive lies in the field that has already been provided with a plethora of ground rules by TRIPS concerning enforcement of intellectual property rights. The Member States of the Community are obliged to observe these rules as part of their own WTO membership and, within the reach of internal Community legislation on intellectual property rights. In addition, the Commission is to be seeking to ensure that each state is respecting these TRIPS obligations, as a matter of Community law and the Community's WTO membership. But this forms no part of the justification offered for the Directive. The essential measures therefore aim to improve on TRIPS standards. The main objective of these super-TRIPS requirements is said to

²¹⁴ Helen Padley, "EU Legislation and UK Implementation: the Enforcement of Intellectual Property Rights Directive", *Entertainment Law Review*, 2004, 15(8), N72.

be to reduce the prospect of pirates taking particular advantage of the disparities in the means of enforcing intellectual property rights - the advantage being that “counterfeited and pirated products are more likely to be manufactured or sold in those countries which are less effective than others in combating counterfeiting and piracy”.²¹⁵ What are these super-TRIPS requirements? Examples include double license fees as a regular measure of damages, a right to be informed about the participation of third parties in infringing activities, seizure of infringing products from everyone found in their possession, including private parties, and irrespective of fault or bad faith.²¹⁶

4.4.2. Harmonizing National Civil Procedures and Remedies

A Directive on the enforcement of intellectual property rights is heralded as a logical extension of the Community efforts on the harmonization of national substantive law. Because till this Directive, the action taken by the Community in the field of intellectual property has focused mainly on the harmonization of national substantive law or the creation of a unitary right at Community level. To enhance the enforcement of intellectual property rights within the Community, the Directive seeks to create a level playing field by extending to all Member States the best practices of one another. Hence the Directive is intended to complement the Council Regulation 1383/2003 of July 22, 2003 concerning customs action at the Community's external borders,²¹⁷ which replaced Regulation 3295/94 (as amended) with effect from July 1, 2004.

Such harmonization of national civil procedures and remedies should show no mercy to infringers, no matter their criminal innocence and civil carefulness. Indeed, to infringe an exclusive right of property, whether tangible or intellectual, there need not be *mens rea* as in the case of criminal law or even negligence as in

²¹⁵ Cornish, Drexler, Hilty and Kur, *loc. cit.*

²¹⁶ *ibid.*

²¹⁷ Council Regulation 1383/2003 of July 22, 2003 Concerning Customs Action Against Goods Suspected of Infringing Certain Intellectual Property Rights and the Measures to be Taken Against Goods Found to Have Infringed Such Rights [2003] O.J. L196/7-14.

the case of tort law. Thus any attempt to set willful and/or fraudulent, or severe infringers apart from negligent, innocent or harmless ones - subjecting only the former to harmonized civil sanctions - “would introduce an awkward division”, as rightly, acknowledged by eminent academics led by Professor William R. Cornish.²¹⁸

4.4.3. The Tension Between the Two Objectives of the Directive

As it is indicated in the previous parts, this Directive has two aims. One of them is combating counterfeiting and piracy, and the other one is harmonizing national civil procedures and remedies. They may converge at some point; but these are two distinct aims for one single directive. The tension between the two aims can be grasped from Articles 1 and 2 of the Directive. Article 1 and even the title (“on measures and procedures to ensure the enforcement of intellectual property rights”) spotlight the instrumental end of harmonization for all intellectual property rights. This, however, should not overshadow the ultimate end of combating counterfeiting and piracy.

As it is the ultimate target, one might expect to find “counterfeiting” and “piracy” defined somewhere in the text, but strangely the Directive remains silent on this matter. Such definitions can be found in the Regulation 1383/2003 concerning customs action. Article 2.1 of this Regulation broadly defines “counterfeiting” as the unauthorized use of an essentially identical trade mark, and “piracy” as the unauthorized copying of subject-matter that is protected by copyright or related rights, or (un)registered design rights. Equally infringing, even they are not labeled as “counterfeiting” and “piracy”, is the unauthorized use of a patent, a plant variety, a designation of origin, or the like.

The Regulation’s definitions clearly contradict the Directive’s title. In the Directive there is a general reference to the intellectual property rights covering all categories, in the Regulation however, counterfeiting and piracy as defined in Art.1 do not encompass all intellectual property right, excluding in particular - yet not only -

²¹⁸ Cornish, Drexl, Hilty and Kur, *op. cit.*,p. 447.

patents. Incidentally, it is worth noting that piracy in the Regulation covers any unauthorized copying, whether or not it is deliberate and/or fraudulent, commercially purported or significantly harmful.

Moreover, since all EU Member States are parties to the TRIPS Agreement and have implemented its chapter on enforcement, this Directive contains a good number of what can be called “TRIPS-plus” elements. Some of these are creating an obligation for a right of information, the recalling of infringing goods at the infringer’s expense, lump sum damages, and the publication of judicial decisions.

The Directive covers civil and administrative measures and procedures such as rules on evidence and the preservation of evidence, injunctions, seizure and destruction of goods, damages, blocking of bank accounts, financial compensation, and the publication of judicial decisions. The variety of measures available to right holders, and especially the rapidity of access to the implementation of these measures is paramount.

One of the important points of this Directive which is of particular interest in the Internet context and in the digital world, is the presumption of ownership of related rights. This presumption of ownership of related rights in other words, those belonging to performers, record producers and broadcasting organizations should help speed up the judicial process. In this way the applicants should not need to prove their rights for a court case to be opened if their name appears on the work or subject matter as the author or the right owner. Of course, the defendant can subsequently refute this presumption. However speed of action is important in infringement cases and this presumption should prove very effective for the right holders. By the easiness of this presumption the infringing activities can be stopped via an injunction.

The fact that the enforcement of intellectual property rights is now found in a piece of European legislation also means that the European Court of Justice will be the central reference point for interpretation of this type of law within the European Union. This will avoid divergent developments in national enforcement rules and so

further contribute to building a level playing field for business and creativity in Europe.

4.4.4. Measures Provided in the Directive

The Directive is based on the best practices already found in Member State legislation. The Directive is limited to civil sanctions for commercial or large-scale infringement rather than one-off infringements by individuals. The Directive does not contain criminal sanctions although Member States are free to implement them if they wish. Under the Directive, all Member States will have to provide, *inter alia*, for:

- injunctions to halt the sale of counterfeit or pirate goods;
- provisional measures such as precautionary seizures of suspected offenders' bank accounts;
- evidence-gathering powers for judicial authorities; and
- powers to force offenders to pay damages to right-holders to compensate for lost income.

The Directive goes beyond the minimum provisions on enforcement contained in the TRIPS Agreement, concluded under the auspices of the World Trade Organization and which all EU Member States are required to apply, by imposing the following supplementary obligations on Member States:²¹⁹

- banning machinery used to forge security devices which can make consumers think goods are authentic when they are not;
- establishing the right for trade associations and collecting societies (as well as right-holders directly) to initiate legal proceedings;
- giving judicial authorities the power to compel those selling pirated or counterfeit goods to disclose information on the origin of those goods, on quantities produced, delivered and ordered and on prices,

²¹⁹ "Increased Protection From Piracy and Counterfeiting Planned", *EU Focus*, 2003, 116, p. 2-3.

as well as to identify people involved in production and distribution networks;

- publishing judgments; and
- the withdrawal, at the offender's expense, of infringing goods put on the market.

a) Evidence

An intellectual property right holder does not usually have full knowledge of the infringement of his or her rights. The special regulation in the Directive providing for the preservation of the relevant evidence including taking of samples of goods possessed by the infringer and gathering information relating to the infringement is to serve as an aid in asserting the right holder's claims.

It is a necessary and important precondition for the success of an infringement action to be able to gather the appropriate evidence effectively. This gathering proves difficult in reality. Consequently, it is desirable, from an aggrieved right owner's point of view, that the law provides the appropriate tools for ensuring it is possible to obtain, present and preserve evidence of infringements, while at the same time respecting the rights of the defense. The Directive aims to ensure the existence of effective means for obtaining evidence.²²⁰ It provides that national courts can order the disclosure and deliverance of evidence by the opposing party.²²¹ In case of infringements committed on a commercial scale, a court can require the disclosure of financial and commercial documents, subject to the protection of confidential information.²²²

²²⁰ Recital 20 states: "(g)iven that evidence is an element of paramount importance for establishing the infringement of intellectual property rights, it is appropriate to ensure that effective means of presenting, obtaining and preserving evidence are available."

²²¹ The Directive places a limitation on the defendant's duty to surrender evidence. Only such evidence "which lies in the control of the opposing party" has to be presented to the applicant: [Art.6 (1)].

²²² Again, a limitation is placed on the defendant's duty to surrender evidence. Art.6 (2) provides for "the communication of banking, financial or commercial documents under the control of the opposing party, such as, for example, bank account records, invoices, delivery notes, warehouse receipts, etc." Moreover, the Directive refers to national provisions on confidentiality of information, since no such provision is contained in the Directive.

Robin Gross criticizes this article since this article allows for a “responsible authority”, not necessarily a judge, to order the communication or seizure of banking, financial or commercial documents of anyone connected to an alleged infringement. These measures are sometimes called *Doorstep Piller Orders* in the United Kingdom. This “special interest” litigation provision curtails the administrative procedure and fairness safeguards for a certain class of litigant, intellectual property defendants.²²³

b) Right of Information

The right of information is equally important. The more one knows about the distribution networks, the easier it will be to discover the origins of the illegal goods and activities. The person actually offering the illegal merchandise for sale is only the last link in a sometimes very long chain. It is more efficient to stop the trafficking from the top than only intercepting small distributors one by one.²²⁴

Information concerning third parties and the origins of goods can be obtained from a defendant by a discovery order. The right of information is to make known the origin of the knowledge and the distribution networks of the intellectual property rights’ infringing goods. The scope of information to be disclosed comprises the names and addresses of the producers, manufacturers, distributors, suppliers and other previous holders of the goods or services, as well as the intended wholesalers and retailers; information on the quantities produced, manufactured, delivered, received or ordered, as well as the price obtained for the goods or services in question.²²⁵

²²³Robin D. Gross, *IP Justice White Paper on Proposed European Union IP Enforcement Directive* “Europe’s Proposed Intellectual Property Enforcement Directive Unmasked: Overbroad Proposal Threatens Civil Rights, Innovation and Competition”, p.10, <http://www.ipjustice.org/ipenforcewhitepaper.shtml>

²²⁴ Barbara Norcross, “Current activities of the European Commission Copyright Unit with Particular Emphasis on the Enforcement Directive”, *International Conference, “Enforcement of IP Rights in the Enlarged EU”*, Budapest, Hungary, 8 September, 2005.

²²⁵ Art.8 (2)(a) which clarifies that the information comprises “the names and addresses of the producers, manufacturers, distributors, suppliers and other previous holders of the goods or services,

Information provided at the request of the applicant may be used to file an action against the infringer. Persons required to provide information are, for example, the possessors of infringing material and the users and the providers of services on a commercial scale as well as any person indicated by the aforementioned persons as being involved in the manufacture, production, or distribution of goods, or the provision of services.²²⁶

c) Provisional and Precautionary Measures

At the request of the applicant, the court may issue interlocutory injunctions intended to prevent any imminent infringement. Interlocutory injunctions can be issued against an infringer and against intermediaries, whose services the infringer is using. Judicial authorities may also present an order to be able to seize or deliver the goods suspected of infringing an existing intellectual property right. If evidence shows that infringing acts are committed on a commercial scale, the precautionary seizure of property and the freezing of bank accounts can be ordered. According to Gross, this provision allowing “freezing injunctions” exemplifies another reduction in due process rights and safeguards ensuring administrative procedure and fairness.²²⁷

In cases where any delay in proceeding might cause irreparable harm, a court can proceed *ex parte* on application by a right owner,²²⁸ but notice has to be given to the opposing party without delay after the execution of the measures at the latest, and the court shall review the terms of its interim orders upon a defendant’s request.²²⁹

as well as the intended wholesalers and retailers”. Art.8(2)(b) refers to “information on the quantities produced, manufactured, delivered, received or ordered, as well as the price obtained”.

²²⁶ Art.8(1).

²²⁷ Gross, *op. cit.*, p.11.

²²⁸ The Directive does not specify whether it is merely the right owner or other affected parties who have the right to initiate proceedings: provisional and precautionary measures are issued “at the request of the applicant” (Art.9(1) which further refers to the “right holder” in para.(a)). Consequently, not only the right owner, but also exclusive and potentially, non-exclusive licensees may have the right to initiate proceedings.

²²⁹ Art.9(4).

The applicant also has to provide sufficient security to indemnify the defendant against loss resulting from the effects of any provisional measures.²³⁰ If formal infringement proceedings are not instituted by the applicant within a reasonable time, the provisional measures are to be revoked by the court.²³¹ Upon revocation, compensation for any injury caused by those measures is to be paid.²³²

Gross states that these measures may be taken without the defendant having been heard on the matter if it would prejudice the right holder to inform the defendant of the allegations. Judicial authorities may require - but will not be bound to require - applicants to produce “any reasonably available evidence” to satisfy themselves that the applicant’s rights are being or are about to be infringed. Previously, the issuance of search warrants without the other party being heard was not available in Member States of Austria, Denmark, and Sweden.²³³ This clearly demonstrates that the practical effects of this Directive will vary among the member states.

Article 9 introduces a legal instrument - the so-called Anton Pillar order or *saisi-contrefaçon* - which is so far unknown to the legal systems of all Member States outside England, Wales and France, where it is highly criticized by many legal experts. European Digital Rights (EDRi) states that they are designed to be a last resort form of relief in cases where the applicant can provide evidence to a judge that the evidence sought is likely to be destroyed, these types of orders have also been utilized against non-infringer third parties including intermediaries such as universities and Internet service providers, increasing their costs of operation and raising significant privacy concerns. According to the views expressed by this group and many people unused to the common law tradition, it is not appropriate to include this type of relief in a Community Directive, first, because this type of judicial relief is not recognized in the majority of Member States’ national laws, and second, because it is subject to potential misuse and privacy violations where applied against

²³⁰ Art.9(6).

²³¹ Art.9(5).

²³² Art.9(7).

²³³ Gross, *loc. cit.*

third party non-infringers not intentionally or directly involved in any alleged infringement. These measures are in any case unnecessary, since large-scale copyright infringement is already a crime (or must be made so due to Member States' obligations under TRIPS) and the seizure of evidence can therefore be conducted by the police using a search warrant. In civil cases, searches and seizures would in most Member States be regarded as unproportional. Their introduction would lead to an alienation of EU citizens from EU legislators in EDRi's words.²³⁴

Article 9 (1) (b) introduces a legal instrument, the so-called Mareva injunction, which is so far unknown to the legal systems of all Member States outside England and Wales, where it is again highly criticized by many legal experts. In most Member States, searches and seizures in civil cases would be regarded as unproportional. EDRi makes the same criticism to the introduction of Mareva injunction with this Directive as in the case of Anton Pillar orders and says that their introduction would lead to an alienation of EU citizens from EU legislators.²³⁵

d) Corrective Measures

The Directive enlists legal measures designed to remedy the effects of the infringement. These include the recall or definitive removal of the infringing goods from commerce channels of distribution, destruction of such infringing goods, materials or facilities principally used in the creation and manufacturing of those goods.

Any corrective measures are to be carried out at the expense of the infringer.²³⁶ But the need for proportionality between the seriousness of the infringement, the remedies ordered and the interests of third parties is to be taken into consideration

²³⁴ European Digital Rights (EDRi), "Amendments proposed for the Enforcement Directive", <http://www.ipjustice.org/CODE/edrireport.shtml>.

²³⁵ *ibid.*

²³⁶ Art.10(2).

by the court at the time of considering a request for an order for further, remedial measures.²³⁷

In short, Article 10 provides for a recall at the expense of an infringer of infringing goods placed on the market. Although the Directive would make it law for the entire EU, previously only one country, the Netherlands, had enacted legislation that creates a recall of goods at an infringer's expense.

e) Injunctions

The Directive aims to provide effective and immediate remedies. Once a court has found the existence of an infringement of copyright, an injunction, aimed at prohibiting the continuation of the infringement, may be issued against the infringer or any intermediary whose services were used in carrying out the infringement. Non-compliance with such an injunction is punishable by a recurring penalty payment.²³⁸

f) Damages

The Directive makes provisions for the difficult issue of financial liability for an intellectual property right infringement. It stipulates two ways damages may be established in such cases. First, when setting the damages, the court should take into account all negative economic consequences of the infringement, including the lost profits which the injured party has suffered, any unfair profits made by the infringer, and elements other than economic factors, such as the non-pecuniary prejudice caused to the right holder. Alternatively, and in appropriate cases, damages may be set as a lump sum on the basis of elements such as the amount of royalties or fees which would have been due if the infringer had requested authorization to use the intellectual property right in question.

²³⁷ Art.10 (3).

²³⁸ Art.11.

The Member States may lay down that, in cases where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity, the judicial authorities may order the recovery of profits by the infringer or the payment of damages, which may be pre-established.

g) Publication of Judicial Decisions

In legal proceedings instituted for the infringement of an intellectual property right, the judicial authorities may, at the request of the applicant, order measures for the dissemination of the information concerning the decision - including displaying the decision and publishing it in full or in part. The publication of the decision is at the expense of the infringer. Member States may provide for other additional publicity measures, which are appropriate to the particular circumstances, including prominent advertising.

Other persons, apart from the holders of intellectual property rights, are also entitled to seek application of the measures, procedures and remedies provided for in the Directive. These include licensees, intellectual property collective rights management bodies, and professional defense bodies, which have a right to represent holders of intellectual property rights.

h) Codes of Conduct

The Directive encourages the development of codes of conduct by the relevant industries. It envisions the enforcement of copyright by way of technical protection measures and recommends, in particular, the usage of optical discs containing a numeric code that enables the identification of a product's origin.

4.4.5. Critiques for the Directive

This Directive has been criticized by civil liberties groups, scientists, and industry groups for its extreme provisions and harsh treatment of consumers. IP Justice is one of these international civil liberties organizations that promote balanced intellectual

property laws. IP Justice defends consumer rights to use digital media worldwide and is a non-profit organization based in San Francisco. In general, main troubling aspects by the IP Justice of the Directive can be summarized as follows:²³⁹

- The Directive's scope is too much wide. It should be limited to intentional commercial infringements only. Certain types of intellectual property rights such as patents should be excluded in their entirety from the scope of the Directive.
- The directive lacks balance and proportionality since average consumers face the same treatment as major commercial counterfeiters for minor infringements with no commercial impact.
- The Directive provides no definition for "intellectual property rights", although the Directive applies to all types of intellectual property. Since EU Member States define "intellectual property rights" differently, it is unclear which rights are actually included in the Directive.
- The Directive permits Hollywood attorneys to hire private police forces to invade the homes of alleged infringers. Known as *Anton Piller orders*, these measures were previously only available in extremely rare cases in the UK against large commercial infringers. But the Directive permits right holders to carry out these private raids against citizens throughout the EU for minor infringements that involve no financial motivation or benefit at all.
- *Mareva injunctions*, which permit right holders to freeze the bank accounts and other assets of alleged infringers before a court hearing, become EU law under this Directive.
- The Directive creates a new "Right of Information" that allows right holders to obtain personal information on users of Peer-2-Peer (P2P) file-sharing software. Similar broad subpoena powers created under the controversial US Digital Millennium Copyright Act have been abused by the recording industry to obtain personal information on thousands of consumers in the US.

²³⁹ "Consumer Digital Rights Rally at EU", March 8, 2004, <http://www.ipjustice.org/CODE/rally.shtml>

- Internet Service Providers' (ISPs) servers and equipment can be seized and destroyed without any notice or court hearing for the allegedly infringing activity of their customers.

On the other side of the fence, the International Federation of the Phonographic Industry ("IFPI") was, at the outset, said to be "dismayed" that the European Commission had not taken a tougher line against the "epidemic of counterfeiting" sweeping the European Union.²⁴⁰ As far as the IFPI was concerned, "the tools which the Directive introduces to bring actions against infringers do not even reach the levels already available under some existing national laws". According to the IFPI, Member States, some of whom have a poor track record in dealing with counterfeiting and piracy, would retain too much discretion over the application of the Directive's requirements.²⁴¹ Whilst the Commission's spin on the Directive was based on the fight against large-scale counterfeiting linked to organized crime, privacy and non-rights groups have suggested that it filters down to intellectual property infringement at the grass-roots level.²⁴²

4.4.6. General Dangers of the EU Enforcement Directive

a) Extra Wide Scope

The Intellectual Property Enforcement Directive applies to any infringement of an intellectual property right in the European Union that is carried out for commercial purposes or causes significant harm to the right holder. The text of the Directive defines its scope "as widely as possible in order to encompass all the intellectual property rights covered by Community provisions in this field." It also invites Member States to "extend this Directive to include acts involving unfair competition or similar activities," further broadening its scope to include types of general business torts and licensing disputes. Large foreign companies who own trademarks

²⁴⁰ Rico Calleja, "The IP Enforcement Directive", *Computer and Telecommunications Law Review*, 2004, 10(3), p. 55-57.

²⁴¹ *ibid.*

²⁴² *ibid.*, p. 56.

such as Nike, Levi's, or Microsoft, in particular, are empowered by the new rights in this Directive. It is said that while the Directive detracts from the rights of consumers, it does not detract from national legislation that is more favorable to right holders.

Thus, the Directive applies to the enforcement of all rights relating to industrial property including copyright, patent, trademark, satellite broadcasting and cable transmission, databases, biotechnological inventions, computer programs, semiconductors, artwork, medicinal products, plant products, designs, spirit drinks, wine, agricultural products and foodstuffs. The Directive's Annex contains a list of all types of intellectual property to which Directive applies.

b) Restrictions on Personal Liberties

One of the biggest problems with the Enforcement Directive is its endangering of traditional civil liberties, such as privacy, fair use (fair dealing) and other limitations on intellectual property rights, due process, and freedom of expression guarantees.

Directive's provision about right of information has been severely criticized by the civil liberties groups. The privacy rights of all European citizens are threatened by the text's provision for broad subpoena powers to give rights holders the names and addresses of anyone connected to an alleged infringement. The Directive would require universities, Internet Service Providers (ISPs), phone and cable companies, and any other third-party intermediaries to turn over personal information on their customers, even before there has been any finding of infringement or an opportunity for the defendant to be heard on the matter.

The US recording industry is already using the US Digital Millennium Copyright Act's (DMCA) broad subpoena powers to collect personally identifying information on thousands of users of file-sharing software for its litigation purposes. Its widespread use against individuals by the US recording industry to get tough on the transaction of music files online has led critics to describe it as a threat to civil liberties. These controversial new provisions are under challenge as unconstitutional in several court proceedings in the US. The Enforcement Directive's "Right of

Information” is similarly ready for abuse by intellectual property owners to obtain information on European citizens.

c) Harmful to Innovation and Business Competition

The Directive creates a legal regime throughout Europe that strongly favors large entertainment and software companies mostly from the US at the expense of small to medium-sized local firms. Its significantly undermines the Single Market and competition policy by giving the entrenched industry players a competitive advantage to innovative start-ups.²⁴³

The Directive has some negative effects on parallel imports, which provide for greater consumer choice and lower market costs by permitting goods to move more freely through borders. Parallel imports are products imported into a country for sale through legal, albeit unlicensed, distribution channels.

Within the EU, parallel imports are legal and intellectual property rights cannot be invoked to control the post-sale distribution channels for a work, which is called as first sale doctrine. The Directive undermines this competition policy objective, and grant an intellectual property owner the means to control every link in the distribution chain. As a result, big intellectual property owners will be able to restrict the choices of goods and impose price discrimination on European consumers. It also permits US media giants to control distribution channels for movies, music and art to the detriment of local culture and European artists.

The Directive also places greater burdens onto businesses and ISPs to monitor and police their networks and services for infringing activity. Through this Directive, intellectual property holders would shift the burden of protecting their interests onto innocent others.²⁴⁴

²⁴³ Gross, *loc. cit.*

²⁴⁴ *ibid.*

d) Imposition of Maximalist Provisions on Entire European Union

While the Directive claims to harmonize enforcement mechanisms for the entire European Union, the Directive actually selects the most extreme national intellectual property enforcement provisions and imposes them onto all countries in the EU (i.e. easily obtained injunctions, allowances for seizures and destruction of property, a right of information to obtain personal identities, the recall of infringing goods at the infringer's expense, banning circumvention devices, etc.)

e) Impairment of Justice in Favor of Intellectual Property Claimants

Ignoring traditional rules of justice, legal administrative procedure and due process, the Enforcement Directive accords special privileges to rights holders in the course of legal proceedings related to infringement actions. For example, the Directive provides for the issuance of preliminary injunctions and the seizure of property, bank accounts, financial documents and other assets, all before a case has been filed, and before the defendant has an opportunity to be heard on the matter.

Simple fairness does not grant one class of litigants, intellectual property claimants, special privileges and greater access to the legal system than the 'victims' of other illegal activities. Guarantees of social justice and administrative procedure and fairness should apply to defendants in intellectual property prosecutions no less than to those accused of corporate fraud or product liability.²⁴⁵

4.4.7. Analysis of Key Provisions in the EU Enforcement Directive

a) Article 8: Right of Information

One of the most troubling provisions for civil liberties in the Enforcement Directive is Article 8. Article 8 creates a new "Right of Information" that permit intellectual

²⁴⁵ *ibid.*

property holders to easily obtain the names and addresses of individuals they consider to be infringers. Judges and other public officials would be required to issue search warrants, ordering the production of personally identifying information, based on a mere allegation of infringement, and without the accused having an opportunity to be heard or defend against the charge.

A “Right of Information” can be targeted against any person involved in an alleged infringement including ISPs, phone and cable companies, universities, or other innocent third-party intermediaries. The Directive gives right holders the right to obtain personal information about consumers without ever filing a legal case. The right requires third parties to identify the origin of the allegedly infringing goods, networks and distribution channels used, and the personal identity of any other third-party alleged to be involved in the infringement. According to Gross, the Directive subject ISPs and other innocent parties to liability based merely upon a “should have known” standard.²⁴⁶

Previously, a “Right of Information” had existed in Europe only in two instances (Art. 13 of the Benelux law on trademarks and paragraph 19 of Germany’s trademark law), and only in limited circumstances. After the enactment of this Directive, every Member State will be required to enforce a “Right of Information” and grant broad and easily abused subpoena powers to intellectual property holders with little protection for the civil rights of those accused of intellectual property infringements. Article 8 also requires public authorities to proactively inform and turn over personal information to rights holders about suspected infringements so that legal proceedings may be filed.

b) Commercial Scale (Articles 6(2), 8(1) and 9(2))

The measures which are provided for in Articles 6(2), 8(1) and 9(2) of this Directive need to be applied only in respect of acts committed on a commercial scale. The acts committed on a commercial scale, are those acts that are carried out for direct or

²⁴⁶ *ibid.*

indirect economic or commercial advantage. This would normally exclude acts done by end consumer's acting in good faith.

According to these words, the measures of Articles 6(2), 8(1) and 9(2) appear to be required in all cases of commercial infringement. Furthermore, everything infringing that might be done at least for indirect economic advantage would be subject to all of these measures that are reserved for commercial infringers. It might not include consumers acting on good faith, but the Directive actually does nothing to guarantee that. Especially when we consider the fact that if someone is acting in good faith or not is something we usually only know after a court case decision, whereas most of the measures in the Directive can be ordered even before the start of a procedure.²⁴⁷

c) A Veiled Criminal Law Reform

It has to be stated clearly that in almost all continental Member States, that the most important provisions of the Directive, in particular searches, seizures, the freezing of bank accounts, as well as the information rights are exclusively limited to criminal investigative procedure and absolutely alien to any civil law case.

This merging of civil and criminal law by this Directive might prove to be extremely difficult to implement for these member states. Investigative procedures can only be ordered by prosecutors in those Member States. In particular, searches and seizures can only be carried out by the official authorities, and have to be authorized by an independent judge beforehand or in the case of immediate danger immediately afterwards. For some member states, the phrase "judicial authorities" is a further crucial and ambiguous term, for example, in Italian law, it includes prosecutors and judges.

²⁴⁷ Georg Jakob, "Deharmonization through the Intellectual Property Enforcement Directive", 12. February 2004, http://www.rechtsprobleme.at/doks/ipenf_comments-jakob.pdf

But the most problematic aspect remains the extremely low barrier the Directive sets for the measures to be ordered. In general, they can be applied even before the commencement of proceedings:

- on application by a party who presents *reasonably available* evidence to support his claims
- to support his claims that his intellectual property right has been infringed or *is about to be infringed*
- even *without the other party being heard*.

This might actually result in searches, seizures and other measures being ordered and kept intact for at least a month on the basis of mere suspicion of a possible infringement. There is little experience in mixing together civil and criminal law in continental Europe; this Directive might have unforeseeable results for a large number of member states.²⁴⁸

Even in England, where there is experience of similar measures to those of Arts 6-9, such as Mareva injunctions, the House of Lords has stated its concern, in particular for the low requirements for the measures to be applicable. For the rest of Europe, the measures do not belong to civil law, but to criminal law, but the conditions under which they may be ordered are much too low to fulfill the latter's requirements.²⁴⁹

d) Disadvantages for SMEs

All of the uncertainties in the Enforcement Directive lead to one more problem. Large companies now have an instrument at hand to drive competition from innovative but financially weak small and medium sized enterprises (SMEs) out of business. As stated by Jakob, through the interaction of its unclearly defined scope; its harsh measures with their low standards of requirements for applicability; and its

²⁴⁸ The risk is very high that an unwanted door would be opened to an abusive introduction of criminal investigative methods into mere civil law, e.g. even licensing contract disagreements, which could be possible according to Art 4 ([...] *all other persons authorized to use those rights, in particular licensees, in so far as permitted by and in accordance with the provisions of the applicable law [...]*).

²⁴⁹ Jakob, *op. cit.*, p. 7.

mixing of civil and criminal law elements, this Directive make it possible for a company, even one with no intention of taking its case all the way to a final decision in court, to get measures ordered against an alleged infringer that could in effect shut that company down for at least a month. The aggressive plaintiff might have to pay damages later on, but if the company requesting the measures is strong and the competitor weak but innovative, it might be a very effective business strategy. And that might be the Directive's biggest danger by targeting organized crime and p2p-users with the same weapon, the ones who will suffer the most damage could be the SMEs.²⁵⁰

4.4.8. Final remarks

Even though the Intellectual Property Enforcement Directive has been criticized severely by some groups for the reasons stated in previous parts, the Intellectual Property Enforcement Directive can be counted as very important piece of legislation. It gives businesses a familiar single legal tool for intellectual property rights' enforcement issues right across Europe. They do not need to overcome the differences appearing from the different legal jurisdictions. However, during the preparation stages and afterwards, companies of all sizes are more concerned with the potential dangers of an enormous increase in the applicability of the measures of intellectual property enforcement law. These remedies are made available for right holders to the civil legal disputes not to the criminal law cases. This concern is bigger for states, which are not part of the common law tradition.

These include measures such as:

- Anton Piller orders (secret court authorizations of raids for evidence by the plaintiff's agents);
- Mareva injunctions (freezing of assets, even before a case has been discussed in Court);
- new powers to demand the disclosure of very extensive commercial and personal information;

²⁵⁰ *ibid.*

- and the admissibility of denunciations by anonymous witnesses as court evidence.

It must be emphasized that many of the Directive provisions are of the optional nature, and the Member States have a relatively large degree of freedom to undertake the adoptive measures. The provisions of the Directive started to be implemented by 29th April 2006.

In contrary to the arguments made by civil liberties groups for the harsh measures developed by the new Directive, Benczek emphasizes the weaknesses of the Directive for the IP right holders. According to Benczek, this Directive suffers from a number of significant shortcomings, including:²⁵¹

- the Directive fails to provide a sufficiently harmonized system of enforcement standards across the EU, since a number of provisions leave a wide range of discretion for implementation by the Member States and by judicial authorities, hence potentially maintaining disparities in enforcement standards across the EU;
- the Directive does not extend to unfair commercial practices, not addressed by intellectual property rights harmonized at the EU level, such as look-alikes;
- unlike the provisions of the TRIPS Agreement, the provisions of the Directive apply only to infringements with severe effects or to those committed for commercial purposes and leaves such terms unspecified;
- the presumption of authorship is limited to natural persons, hence leaving software development companies with sometimes difficulties to prove their entitlement to enforce a copyright; and
- the mandatory requirement to initiate proceedings on the merits of the case within 31 days following the seizure of evidence or the adoption of provisional measures does not reflect the practical needs for out-of-court

²⁵¹ Alexander Benczek, "EU: Intellectual Property - Recent Initiatives at EU Level Against Counterfeiting and Piracy", *E.I.P.R.* 2003, 25(8), p. 126-128.

settlements or for the preparation for litigation on the merits, particularly in the case of software piracy.

Even if the Directive establishes some standards among member states for the enforcement of the intellectual property rights, companies should nevertheless continue to expand the implementation of practical measures to better protect themselves against counterfeiting and piracy practices. Information sharing among industry players, with public authorities and enforcement agencies regarding the flow of counterfeit and pirated goods and the implementation of efficient anti-counterfeiting and piracy strategies, will remain crucial points in the intellectual property enforcement.

4.5. Council Regulation (EEC) No 3842/86

A Community wide system of customs controls to prevent the import of goods bearing counterfeit trade marks was first implemented in Council Regulation (EEC) No 3842/86 of 1 December 1986 laying down measures to prohibit the release for free circulation of counterfeit goods (“the 1986 Regulation”).²⁵² The 1986 Regulation set out procedures whereby trademark owners could apply to the customs authorities of Member States requesting them to suspend the release for free circulation of goods suspected of being counterfeit.

EEC Council Regulation 3842/86 came into force on 1 January 1988. It is designed to prevent counterfeit goods, of any description, finding their way onto the market of Member States. Member States are obliged from that date to suspend the release for free circulation of goods suspected of being counterfeit, upon receipt of an appropriate application to do so. The Regulation provides what appears to be a rather detailed framework for the detection, seizure and eventual disposition of counterfeit goods.

²⁵² OJ [1986] No L 357/1; and Commission Regulation (EEC) No 3077/87 of 14 October 1987 laying down provisions for the implementation of Council Regulation (EEC) No 3842/86 laying down measures to prohibit the release for free circulation of counterfeit goods, OJ [1987] L291/19.

“Counterfeit goods” are defined in Article 1 paragraph 2(a) of the Regulation as “any goods bearing without authorization a trade mark which is identical to a trade mark validly registered in respect of such goods in or for the Member State in which the goods are entered for free circulation”. Although infringement proceedings have been commenced against the non-complying Member States, the Regulation can only work effectively if there is comprehensive enforcement, particularly as the Community progresses towards its ultimate target of absolute barrier-free trade within the EEC.

Article 1 paragraph 2(b) defines the trademark owner who may make such application under the Regulation as either the trademark owner himself or any other authorized user or his representative. Unfortunately the Regulation does not apply to goods, which bear a trademark with the consent of the trademark owner, but which are entered for free circulation in a particular Member State without the trademark owner's consent (Article 1 paragraph 3). Thus, the Regulation does not encompass parallel importing.²⁵³

The system of controls established by the 1986 Regulation had a number of weaknesses. The Regulation is a welcome step but only a first step. It needed considerable refinement before it becomes a flexible weapon in the anti-counterfeiting armory.²⁵⁴ It was replaced by Council Regulation No 3295/94 (the “Anti-Piracy Regulation”), which sought to implement the border control provisions of the TRIPS agreement.

4.6. Council Regulation No 3295/94 (the “Anti-Piracy Regulation”)

The 1994 Regulation extended the scope of border controls to include also exports and goods in transit. It also expanded the definition of counterfeit goods to include packaging materials and symbols bearing unauthorized trade marks, whether

²⁵³ Shereen Billings, “EEC Council Regulation 3842/86: an Effective Piracy Weapon”, *E.I.P.R.* 1988, 10(11), p. 346-350.

²⁵⁴ *ibid.*, p 349.

presented separately or together with the goods themselves, and extended coverage of the system to goods protected by copyright and design rights.

In *Polo/Lauren Co LP v. PT Dwidua Langgeng Pratama International Freight Forwarders* case,²⁵⁵ The Austrian Supreme Court referred to the European Court of Justice the question whether the Anti-Piracy Regulation applies where goods imported from a non-member country are temporarily detained by a Customs office while they are in transit to another non-member country and where the holder of the right has its registered office in a non-member country. The European Court of Justice held that the Anti-Piracy Regulation is expressly designed to apply to goods passing through Community territory from a non-member country to another non-member country. Pursuant to Article 1 (1) (a) of the Anti-Piracy Regulations, it applies where counterfeit or pirated goods are found when checks are made on goods placed under a “suspensive procedure” within the meaning of Article 84 (1) (a) of the Community Customs Code. This includes “external transit”, allowing the movement of non-member goods from one point to another within the Customs territory of the Community without being subject to import duties or other charges. It does not matter in this regard whether the holder of the right or those entitled by him have their registered office in a Member State or outside the Community.²⁵⁶

Under the provisions of Regulation 3295/94, right holders are able to apply directly to the competent customs authority to prevent goods which they feel could infringe their intellectual property rights from being released for free circulation or export, or to have them detained. The customs authority then decides whether the application is admissible and, if it decides that it is, the customs offices concerned will suspend the release of the goods or detain them. The applicant then has 10 days in which to apply to the competent judicial authority for a substantive ruling, and any goods that are found to fall foul of the provisions of Regulation 3295/94 may be destroyed. However, if, during the relevant 10-day period, no application for a substantive

²⁵⁵ (C383/98) April 6, 2000 (ECJ), <http://curia.europa.eu/en/actu/activites/act00/0012en.htm#ToC3>

²⁵⁶ Monika Hirsch and Peter Poch, “European Community: Trademarks - Seizure of Counterfeits - Application of EU Anti Piracy Regulation on Goods of Owners in Non Member Countries”, *E.I.P.R.* 2000, 22(9), p. 135-136.

ruling is made to the competent authority or no precautionary measure has been taken, the competent customs office will release the goods.

The 1994 Regulation required the European Commission to report on its implementation within two years of its entry into force. The Commission report, published in January 1998²⁵⁷ recommended that the system should be extended to cover goods protected by patents, as well as medicinal and plant protection products protected by supplementary protection certificates. It also proposed that the range of customs procedures falling within the scope of the system should be extended.

A study carried out by the Customs Policy Division of the Directorate-General for Taxation and the Customs Union identified several areas where the system operated under the amended 1994 Regulation might be extended or improved. The Commission's subsequent legislative proposal suggested the following changes to the system of border controls:²⁵⁸

- the system of border controls should be extended to cover other forms of intellectual property, particularly plant variety rights, geographical indications and designations of origin.
- requirements for the payment of fees should be largely abolished and obligations to provide security should be replaced by declarations of liability, thereby providing right holders with cost-free access to the system.

²⁵⁷ Report from the Commission on the implementation of Council Regulation (EC) No 3295/94 of 22 December 1994 as regards border controls on trade in goods which may be counterfeit or pirated, and Proposal for a Council Regulation (EC) amending Regulation (EC) No 3295/94 laying down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods, COM (1998) 25 final, OJ [1998] C108/63.

²⁵⁸ Proposal for a Council Regulation concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights, COM(2003) 20 final.

- a simplified procedure should be introduced for disposing of infringing goods in cases where parties interested in the goods do not object to their disposal.
- the scope for *ex officio* action by customs authorities should be extended.
- the extent of the so-called “non-commercial exception” should be clarified.
- measures should be introduced to improve the flow of information between right holders and customs authorities.

The proposed changes were subsequently enacted in Council Regulation (EC) No 1383/2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights (“the 2003 Regulation”), which applies with effect from 1 July 2004.²⁵⁹ The 2003 Regulation is directly applicable in Member States. However, earlier versions of the Regulation have been accompanied by specific implementing measures.²⁶⁰ The 2003 Regulation is also integrated with the Community Customs Code.²⁶¹

4.7. Council Regulation (EC) No 1383/2003

The 2003 Regulation authorizes national customs authorities to intercept infringing goods when they are discovered during the course of specified customs operations. These operations are defined in Article 1 of the 2003 Regulation as being when goods are:

²⁵⁹ OJ [2003] L196/7.

²⁶⁰ The most recent implementing measure is Commission Regulation (EC) No 2549/1999 of 2 December 1999 amending Regulation (EC) No 1367/95 of 16 June 1995 laying down provisions for the implementation of Council Regulation (EC) No 3295/94 of 22 December 1994 laying down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated goods, OJ [1999] No L 308/16.

²⁶¹ Council Regulation (EEC) No 2913/92 of 12 October 1992 establishing the Community Customs Code, OJ [1992] L302/1, as last amended by Regulation (EC) No 2700/2000 of the European Parliament and the European Council, OJ [2000] L311/17. See also Commission Regulation (EEC) No 2454/93 of 2 July 1993 laying down provisions for the implementation of Council Regulation (EEC) No 2913/92 establishing the Community Customs Code OJ [1993] L 253/1.

- entered for release for free circulation, export or re-export in accordance with Article 61 of the CCC;
- found during checks on goods entering or leaving the Community customs territory in accordance with Articles 37 and 183 of the CCC;
- placed under a suspensive procedure within the meaning of Article 84(1)(a) of the CCC;
- re-exported subject to notification under Article 182(2) of the CCC;
or
- placed in a free zone or free warehouse within the meaning of Article 166 of the CCC.

The term “suspensive procedure” covers a variety of customs procedures, including external transit, customs warehousing, inward processing in the form of a system of suspension, processing under customs control, and temporary importation.²⁶²

Although the 2003 Regulation is designed primarily to prevent infringing goods from entering or leaving the customs territory of the Community, it also applies to goods in external transit (i.e. goods passing through Community customs territory on their way from one non-member state to another non-member state). In *The Polo/Lauren Company LP v. Pt Dwidua Langgeng Pratam International Freight Forwarders*²⁶³, the European Court of Justice held that this extended coverage was justified by the risk that goods entering the Community under the external transit procedure might be fraudulently diverted onto the single market.²⁶⁴

Among the types of infringing goods, counterfeit goods and pirated goods covered by the 2003 Regulation are as follows:

²⁶² CCC, Article 84(1)(a).

²⁶³ (C383/98), *loc. cit.*

²⁶⁴ Case C-383/98 [2000] ECR I-2519 (ECJ), para.34.

Counterfeit goods

“Counterfeit goods” are defined for the purposes of the Regulation as:

*... goods, including packaging, bearing without authorization a trademark identical to the trademark validly registered in respect of the same type of goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the trademark holder's rights under Community law, as provided for by Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trademark or the law of the Member State in which the application for action by the customs authorities is made.*²⁶⁵

Article 2(1)(a) of the 2003 Regulation also provides that trademark symbols (e.g. labels, stickers, logos), as well as packaging materials bearing counterfeit marks are to be treated as counterfeit goods, regardless of whether they are presented with counterfeit goods or separately from those goods. This provision is intended to remedy a problem that arose under the Community's earlier system of border controls whereby counterfeiters could evade customs seizure by importing unmarked goods separately from their labeling, packaging and other accompanying materials (e.g. instruction manuals), then arranging for the goods to be labeled and packaged after importation. By classifying these materials as counterfeit goods in their own right, this provision also gives trademark owners a means of countering the independent international trade in labeling and packaging material for use in the production of counterfeit goods.

Pirated goods

The 2003 Regulation defines “pirated goods” as:

... goods which are or contain copies made without the consent of the holder of a copyright or related right or design right, regardless of whether it is registered in national law, or of a person authorized by the right holder in the country of production in cases where the making of those copies would constitute an infringement of that right under Council Regulation (EC) No 6/2002 of 12 December 2001 on Community designs or the law of the

²⁶⁵ 2003 Regulation, Article 2(1)(a)(i).

*Member State in which the application for action by the customs authorities is made.*²⁶⁶

This definition of pirated goods is broader than the definition contained in Article 51 of the TRIPS Agreement.²⁶⁷ However, like the TRIPS Agreement, the 2003 Regulation treats goods as pirated if they constitute infringing copies. Depending on the nature of the right in question, it is then a matter for either Community law or national law to determine whether a particular item represents an infringing copy.

Application for Action by the Customs Authorities

Article 5 of the 2003 Regulation sets out the procedure whereby a right holder can apply to the customs authorities of a Member State requesting action in relation to goods that are suspected of infringing his rights. Once an application has been submitted to the competent customs department, it must notify the applicant in writing of its decision within 30 working days of receipt. If the application is granted, the decision granting the application must be forwarded immediately to the customs offices of the relevant Member State or States.

When making an application under Article 5, the right holder is required to provide (a) proof that he holds an intellectual property right for the goods specified in the application, (b) sufficient information to enable the customs authorities to recognize the goods, and (c) a declaration of liability in the event that goods are wrongly intercepted. If the competent customs department decides not to process an application, because it lacks one or more of the mandatory elements, it must give the right holder reasons for its decision, as well as information about the appeal procedure.

An application under Article 5 must include proof that the applicant is the holder of the right for which protection is sought. However, the term “right holder” is defined

²⁶⁶ 2003 Regulation, Article 2 (1) (b).

²⁶⁷ The definition of “pirated copyright goods” in the TRIPs Agreement makes no reference to design rights.

broadly to include (a) the holder of any of the rights referred to in Article 2(1), (b) any other person authorized to use one of these rights, or (c) a representative the right-holder or authorized user.

Special provisions for Community intellectual property rights

(a) *Ex Officio* Action by the Customs Authorities

Customs authorities are also permitted to act on their own initiative to detain or suspend the release of goods that they suspect of infringing an intellectual property right. Where goods are intercepted under this provision, the right holder must be notified of the potential infringement of his rights and invited to make an application for action by the customs authorities under Article 5. The customs authorities must also inform the declarant or holder of the goods. The period for which goods may be held without an application for action by the right holder is limited to three working days. If the right holder fails to make an application for action within the three-day period, the customs authorities are obliged to release the goods.

When customs authorities take *ex officio* action to intercept goods, they may inform the right-holder of the nature and quantity of goods intercepted. However, they may not divulge any other information until an application for action has been granted.

(b) Action by the Customs Authorities

Once an application for action has been granted, customs offices are required to detain or suspend the release of any goods found during the course of the customs operations specified in Article 1(1) of the 2003 Regulation that they suspect of infringing an intellectual property right covered by the application. The customs office must immediately give notice of the interception to the customs service that dealt with the application. Either the customs office or the customs service must then give notice of the interception to the right holder, as well as the declarant or holder of the suspect goods.

(c) Right of information, inspection and analysis

Following the interception of suspect goods, customs authorities are authorized to disclose information to the right holder and the declarant or holder of the goods about the nature and quantity of the goods. They must also give the parties an opportunity to inspect the goods.

Customs authorities are also permitted to disclose further information to right holders for the purpose of establishing whether their rights have been infringed. It requires customs authorities to inform the right holder of (a) the names and addresses of the declarant and, if known, the consignor, consignee, and holder of any suspect goods, and (b) the origin and provenance of the goods. However, this disclosure requirement is subject to any "...national provisions on the protection of personal data, commercial and industrial secrecy and professional and administrative confidentiality".

(d) Time limits

The 2003 Regulation imposes strict time limits on the period for which customs authorities may suspend the release of suspect goods or detain them. This period is initially restricted to 10 working days from the receipt of notification of interception, although it may be extended by a further 10 working days in appropriate cases. In the case of perishable goods, the period is restricted to three working days and is not renewable.

(e) Determination of infringement

The purpose of authorizing customs offices to intercept suspect goods is to allow right holders time to ascertain for themselves whether they believe the goods to be infringing and, if so, to secure a substantive determination to this effect from a competent authority. Unless the customs office dealing with the suspect goods has

been informed within the time limits outlined above that “...proceedings have been initiated to determine whether an intellectual property right has been infringed under national law ...”, then, subject to the completion of any other customs formalities, it must release the goods. The proceedings must be initiated in the forum designated by the national law of the relevant Member State as competent to take a substantive decision regarding infringement. The determination of infringement is to be made in accordance with the law in force in the Member State where the goods were subjected to the customs operation that led to their interception.

(f) Penalties

The 2003 Regulation requires Member States to introduce penalties to apply in cases where the Regulation has been violated. According to Article 18 these penalties must be “effective, proportionate and dissuasive”.

4.8. EU Action Plan for the Enforcement of Intellectual Property Rights in Third Countries

In an effort to halt the increase in piracy and counterfeiting the Commission has adopted a strategy for the enforcement of intellectual property rights in third countries. The action plan focuses on vigorous and effective implementation and enforcement of existing intellectual property rights’ laws. It proposes to identify priority countries where enforcement actions should be concentrated. Stress has been put on technical cooperation and assistance to help third countries to fight with counterfeiting. In addition, the Commission has commenced all bilateral and multilateral sanction mechanisms against any country involved in systematic violations. The Commission fosters awareness rising of users and consumers in third countries and supports the creation of public-private partnerships for enforcement.²⁶⁸

Piracy and counterfeiting continue to grow every year and have become industries, increasingly run by criminal organizations. This is a serious problem for the EU, but also for third countries whose companies are also suffering the consequences of

²⁶⁸ Commission press releases IP/04/1352 and MEMO/04/255, November 10, 2004.

violation of their own intellectual property rights. Some of these fakes, like pharmaceuticals and foodstuffs constitute an outright danger to the public, while others undermine the survival of innovative sectors, confronted with the misappropriation of their creations. The Commission's current priority is not adopting new legislation on intellectual property, but devising the right tools to enforce it.

Between 1998 and 2002 the number of counterfeit or pirated articles intercepted at the EU's external frontiers increased by more than 800 per cent. Figures published by the Commission in November 2003 show that customs seized almost 85 million counterfeit or pirated articles at the EU's external borders in 2002 and 50 million in the first half of 2003. This illicit trade is worth the equivalent of more than 2 billion on the legal Community market.²⁶⁹

These figures only tell us what is being caught at the Community borders. As is the case with other types of illegal traffic, seizures by the authorities represent only the tip of the iceberg and show us little about the dimension and value of the illicit goods that end up being sold in markets and streets worldwide. This is why it is extremely difficult to quantify the exact values involved in the global trade of fake goods. Some estimations point to figures representing between 3 and 9 per cent of total world trade, i.e. 120 billion to 370 billion a year. Studies carried out by the OECD in 1998 and by the International Chamber of Commerce in 1997, estimated then that counterfeits accounted for 5 to 7 per cent of world trade and were responsible for the loss of 200,000 jobs in Europe.²⁷⁰

The Commission's strategy

The new strategy sets the guidelines for the Commission in the coming years to work towards a reduction of the level of intellectual property rights violations taking

²⁶⁹ "EU Action Plan to Strengthen Fight Against Piracy and Counterfeiting Beyond its Borders", *EU Focus*, 2004, 155, p. 2-4.

²⁷⁰ *ibid.*

place beyond the EU's borders, worldwide. It follows a sequence of recent initiatives taken by the EU to tackle this problem within the EU and at its borders.

The Commission believes it is essential that third countries accompany the commitments agreed to in the WTO and in bilateral agreements by a genuine willingness to tackle the problem at their borders, in their courts, and in their streets. For the EU's part, the Commission wishes to ensure that its right holders are effectively protected against the misappropriation of their property and its citizens in general against the dangers of piracy and counterfeiting.

The internal instruments available to Community right holders in the case of violations of their rights within the Community, or in the case of imports of fake goods into the EU, are not usable when these violations occur in third countries and the resulting goods are either consumed domestically or exported to other third countries. Although such violations occur outside, they directly affect Community right holders. Hence there is the need for an enforcement strategy focusing on third countries.

The strategy in detail

The strategy now adopted by the Commission has a number of elements:²⁷¹

- Identifying priority countries: EU action will focus on the most problematic countries in terms of intellectual property rights violations. These countries will be identified according to a regular survey to be conducted by the Commission among all stakeholders.
- Awareness-raising: The Commission will promote initiatives to raise public awareness about the impact of counterfeiting (loss of foreign investment and technology transfer, risks to health, link with organized crime, etc.) and make available to the public and to the authorities of

²⁷¹ *ibid.*

third countries concerned a “guidebook on enforcement of intellectual property rights”.

- Political dialogue: The EU will make clear to trading partners that effective protection of intellectual property, at least at the level set in TRIPS, is essential. It will launch joint initiatives focusing on intellectual property rights enforcement with countries sharing or affected by similar concerns, and will provide training and implementing networking mechanisms for officials in EU delegations in third countries facing enforcement problems.
- Incentives and technical co-operation: The Commission will ensure that technical assistance provided to third countries focuses on intellectual property rights enforcement, especially in priority countries, and will exchange ideas and information with other key providers of technical co-operation, like the WIPO, the US or Japan, with the aim of avoiding duplication of efforts and sharing of best-practices.
- Intellectual property rights mechanisms in multilateral (including TRIPS), bi-regional and bilateral agreements: The Commission will raise enforcement concerns in the framework of these agreements more systematically, and will consult trading partners with the aim of launching an initiative in the WTO TRIPS Council, sounding the alert on the growing dimension of the problem, identifying the causes and proposing solutions, and strengthening intellectual property rights enforcement clauses in bilateral agreements.
- Dispute settlement/sanctions: Right holders may have to make use of the trade barriers regulation²⁷² or of bilateral agreements, in cases of evidence of violations of TRIPS. The EU itself, in addition to the WTO dispute settlement, may use dispute settlement mechanisms included in bilateral agreements in case of non-compliance with the required standards of IPR protection.
- Creation of public-private partnerships: The Commission will support and participate in local intellectual property rights networks established

²⁷² Regulation 3286/94, OJ 1994 L349/71

in relevant third countries, will use mechanisms already put in place by Commission services²⁷³ to exchange information with right holders and associations, and will build on existing cooperation with companies and associations that are active in the fight against piracy and counterfeiting.

- Institutional cooperation: The Commission will improve the exchange of information and the coordination between the services in charge of the different aspects of intellectual property rights enforcement.

²⁷³ Such as the IPR Help Desk and Innovation Relay Centers

5. COUNTERFEITING AND PIRACY

Counterfeiting and piracy as two fundamental types of infringing acts present various problems for the right holders, consumers and the states in general. This chapter provides an extensive analysis of these phenomena by examining the causes, and the effects of counterfeiting and piracy. Main objective of this chapter is to find some effective solutions to these problems with regard to the roles fulfilled by the governments, international organizations and the private sector.

5.1. Overview

It is noteworthy that intellectual property laws and the trade of intellectual property rights has become a significant element of the socio-economic life of highly developed states. In parallel, intellectual property rights have been more promising terms for the less developed or developing countries in recent times compare to the previous times as significant tools of the industrial and economic progress.

Once upon a time, some less developed or developing countries were underestimating the crucial importance of the protection granted to the right holders for their well known trade marks, highly profitable inventions or industrial designs. Even they had regarded the production of the fake products, infringing the legal rights of the trademark holders or unlicensed production of the inventions patented without the approval of the patent holder as motivating forces for the domestic and intricate industry in the beginning stages. They thought that this would motor their development process instead of paying high prices for the intellectual property rights' holders.²⁷⁴

²⁷⁴ European Commission, Research Directorate-General, Key figures 2005 on Science, Technology and Innovation towards a European Knowledge Area, July 19, 2005, http://www.unive.it/nqcontent.cfm?a_id=16009

However the reality is totally changing in recent times. There are many incidents reported by the WHO and other organizations, showing the devastating effects of the counterfeiting on health and safety of the consumers. The scope of the counterfeiting has been increasing each day. Counterfeiters previously have been producing fakes of some famous perfumes and watches. Today counterfeiting expanded nearly all sectors from foodstuffs, medicines to the spare parts for the aeroplanes, cosmetics etc. In addition, the correlation between the organized crime and counterfeiting is giving signs of alarm for many countries. Not more than one or two decade ago, counterfeiting was seen as an innocent activity by the consumers as a way of getting vary valuable trademarks at low prices. Recently the reality is changing and most of the people are aware of the close connections between terrorist organizations and the people dealing with these kind of illegal activities.

The seriousness of the problem requires a coordinated approach among many actors like governments; right holders; consumers; trade organizations etc. for better policy formulations for the effective enforcement of the intellectual property rights. Intellectual property enforcement measures should ideally target “illegal” goods produced by “illegitimate” operations and not those that are made by legitimate businesses.²⁷⁵

5.2. Definitions of the Counterfeiting and the Piracy

It is a well-known phenomenon that in most of the countries in the world, intellectual property theft is an attractive option for making a good profit at low risks since many times for many people.

Developing successful trademarks can be extremely expensive and owners invest large sums, for building a business reputation that consumers recognize and support. Counterfeiters produce fake goods and services; pirates illicitly copy others' property. Both counterfeiting and piracy can quickly destroy markets and goodwill, affecting jobs and the economy. In addition, counterfeiters have little regard for

²⁷⁵ Lee-Ann Tong, “Counterfeit Goods in Transit - Mind the Gap in South Africa”, *E.I.P.R.*, 28(3), 2006, p. 197-200.

consumer's safety and there is an increase in hazardous copies such as foodstuff, automotive parts and electrical goods. Dealing with counterfeiters can be a difficult task and it is important to have some understanding of the relevant legislation to help protect intellectual property rights.²⁷⁶

The terms “counterfeiting” and “piracy” in relation to goods refer to the manufacture, distribution and sale of copies of goods, which have been made without the authority of the owner of the intellectual property. These goods are intended to appear to be so similar to the original as to be passed off as genuine items. Again the aim of the legislation would seem to be to protect members of the general public from being deceived as to what it is they are purchasing and to ensure they are not misled into buying inferior goods believing them to be genuine. This includes use of famous trademarks on pharmaceutical products, clothing, perfumes, and household products, not manufactured by or on behalf of the owner of the trade mark, as well as exact copies of CDs containing music or software, which are traded in a form intended to be indistinguishable to ordinary consumers from the genuine product.²⁷⁷

In a criminal law context, intellectual property counterfeiting and piracy is defined as contraband activities, which center on the illegal production and sale of goods which are intended to pass for the real product. In this context “contraband” is goods whose importation, exportation or possession is forbidden. Dealings in contraband invariably involve smuggling, where the manufacturers and distributors of these products also seek to evade taxes on the production and wholesaling of these products.²⁷⁸

Counterfeiting is ultimately an infringement of the legal rights of an owner of intellectual property. The Agreement on Trade-related Aspects on Intellectual

²⁷⁶ UK Patent Office, “The Brief Guide For Intellectual Property and Anti-Counterfeiting”, <http://www.a-cg.com/docs/counter-book.pdf>

²⁷⁷ Tong, *loc. cit.*.

²⁷⁸ *ibid.*, p.198.

Property Rights (the TRIPS Agreement)²⁷⁹ defines counterfeiting and piracy as follows:

- *Counterfeit trade mark goods* shall mean any goods, including the packaging, bearing without authorization a trade mark which is identical to the trade mark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trade mark, and thereby infringes the rights of the holder of the trade mark in question under the law the country of importation.
- *Pirated copyright goods* shall mean any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation.

Thus, the word “counterfeit” is generally used in the case of trade marked goods and “piracy” for copyrighted goods.²⁸⁰ Some authorities, such as the Organization for Economic Cooperation and Development (OECD), argue that the term “counterfeiting” now,

*...encompasses any manufacturing of a product which so closely imitates the appearance of the product of another to mislead a consumer that it is the product of another or deliberately offer a fake substitute to seek potential purchase from non-deceptive consumers. Hence, it may include trademark infringing goods, as well as copyright infringements. The concept also includes the copying of packaging, labeling and any other significant features of the product.*²⁸¹

²⁷⁹ Article 51.

²⁸⁰ Bernardita Escobar, “Counterfeiting and Piracy”. Paper presented by Advisor to Minister of the Economy and Energy, Chile, at WIPO/OECD Meeting on IPR Enforcement Statistics, October 17, 2005.

²⁸¹ OECD, *The Economic Impact of Counterfeiting*, Paris, 1998, <http://www.oecd.org/dataoecd/11/11/2090589.pdf>

The illegality of piracy derives from the fact that the producer of a sound recording is generally recognized as having the exclusive right to reproduce, distribute and import that sound recording under the laws of copyright or related rights. Pirates, by producing unauthorized copies for commercial gain, breach these exclusive rights.²⁸²

In general, “piracy” is understood as the copying without the necessary right holder’s consent of all forms of intellectual property works, e.g. films, music, and software. In these cases, the infringer does not attempt to pass off the pirated product as though it has been produced or distributed by the original rights owner. On the other hand, “counterfeiting” is the illegal production of intellectual property works through the manufacturing of fake products that for all intents are identical or very similar to the authentic product, using for these purposes the same trademark, logo, label, packaging, and identical or similar manufacturer’s or distributor’s name and address. In general, counterfeit products are intended to look as much like the original as possible. However, there are some counterfeit products that are simply close, but not exact copies of the originals, as well as others that are cheap and unconvincing imitations.²⁸³

Counterfeiting in short can be defined as the manufacture of and trafficking in false goods. One of the main determinants of the counterfeiting to be dealt with under the criminal law proceedings, which restrain falsification and fraud, is the involvement of the will in this kind of infringements contrary to the other kinds of intellectual property infringements whose legality depends wholly on the civil law. The really essential point is that to describe counterfeiting as criminal simply reflects the hard realities of what counterfeiting is all about. It reflects industry's hard-won practical experience of how to fight crime, how to detect clandestine acts, conduct investigations, and work with (and, indeed, work like) police, customs, and other official law enforcement agencies.²⁸⁴

²⁸² Sarah Whalley Coombes, “Piracy Report Reveals Startling Figures”, *Ent. L.R.* 2004, 15(1), p. 28-30.

²⁸³ Blanca Cortes Fernandez, “Counterfeiting In Spain”, *I.C.C.L.R.* 2005, 16(7), p. 306-310.

²⁸⁴ David Carlisle, “Counterfeiting”, *E.I.P.R.*, 1987, 9(8), p. 219-220.

The counterfeit chain, just as in legitimate commerce, consists of manufacturers, sub-contractors, wholesalers, importers and retailers, and they are all experts at avoiding discovery. They may even on occasions receive help from banking institutions to finance their operations or to cover up the traces of their criminal activities.

The detection of counterfeiting is, in fact, a very complex business. Piatti states that, the pirate very often deals only in cash, keeps no accounting records of his transactions, conceals his stocks, makes use of people acting in good faith for the final distribution of some goods, obtains his raw materials from one country, has the goods assembled in another, sells them without labels and sends the latter by post, leaving it to the buyers to complete the finishing of the product. It is quite clear that, in these circumstances, a civil action is doomed to failure. Only the criminal law enforcement authorities have any chance of succeeding. In any event, whatever the form of the action, it must take account of the practical and tactical considerations, rather than simply being based on knowledge of the law.²⁸⁵

5.3. Causes of Counterfeiting and Piracy

The principal cause of counterfeiting and piracy is the incentive to the deceitful traders with the intention of free riding on the creative efforts and investments of the other traders who are legally granted protection for the exclusive use of their rights under the intellectual property regimes. There are many illegal means of making considerable profits for those traders by passing off their products i.e. imitations of the well-known branded products, at a lower cost than those incurred by the producer of the genuine product.

This explains only one side of the coin. On the other side, consumers demand those fake products since they pay considerably much lower prices for those imitations than what they would pay for the genuine products. As a basic principle of microeconomics, without consumer demand, supply will not increase. In addition, consumers do not perceive counterfeiting and piracy as harmful activities as compare

²⁸⁵ Marie-Christine Piatti, "Measures To Combat International Piracy", *E.I.P.R.*, 1989, 11(7), p. 239-246.

to the other types of crimes. The theft of intellectual property is not yet, equated in the public mind with other offences against property, crimes, such as fraud, theft or trespass. This is exacerbated by (i) a failure of the public authorities and commercial organizations to communicate to the consuming public of the dangers from the use of unauthorized products and of the deleterious social welfare effects from this trade; and (ii) the imposition of inadequately deterrent penalties by the judicial authorities.²⁸⁶

In recent years the volume of counterfeiting and piracy expanded very widely both geographically and quantitatively. There are many reasons for such a wide extension of those illegal activities. Technological developments in the reprography eased the multiplication of the copyrighted material. Digital developments decreased the costs for the illegal traders for making the fake copies of the original products. In Stromdale words, countries in mainland Europe and across the pond have been tinkering for some time with tax schemes designed to compensate the music copyright industry in the face of an increase in the potential for illegal copying presented by the likes of mp3 players, portable hard drives and other similar electronic devices.²⁸⁷

Regarding counterfeiting, consumer demand stimulated the mass production of the fake products. Globalization and the increased means of communication minimized the importance of the national frontiers for the consumers and people are much more exposed to the colorful world of the well-known brands. Since not all consumers can afford to buy such high priced products, they turned their face to the imitation of these genuine products, which can easily be found in many street shops and markets.

Manufacturing sectors, which produce counterfeit and pirated products, have much lower production costs. They usually employ extremely low labor located in the developing or less developed countries. The quality of the material input is low and there is on after sales services for the consumers. There is no quality control of the

²⁸⁶ Blakeney, Guidebook..., *op. cit.*, p.6-10.

²⁸⁷ Catherine Stromdale, "Public And Private Sectors Focus On Drm And Copy Protection", *Ent. L.R.* 2006, 17(3), p. 101-103.

output; therefore final product might not run in a regular way. Clandestine nature of the manufacturing process creates many disadvantages for the people working in these dirty shops. There is no application of the basic rights arising from the labor law.

The growth of international trade; differences in the production methods of the multinational companies in comparison to the local traders; wide variety of transportation means all created a convenient platform for the illegal traders for widening their illegal activities. They produced fake products in nearly all sectors. Moreover, the collapse of the political systems in the Soviet Union and in the central and eastern European countries, pave the way for the organized crime groups to flourish and they gained a lot of money by these illegal activities to back their criminal and terrorist activities.

The WCO observes that the evolution of many contraband markets is typically a progression through one or more of the following stages:

- Grey market, or parallel trading.
- Smuggling.
- Counterfeiting and piracy.

Thus, some markets, like those for contraband cigarettes, alcohol and pharmaceuticals, evolve through all three stages. Others – like the contraband markets for branded apparel and software – may move directly from grey market trading to counterfeiting. In Western Europe and North America, the easiest way to meet consumer demand for a cheaper product is through so-called grey market, or parallel trading. Grey market goods are sold outside established distribution agreements, and their purveyors take advantage of the fact that companies charge different prices for their products in different markets.²⁸⁸

In smuggling, organized crime groups establish elaborate means of concealing their diversion of products from the legal to the illegal market. This is to avoid law

²⁸⁸ Blakeney, Guidebook..., *loc.cit.*

enforcement initiatives and those by private industries seeking to maintain the integrity of their supply chains. The smuggling techniques are complex and transnational in scope and may involve complex transactions with the involvement of legitimate as well as illicit enterprises. The objective is to make smuggling routes and the structure of transactions as complicated as possible, with the largest possible great range of owners in a very short space of time, in order to make police and customs investigations as difficult as they can. The primary objective is to make the final owner untraceable and to make the links between the successive owners as ambiguous as possible.²⁸⁹

5.4. Scale of Counterfeiting and Piracy

The Union des Fabricants in 2003 argue that counterfeiting has become an organized crime, and the returns from counterfeiting are often used to fund other organized criminal activities. Their report argues that,

*From being a small-scale activity conducted in illegal workshops in the 1990s, counterfeiting has become an industry using costly, modern facilities. Counterfeiters no longer work in isolation on an ad hoc basis; they have become international entrepreneurs, with connections to highly organized networks. Counterfeiting has never been so highly structured.*²⁹⁰

It is obvious from the following statistics that the trade in counterfeit and pirate products is increasing and accounts higher percentages of the world trade in value terms. In addition the variety of the sectors affected by those illicit activities is widening through years.

The 1998 EC Green Paper on counterfeiting and piracy, refers to the report of the Counterfeiting Intelligence Bureau set up by the ICC that counterfeiting accounts for between 5% and 7% of world trade in value terms.²⁹¹ The immediate impact of this global trade is the loss of sales and the consequent impact upon employment. The US

²⁸⁹ Blakeney, Guidebook..., *loc. cit.*

²⁹⁰ OECD, Union des Fabricants, Counterfeiting and Organized Crime, Paris, 2003, <http://www.interpol.int/Public/FinancialCrime/IntellectualProperty/Publications/UDFCounterfeiting.pdf>

²⁹¹ ICC, *loc. cit.*

copyright industry puts its losses due to piracy at between USD 12 billion and USD 15 billion a year. According to the IFPI sales of illegal CDs account for 14% of the relevant market at world level.

In May 2003, the UK music industry reported that sales of pirate CDs have outstripped the sales of genuine products. In the light of the responses which the Commission received to its Green Paper on the fight against counterfeiting and piracy in the Internal Market, it transpires that, within the European Union, counterfeit and pirated goods account for 5 to 10% of vehicle spare parts sales, 10% of sales of CDs and MCs, 16% of film (video and DVD) sales and 22% of those of shoes and clothing.²⁹²

The Commission in its proposal for a counterfeiting Directive²⁹³ refers to a survey carried out in France in 1998 by KPMG, Sofres and the Union des Fabricants which reported that the average loss to the businesses which replied to the survey, was put at 6.4% of turnover. It also refers to a 2000 study by the Center for Economics and Business Research (CEBR) on behalf of the Global Anti-Counterfeiting Group (GACG), which quantified the average annual reduction in profits was: EUR 1266 million in the clothing and footwear sector; EUR 555 million in the perfumes and cosmetics sector; EUR 627 million in the toys and sports articles sector; EUR 292 million in the pharmaceuticals sector. Finally it reported a study carried out by the International Planning and Research Corporation (IPR), on behalf of the Business Software Alliance (BSA) which quantified the losses in western Europe (EU + Norway + Switzerland) from software piracy in 2000 to be more than USD 3 billion.

The 2003 statistics show that:²⁹⁴

- There was an overall 9% increase in 2003 in the number of counterfeit and pirated goods seized by Customs at the external borders of the EU – 100 million compared to 85 million in 2002.

²⁹² http://europa.eu.int/eur-lex/en/com/pdf/2003/com2003_0046en01.pdf, p. 9, Part Two, Section A.

²⁹³ COM (2003) 46 Final.

²⁹⁴ http://europa.eu.int/comm/taxation_customs/customs/customs_controls/counterfeit_piracy/index_en.htm

- The number of cases involved in these seizures increased by almost 41%.
- Counterfeit goods represent a growing threat to consumer health and safety. In this regard, the greatest increases in seizures compared to 2002 occurred with regard to counterfeit games and toys, with 12 million seizures constituting a 996% increase over 2002. Furthermore, there was a 77% increase in the number of seizures of counterfeit foodstuffs, alcohol and other drinks. Foodstuffs seized included sweets, waffles, chewing gum and even apples. Counterfeit Viagra has also frequently been found in commercial freights and in mail.
- Cosmetics and perfumes continued to be popular choices for counterfeiters, with an increase in seizures of 800% compared to 2002, as did CDs, DVDs and cassettes, with 33 million of such seizures (a third of the 2003 total) representing an increase of 172% over 2002.
- The counterfeit of luxury products continued the recent trend of becoming more marginal, as traffickers increasingly turn their attention to mass-produced items. Clothing, for example, represented only 4% of goods seized - a drop of 58% on 2002 - and watches and jewellery constituted less than 1%.
- 70% of the amount of counterfeit and pirated goods seized by customs authorities in 2003 originated in Asia

The customs authorities of the new Member States have been very active in this area since their accession on 1 May 2004. By way of example, Hungary seized approximately 300,000 faces and body lotions in the first quarter, Malta seized 10,000 car parts, Lithuania intercepted 400,000 batteries, and Estonian customs intercepted 11 shipping vessels fully of counterfeit clothes.

5.5. Effects of Counterfeiting and Piracy

5.5.1. Economic Impacts of Counterfeiting and Piracy

Counterfeiting is a growing problem across the world. Counterfeiters no longer target luxury goods with developed brands but have also moved into other wider sectors. Counterfeiting has a serious impact on the revenues, profits and investment levels of the industries such as clothing and footwear, the pharmaceutical industry, toys and sports equipment, the perfume and toiletries industries. It reduces company revenues, stifles investment and innovation, and retards economic growth. Its final effects on the general economy are observed directly through job losses and reduced GDP.²⁹⁵

The main costs of counterfeiting can be categorized in two parts. One category sets out the clear costs and the other one indicates the mixed costs according to the groups upon which those costs are incurred.²⁹⁶ There are clear costs to:

- the companies whose products are counterfeited; and
- those to the economy of the country where the genuine products would otherwise have been developed and manufactured.

There are other areas where the impact of counterfeiting is more mixed:

- the impact to the economies of the countries where the counterfeit products are manufactured; and
- the costs to consumers of counterfeit products.

²⁹⁵ Hema Vithlani, “The Economic Impact of Counterfeiting”, Report, ICC Counterfeiting Intelligence Bureau, for the OECD's Directorate for Science, Technology and Industry, <http://www.oecd.org/dataoecd/11/11/2090589.pdf>

²⁹⁶ Center for Economics and Business Research (CEBR) for the Global Anti-Counterfeiting Group (GACG), “The Impact of Counterfeiting on Four Key Sectors in the European Union (EU) and on the EU Economies”, June 2000, http://www.gacg.org/pdf/cebr_summary.pdf

The companies whose products are counterfeited are put into very disadvantaged position due to the obvious costs in terms of reduced sales and profits since they are forced to compete directly against counterfeiters for market share. There are also some hidden costs for those companies. Consumers of those legally functioning companies have been deceived into buying inferior goods by the counterfeiters causing the loss of goodwill established through years by the companies and leading in the course of time loss of consumers. In addition, those companies incur significant costs for conducting investigations and litigation to protect their intellectual property rights against those infringing activities.

In short, the costs to those businesses whose products are pirated and counterfeited can be summarized as below:

- loss of sales;
- competitive disadvantage to those enterprises which free-ride on the research and development and marketing expenses of legitimate enterprises;
- the possibility of product liability from defective imitation products;
- loss of goodwill and prestige by a trademark, where counterfeits are freely available; and
- the expense of monitoring the market and instituting legal proceedings against infringers.

These costs will be incurred in both developed and developing countries. The losses sustained by industry will be reflected in losses to the public revenue, as well as in unemployment in the affected industries. The prevalence of infringing activities in a country will also discourage investment from those industries in which proprietary rights are important. Thus for example, the pirating of music CDs and computer software will discourage investment in the music and information technology sectors.

As counterfeiting and piracy are illicit activities, they will be engaged in by criminals, who will use their gains from these activities to subsidize further criminal activities. As these activities are not engaged in by ethical businesses, they will not

observe basic employment standards, will avoid contributing to public revenues through the payment of taxes and excise and they will have no concern that the products which they produce are of an acceptable consumer standard.

EU is an attractive integrated region with the free movement of goods, services and capital for the counterfeiters to import those inferior goods and to exploit the removal of national boundaries within this region. This situation causes a serious competition challenge for those manufacturing genuine articles in the EU. This is inevitably causing a loss in output and jobs in the EU. Exports are also effected by those counterfeit manufacturing. EU companies have to compete with those counterfeiters both at home and abroad. The statistics of seizures for 2004 show that the amount of counterfeit and pirated articles seized at the EU's external borders is continuing to increase. These threaten the health and safety of EU citizens, their jobs, Community competitiveness, trade, and investment in research and innovation.

One of the reasons for this explosion in trade in fakes is that criminals can now produce them on an industrial scale. This provides not only increased profits but also a new mechanism for efficient money laundering. Terrorist groups also commonly become involved in counterfeiting and piracy as a means of financing their activities. In fact, all international criminal organizations are now involved in counterfeiting.

In sum, counterfeiting and piracy are growing and increasingly dangerous phenomena. Having many adverse effects on revenues, employment, investment etc., they are serious threats to the economies in general. These effects are discussed below in detail.

(a) Effects of Counterfeiting and Piracy on Revenue

Countries, where counterfeiting products are manufactured, incur high losses in tax revenues. In order to escape from the tax authorities, the producers of infringing products will hide the size their production output. Counterfeiting leads to reduced tax revenues as corporate tax. Indirect and income tax revenues are also reduced. Since very few manufacturers of counterfeit goods will pay any company/income

taxes, this will result in lower tax receipts and hence either a direct loss in spending or indirect loss through higher taxes for legitimate businesses. The negative multiplier effect on this lower government spending will result in substantial losses.²⁹⁷

The paper accompanying the Commission proposal for a Directive on the enforcement of intellectual property rights, estimated that in the phonographic sector VAT losses incurred by EU governments as a result of counterfeiting and piracy are said to amount to EUR 100 million.²⁹⁸ It refers to the study conducted in June 2000 by the CEBR on behalf of the GACG which estimated the average loss of tax revenue in the EU to be EUR 7 581 million in the clothing and footwear sector; EUR 3 017 million in the perfumes and cosmetics sector; EUR 3 731 million in the toys and sports articles sector; EUR 1 554 million in the pharmaceuticals sector. The survey carried out in the United Kingdom in 1999 by the CEBR on behalf of the ACG estimated that counterfeiting led to a reduction in GNP of GBP 143 million per year and to a GBP 77 million increase in government borrowing.²⁹⁹

In addition, governments in countries where counterfeits are sold have to spend increasing amounts of their budgets funding enforcement procedures. They have to allocate more money to the authorities and institutions, which play crucial role on the enforcement side to fight with counterfeiting and piracy such as police, law courts, customs authorities etc.

(b) Effects of Counterfeiting and Piracy on Employment

The effects of counterfeiting and piracy on employment are more pervasive than it might first appear. There are three main effects on employment. The primary effect is the reduction in employment as a direct result of a fall in sales and profits. Revenue effects suffered by businesses due to counterfeiting and piracy is reflected to the

²⁹⁷ *ibid.*

²⁹⁸ http://europa.eu.int/eur-lex/en/com/pdf/2003/com2003_0046en01.pdf, page 10, Part Two, Section D.

²⁹⁹ Blakeney, Guidebook..., *op. cit.*, p.9.

employment figures. Initially it may seem for some that counterfeit manufacturing industry employs many people in the local industry and fulfills an important function in terms of employment. However the reality is not overlapping with this idea. Not only big sized companies, but also local industries are adversely affected by the counterfeiting and piracy. For example, the development of computer, electronics and film industries in India are vulnerable to the piratical activities of local imitators, which then have an adverse impact upon investment in those industries. Similarly, local music and art industries are vulnerable to the pirating and counterfeiting activities of copyists.

A secondary effect occurs for the firms who supply or service sectors, which are adversely affected by the counterfeiting and piracy. Those firms also reduce employment since demand for their services declines. And the third effect occurs when induced-demand falls as a consequence of the reduction in expenditure by the employees directly employed in the sector.³⁰⁰

Counterfeiting and piracy are not only affecting the quantity of the people employed in many sectors negatively; they affect the quality of the working conditions for the employed people. Since there is no obedience to the labor legislation by those illegally functioning firms, people employed in those firms are working in very dirty and unhealthy manufacturing places under many risks in terms of health and safety.

(c) Effects of Counterfeiting and Piracy on Investment

EU Commission Action Plan to strengthen fight against piracy and counterfeiting beyond its borders - as it is analyzed in Chapter 4 - points out some countries who gain a reputation for higher than average counterfeit and piracy levels.³⁰¹ These

³⁰⁰ CEBR, *loc. cit.*

³⁰¹ In July 2003, the Commission issued the results of a survey on enforcement issues in the area of IPR, aimed at assessing in a detailed manner the situation in third countries. The countries considered then as most problematic according to the results of the survey were China, Thailand, Ukraine, Russia, Indonesia, Brazil, Turkey and South Korea. Respondents considered these as the main countries where production of pirated and counterfeit goods, both for domestic consumption and for export, reached worrying dimensions. (For more information see:

countries most of which are mainly developing countries are in a very disadvantaged position due to the high costs that must be incurred because of the loss of access to foreign investment. Foreign manufacturers may become reluctant to produce in those countries and they may lose on foreign direct investment.

Companies who are investing a lot of money for the creation of new products, production methods and new technologies have to spend much more money for the protection of intellectual property rights. Only by means of intellectual property rights, those firms can commercialize their inventions, their industrial designs or other intellectual property rights and they can divert their costs into profits. If those companies realize that in some countries their intellectual property rights are not respected and third parties without any permission of the right holder can easily free ride on those rights, their willingness to invest and continue their manufacturing process in those countries will diminish in short period of time. This discouragement of investment has the obvious short-term effect of reducing taxes and revenues and the longer-term effect of stifling economic development.

In some key economic sectors such as those in biotechnology, information technology and pharmaceuticals, the role played by the intellectual property rights is crucial for the development of those sectors in a country. A bad image of a country in the eyes of intellectual property holders in terms of high levels of violations of those rights, and unsuccessful enforcement measures will definitely undermine the level of investment transferred to those countries and directly effect the development of those vital sectors for a developing economy. As an important component of the development process for the less developed and developing countries, technology transfer agreements will also be difficult to conclude since the basic requirement for those agreement is the effective protection of the intellectual property rights and the effective prevention of illicit activities like counterfeiting and piracy.

[http:// europa.eu.int/comm/trade/issues/sectoral/intell_property/index_en.htm](http://europa.eu.int/comm/trade/issues/sectoral/intell_property/index_en.htm) and
http://europa.eu.int/comm/taxation_customs/customs/counterfeit_piracy/index_en.htm.)

(d) Effects of Counterfeiting and Piracy on Trade Diversion

All countries, whether developed, developing or least developed are vulnerable to trade diversion from piracy and counterfeiting. For example, the development of extensive computer software and movie industries in India has spawned equally extensive developments in copyright piracy, affecting those industries. The global market for folkloric works, whether music, art, sculptures, textile products and other artifacts has spawned a global industry for the counterfeiting of these products. With the development of niche markets for agricultural products, an illicit market has developed in which geographical indications are counterfeited.³⁰²

5.5.2. Counterfeiting -Piracy and Their Connections with the Criminal Networks

A report compiled by the Union des Fabricants in 2003 states: “Counterfeiting is a very attractive activity for criminal networks because it generates maximum profits with a minimum risk of imprisonment. It has become a form of organized crime with its own experts specializing in production in the industrial sectors concerned, its own financiers, logistics experts, importers, wholesalers and distributors, right up to the end consumer. It clearly has links with other forms of criminal activity and its networks cooperate or overlap with known criminal organizations.”³⁰³

Today there is no doubt about the organic connections between criminal organizations and the worldwide trafficking of counterfeit and pirate products. Criminal organizations in order to hide those products from legal authorities invest a large sum of money on increasing the quality and quantity of the production. In addition, they do not charge abnormally low prices for the fakes for not drawing the attention of the authorities and the right holders. International traffickers generally

³⁰² Blakeney, Guidebook..., *op. cit.*, p. 10, 11.

³⁰³ Joff Wild, “Making A Difference At The Business End”, Report, Middle Ground, <http://www.anti-counterfeitcongress.org/wco2004/documents/difference1.pdf>

use free zones to transship those fake goods. These free zones make import and export of counterfeit and pirate goods easier.

Recently this illicit activity became a huge industry for the criminal organizations in order to make money as much profitable as narcotics, theft and arms trafficking. Most important difference with this kind of illegal activities is the low risks and substantial amount of revenues in the case of counterfeiting and piracy for those involved in organized crime. To make a comparison, a kilo of cannabis leaf will fetch 2000 euro in Europe, whilst a kilo of pirate or counterfeit CDs will fetch 3000 euro.³⁰⁴

These criminal organizations are now bettered structured and more professional. They use different techniques to move infringing goods from the country of production to the country of destination. They avoid direct paths between these two points. They conceal the product's origin by passing it through several other countries and by this way, they do not take attention of the customs authorities on the country of origin. The ways founded by those organizations are becoming more complex day by day. They usually mix genuine products and fakes in the same consignment or they use double bases in containers or in bags to conceal counterfeit or pirate goods.³⁰⁵

A survey³⁰⁶ carried out by the Alliance Against Contraband (AAC) on the implications and influences of organized crime in counterfeiting and piracy identified following industries, as the penetration of organized crime is the most:

- Branded goods, including clothing, footwear, perfume, and household consumer products;
- Cigarettes;

³⁰⁴ Blakeney, Guidebook..., *op. cit.*, p. 10.

³⁰⁵ http://europa.eu.int/comm/taxation_customs/customs/customs_controls/counterfeit_piracy/combating/index_en.htm

³⁰⁶ The results of the survey can be seen on the web site of the World Customs Organization, www.wco.org

- Alcoholic beverages;
- Pharmaceuticals,
- Software; and
- Recorded music

According to the Commercial Piracy Report³⁰⁷, piracy is not a victimless crime. The proceeds from piracy fund criminal enterprises, which are encouraged by inadequate laws and enforcement capabilities. Most pirates are sophisticated and organized. Not only does it make them harder to track, but it also means that they are able to produce and sell pirate copies before legitimate copies are even released onto the market. Damage to legitimate sales is an inevitable result.³⁰⁸

There have been a number of calls for stricter criminal sanctions internationally. The Secretary General of Interpol has asserted that: “Interpol recognizes the extensive involvement of organized crime and terrorist groups in intellectual property crimes. There is a real need for facilitation and coordination of international police efforts in combating this criminality that operates across international borders and has very serious consequences for the public.”³⁰⁹

³⁰⁷ The International Federation of the Phonographic Industry (IFPI) published its Commercial Piracy Report 2003 on July 10, 2003. The report, which deals solely with music, makes it clear that piracy levels worldwide are at an all time high. This has implications not only for the music industry, but also for the wider creative sector (including media, entertainment and software), which finds itself at the mercy of pirates on a daily basis. The report sets out five key facts about music piracy that are worth reiterating here, and have wider application to the creative sector: 1. “Pirates add no value to creative industries”. Legitimate industries do all the marketing and take all the risk with new talent yet the pirates make almost 100 per cent profit and return nothing to society. 2. “Piracy is not a victimless crime”. It is naive to think that piracy is a victimless crime -the proceeds from piracy fund criminal enterprises, which are encouraged by inadequate laws and enforcement capabilities. In addition, victims include employees of the music industry (who are at risk of losing their jobs) and governments who lose millions in tax revenue every year. 3. “Most pirates are sophisticated and organized”. Not only does it make them harder to track, but it also means that they are able to produce and sell pirate copies before legitimate copies are even released onto the market. Damage to legitimate sales is an inevitable result. 4. “Piracy sucks the lifeblood out of local culture”. The legitimate industry invests in local artists but, in high piracy markets, local artists cannot get recording contracts and have to move away. 5. “Pirates are increasingly able to move operations between borders”. Cross border enforcement measures are the only way to combat piracy and intergovernmental cooperation is key.

³⁰⁸ Coombes, *loc. cit.*

³⁰⁹ Interpol Press Release 28 July 2002, www.Interpol.Int/Public/Icpo/Pressreleases/Pr2002/Pr200216.Asp.

Counterfeiting and piracy has an adverse effect upon public security because profits made from those acts are used by the organized criminal organizations to recycling and laundering the proceeds of other unlawful activities such as arms and drug dealings. There are some factors, which facilitated these illicit operations and reduced the risks for the criminals like the start of e-commerce. Besides improvements in transportation, particularly with the development of containerization has made it far cheaper and easier to ship goods around the world.

Counterfeiting and piracy carried out on a commercial scale are even said to have become more attractive nowadays than drug trafficking, since high potential profits can be obtained without the risk of major legal penalties. Counterfeiting and piracy thus appear to be a factor in promoting crime, including terrorism. Speaking at the Licensing Executive Society International conference in Paris, held in March 2004, Steven Metalitz, the senior vice-president of the International Intellectual Property Alliance, stated that “if you were a criminal in Europe with a few thousand dollars to invest, you could buy a kilogram of cocaine, make a 100% profit and run the risk of going to prison for many years if you are caught; or you could produce 1.500 counterfeit copies of Microsoft Office, make a 900% profit and, in the unlikely event of being caught, probably end up paying a fine and may be having your equipment confiscated.” This sentence clearly shows that the counterfeiting and piracy are the preferred options of organized crime and even terrorist groups.

The trade in counterfeit and pirate products creates a vicious circle for the participants of this illicit operation. For example retailers sometimes have to either participate or go out of business. Once they decide to join, they are forced to do other kinds of business with the organized crime. Legitimate enterprises are obliged to enter into black market when the prices in the market are dropped off abnormally to protect their existence and at the end they become a part of these illicit activities. Hence counterfeiting and piracy in the long run stimulates public and private corruption and undermines public morality. To the extent that consumers participate in a contraband market, this also undermines respect among ordinary citizens for the law. Thus, a key societal consequence of participating in a contraband market is that it serves to sanction tax evasion and other forms of law breaking.

5.5.3. Effects of Counterfeiting and Piracy on Consumers

Due to the low production standards in the case of counterfeiting and piracy, the end result does not give enough satisfaction to the consumers about the quality and essential properties of the infringing product. Counterfeiters generally charge higher prices for these copies than what the consumers would be willing to pay for the copies. Consumers are deceived about the quality of the counterfeit product. The most grave consequence for the consumers are the risks to the health and safety of these inferior products produced without due regard to the quality controls imposed by public standards authorities and by the brand proprietor. Consumers cannot demand any after sales service or any insurance in the case of damage or injury.

In addition to its economic impact, counterfeiting and piracy has damaging consequences on the health and safety of the consumers. They are serious challenges for the public health. There are other, sometimes much more serious consequences, generally associated with deceptive rather than non-deceptive counterfeits.³¹⁰ These include major ethical and welfare consequences arising from health and safety problems associated with deceptive counterfeits, such as pharmaceuticals and replacement parts.³¹¹

Counterfeit pharmaceuticals are extremely dangerous for a number of reasons.³¹² First, patients and even medical professionals find it difficult to recognize counterfeit medicines without laboratory testing and, where a manufacturer knows, they may be reluctant to highlight the problem, as it may scare consumers away from the branded good. Second, counterfeit medicines may cause serious illness; side effects not

³¹⁰ Derek. L., Bosworth, “Counterfeiting in Global Pharmaceuticals Sector: it’s Consequences and Management”, *International Journal of IP Management*, January 2006.

³¹¹ Singapore Indian Chamber of Commerce and Industry (SICCI), “Supply and Demand Survey on Automotive Components”, Singapore, November 2002.

³¹² European Federation of Pharmaceutical Industries and Associations, “Combating Counterfeit Medicines and Protecting Patients through a Partnership Approach: FAQs”. Discussion Paper. Version No. 6. February 2005.

present in the branded medicine; people to fail to recover from curable diseases and/or die because the counterfeit medicine contained no active, a wrong or a toxic ingredient. Third, if individuals fail to respond or die from taking the counterfeit, the medical fraternity may wrongly conclude that the branded medicine did not work and not prescribe it again. Finally, if the problem is sufficiently widespread or intense it might lead to restrictions or withdrawal of an effective pharmaceutical product from the market, with considerable economic and welfare effects.³¹³

There are many incidents reported by some international organizations showing in figures how damaging to consume those counterfeit products for the public. The ICC has reported that:³¹⁴

- Dozens of people died in Cambodia through taking ineffective, counterfeit malaria medicines.
- Law enforcement in Zambia seized counterfeit shampoo containing acid.
- Body-builders and others buying steroids on the black market in Australia were sold repackaged livestock steroids as human steroids.
- Diseased pig meat was used in counterfeit cans of pork luncheon meat in China.
- In India, counterfeit drugs were used to fight antibodies in Rh-D negative mothers.

The EC Green Paper “Combating Counterfeiting and Piracy in the Single Market” identified the following examples of counterfeiting of medicines:³¹⁵

- In 1998 at least 60 counterfeit drugs including several popular painkillers and antibiotics, were reported by the Brazilian Health Ministry as being distributed by Brazil's pharmacies and hospitals;

³¹³ Derek Bosworth, “Counterfeiting And Piracy: The State Of The Art, Intellectual Property In The New Millenium”, Seminar, St. Peter’s College Oxford Intellectual Property Research Center, 9th May, 2006.

³¹⁴ Blakeney, Guidebook..., *op. cit.*, p.13.

³¹⁵ *ibid.*

- In Uganda the National Drug Authority discovered expired anti-bacterial drugs labeled as a quinine mixture;
- Asian Pacific markets suffer from trade in vials of injectable antibiotic, retrieved from hospital waste and refilled - with low-cost streptomycin, non-sterile starch powder, talc, or other ingredients, which can have serious, even fatal, consequences when injected.
- Deaths in India, Pakistan, Bangladesh and Philippines have been directly linked to talc-filled vials with clear signs of illicit recycling, plugs, plastic and aluminum blisters reassembled, and labels replaced to provide new, later, expiry dates.

All figures quoted from the Blakeney article³¹⁶ on enforcement clearly illustrate the harmful effects of the counterfeit, pirated and other fake goods on the consumers. This is to say that use of those products are not only decreasing the consumer welfare but also causing very fatal consequences on the public health. This situation establishes definitely the urgency of the problem for the government, related industries and other public and private enforcement agencies to deal with the counterfeiting and piracy problem having global negative impacts.

5.5.4. Cultural Effects

It should not be forgotten that a significant contributing factor to the spread of counterfeiting and piracy is its widespread acceptance among the public, who on the whole think that the original product is too expensive and that manufacturer profit margins are excessive. This argument is often used by the consumer in the case of music and film industry.

To the public, piracy is still a victimless crime. At a typical price of 5 Pounds per copy and the chance to view a film before its official release date, an illegal DVD might look like a bargain and the chance to be ahead of the game. With the only perceived associated disadvantages being poor quality sound and picture, many

³¹⁶ Blakeney, Guidebook...*passim*.

people consider the "cut-price deal" offered by the pirates to be an acceptable risk. A look behind the scenes, however, reveals that the damage caused by pirate DVDs affects a wide range of people. For film distributors and retailers, the people who sell or rent out genuine DVDs, the increased availability of pirate copies is a major threat to legitimate businesses. Yet there is clearly a lack of understanding around the legality of pirated products among the general population.³¹⁷

In parallel with the developments in the reproduction technology, audiovisual sector became the most vulnerable sector to the intellectual property infringements. Piracy is the most common threat to this sector. The development of digital media has rendered copying easy and cheap. In some countries where there are no economies of sale, this kind of pirate activities became more widespread. As the audiovisual mediums are important tools for the preservation of records of music, performance, dance, films and other cultural values, the increasing levels of piracy undermines not only the development of an economic sector but also creates a serious risk for the preservation cultural values and common heritage. On the other side, unauthorized audiovisual works ignore the cultural sensitivity, which may be required in the revelation and depiction of these subjects.

Consequently, one of the main weapons in the fight against piracy is rising of public awareness of this phenomenon, which affects everyone and involves the commission of intellectual property offences, which in turn harm society, creativity, the economy, and the reputation of the countries involved generally.³¹⁸

Public perception about counterfeiting and piracy should be changed from a positive understanding to a negative one. Public should be educated from the early childhood about the dangers and adverse effects of these illicit activities as discussed in detail in the above-mentioned parts. Mass media have to perform a crucial role in this awareness-raising project. Both public and private organizations should cooperate in order to illustrate clearly the potential dangers of counterfeiting and piracy on

³¹⁷ The Federation Against Copyright Theft, "DVD Pirates Are Meeting Their Match", *Ent. L.R.*, 2005, 16(7), p. 163-166.

³¹⁸ Fernandez, *loc. cit.*

consumer health and safety. Short, medium and long run effects of counterfeiting and piracy on consumers, economies, businesses and governments have to be revealed clearly. Public should begin to perceive it as just one visible result of a long chain of offences, such as smuggling, terrorism and sale of stolen goods, which are all offences supported by a criminals.

5.5.5. Impacts Upon Competition

In recent times, gaining superiority over competitors in the market do not depend on the physical properties of an enterprise such as capital, raw materials etc, instead human resources which lead the innovative power of the company are the most important means of sustainable growth and economic prosperity. Business should follow the developments in the technology and should try to be pioneers of the new products and production methods in the market in order to be competitive. Enterprises are spending large sums of money for the research and development of new products or services. They have to sustain enough inventive and innovatory strategies to survive in such a competitive environment.

Protection of the intellectual property rights in this regard plays a crucial role for the business in order to recoup their expenditures while developing new products and new processes. For example, in the case of pharmaceutical sector, research and development on a new medicine take years and huge expenditures are required for the marketing of the new medicine into market from the first stage till the final stages. This investment made on the new products will not be undertaken by the firms if they do not believe that in later stages they can easily recover their expenses and make profits. Appropriate and effective protection of intellectual property helps to establish the confidence of businesses, inventors and creators and is a powerful incentive for investment, and hence for economic progress.

Counterfeiting and piracy are detrimental to the proper functioning of competition. Counterfeit and pirated goods substitute those goods that are lawfully produced. Those illegal products compete in the same market with the lawfully produced ones. That situation breaks the balance in the market in favor of illicit operators due to the

low cost associated with those counterfeit and pirated goods. They do not expend any money on research and development and the marketing of the products. This free riding on other legally functioning companies puts those illicit companies on a comparative advantage in the market and they start to take increasing shares in the market. This situation distorts the conditions of competition and causes to diversions of the natural trade flows of legal goods.

The phenomena of counterfeiting and piracy thus lead to the loss of turnover and market shares by legitimate businesses. In addition, they suffer from the loss of future sales due to the loss of brand image and the goodwill associated to the legitimate business and their products by the consumers. Even the consumers know that what they purchase is the counterfeit product not the genuine product, there is still a need to safeguard the owner of the registered trade mark, for the purpose of preventing anyone who imitates or counterfeits it from taking advantage of the prestige of renown, and obtaining gain that borders on the concept of unjust enrichment.³¹⁹

The spread of counterfeit and pirated products leads to a damaging downgrading of the reputation and originality of the genuine products. Moreover, legitimate businesses have to incur extra costs in order to fight with those illicit operations such as costs of protection, investigations, expert opinions and disputes.

5.6. Combating Counterfeiting and Piracy

5.6.1. Problems in the Methods of Measurement

One of the key issues to be addressed in analyzing the enforcement measures against counterfeiting and piracy, concerns the methodologies and techniques that could be employed to measure the magnitude, scope and effects of the illicit practices.

³¹⁹ Fernando Pombo, "Spain: Trade Marks - Necessity Of Awarding Damages In Cases Of Counterfeiting Even Where Consumer May Not Be Misled", *E.I.P.R.*, 1995, 17(4), p. 104-105.

The accuracy of the information compiled by the related authorities on seizures and related activities; the systematization of the reporting; other types of enforcement information providing insights into the magnitude and scope of counterfeiting and piracy; the biases and distortions in the data; techniques used to establish the value of the seizures are all important and determining factors for drawing a correct picture about the measurement problem. Since there are some shortcomings and restraints in these techniques and methodologies, we should underline the difficulty in this analysis as a starting point.

In addition, Karsten Olsen states that the clandestine nature of counterfeiting and piracy means that statistics, if they exist, are often of poor quality, or based largely on custom seizures, which are hard to relate to actual market figures. Thus, to understand the scope of the problem it is often necessary to base estimates on various data sources and use extrapolating techniques.³²⁰

According to Bosworth, measurement is at the heart of the problem in two respects: first, to understand the scale and nature of counterfeiting; second, to understand the welfare problems that counterfeits pose.³²¹ It is clear from the earlier discussion that the research and policy communities do not know the scale and nature of the activities both because of the problems of measurement and because of the adoption of different units of measurement by different countries and different official bodies. The immediate need is for a harmonized international, preferably global data set on counterfeiting and piracy. In principle, such data should include cross-border seizures, as well as information about items returned to the port of origin; internal domestic seizures, finally, information about the resources devoted to anti-counterfeiting activities.

³²⁰ Karsten Olsen, "Counterfeiting and Piracy: Measurement Issues", Background report for the WIPO/OECD Expert Meeting on Measurement and Statistical Issues, Geneva, 17-18 October 2005.

³²¹ Bosworth, Counterfeiting and Piracy..., *loc. cit.*

5.6.2. General Policies for Combating Counterfeiting and Piracy

Intellectual property rights are recognized as powerful tools for the wealth creation and economic development of a country. However without effective enforcement, intellectual property rights are meaningless. Counterfeiting and piracy have been analyzed in the previous parts in detail. In short, counterfeiting is a large and growing threat to intellectual property, economic development, the health and safety of consumers and security in many countries.

In order to tackle with this problem, there is increasing awareness and concern about the full economic and social costs of counterfeiting among all stakeholders such as the global, regional and national government bodies, industry groups and non-governmental organizations (NGOs). Increased cooperation, communication and commitment among the global, regional and national agencies, in partnership with the private sector, are essential in dealing effectively with the counterfeit problem.

In order to address whole dimensions of the problem, two congresses were organized by the partnership of many international organizations and the private sector in Brussels and in Lyon. In the first and second Global Congresses on Combating Counterfeiting and Piracy, four key focus areas for all stakeholders in dealing with this problem have been discussed as stated below.³²²

a) Raising awareness:

- Undertaking a study on the "full costs" of counterfeiting from the economic, health and safety, crime and consumer perspectives by an independent group of experts, for example the OECD;
- Undertaking, by the global authorities, an annual "Counterfeit Threat Assessment Report" as a means of identifying trends and progress in the fight

³²² 1 Global Congress on Combating Counterfeiting and Piracy, 17/06/04; The Second Global Congress on Combating Counterfeiting and Piracy, 14 & 15/11/2005.

against counterfeiting. For example Interpol Global Intellectual Property Crime Strategic Threat Assessments;

- Developing and recommending programs to inform the public about the full costs and consequences of counterfeiting;
- Encouraging the participants in the Congress to urge governments, organizations and institutions to be aware of and, where appropriate, to implement the conclusions and recommendations of the Congress.

b) Improving cooperation and coordination:

- Establishing an ongoing public/private sector partnership at the global level consisting of the global institutions that have responsibility for dealing with counterfeits and representatives of the private sector;
- Establishing regional public/private sector initiatives on counterfeiting such as those being proposed by APEC for Asia/Pacific and the Transatlantic Business Dialogue for the EU/US;
- Conducting a private sector summit meeting of the many trademark owner groups and organizations working on the counterfeiting issue. The aim of this summit is to develop plans for better coordination and collaboration among these groups, to more clearly define roles and responsibilities and to identify efficiencies.

c) Building capacity:

- Incorporating anti-counterfeit measures in planned or existing initiatives on crime, terrorism, security, health and safety, corruption and economic growth;
- Assisting countries in upgrading their capacities against counterfeiting and to promote the wealth benefits of protecting intellectual property;
- Finalizing the World Customs Organization's "model legislation" on border measures for the protection of intellectual property rights;
- Establishing good practices for improving administrative and criminal enforcement measures, and implementing appropriate penalties. Example would be Free Trade Zones and Transshipment Countries.

d) Promoting better legislation and enforcement:

- Fully implementing the Interpol Intellectual Property Crime Model initiative against counterfeiting and actively support that effort;
- Encouraging the WIPO in its efforts to promote and assist countries in raising knowledge and awareness of judges and prosecutors that deal with intellectual property matters and, where appropriate, establishing specialized IPR courts;
- Ensuring the World Customs Organization further develops the appropriate standards, strategies and tools to combat counterfeiting as identified by its IPR Strategic Group and under its Supply Chain Security Initiative;
- Encouraging governments at all levels to place a higher priority against counterfeiting and allocate more resources in the fight against the illicit trade;
- Identifying opportunities and mechanisms for agencies and the private sector to share data they have on the counterfeit trade;
- Identifying opportunities and mechanisms for agencies and the private sector to share and upgrade anti-counterfeit training programs for law enforcement.

For instance, technical assistance and training that is currently being provided by many government agencies, the private sector and the international organizations would benefit through improved cooperation and coordination.

5.6.3. Role of the Governments

Some government officials in the past have seen intellectual property crime, and counterfeiting specifically, as a problem for rights owners and not as a public policy issue that affects society as a whole. In some countries, the activity has even been tacitly encouraged by authorities who see an underground economy as an effective way to kick-start growth and as a means of keeping people in work and therefore off the streets. But now the tide is beginning to turn. Governments around the world are

beginning to understand the social and general economic damage counterfeiting causes and they are starting to act accordingly.³²³

There are various factors that affected the change in the attitudes of the governments towards these problems. First of all, to realize the harm caused by the intellectual property crime on national welfare is not too difficult. Counterfeiters do not pay taxes and many of them are also part of the organized crime groups. Those counterfeit and pirated products give harm to public health and safety. Secondly, there are some external pressures on governments over recent years. WTO membership necessitates the enactment and enforcement of the minimum protection mechanisms laid down by the TRIPS provisions regarding intellectual property rights. If countries do not act in compatible with those provisions, they possibly face some fines and the removal of some trade benefits at the end of the adjudication. In the same way, membership to the EU requires incorporation of all directives and regulations on intellectual property as a condition of membership. Thirdly, bilateral pressures have been effective on some countries to improve their intellectual property regimes. In particular, the United States Trade Representative (USTR) Special 301 reports have been highly influential in persuading many governments to pay more attention to intellectual property owners' rights.³²⁴ Finally, governments started to realize the effectiveness of the intellectual property rights for sustaining development. Inward investment, growth of local companies, creation of new brands, investments allocated to the research and development, all-important components of the progress, has been recognized by the national governments.

323 Joff Wild, "Governments Increase Anti-Counterfeiting Initiatives", Reports, Middle Ground, <http://www.anti-counterfeitcongress.org/wco2004/documents/governments1.pdf>

³²⁴ The United States Trade Representative (USTR) Special 301 reports have been highly influential in persuading many governments to pay more attention to IP owners' rights. Under Special 301, the USTR names countries that it believes do not do enough to protect intellectual property and, in some cases, places the most serious offenders under notice that, if improvements are not made within a set timeframe, the US will consider revising trade agreements so making the American market more expensive for that country's companies to access. It is a very powerful tool, the threat of which has proved to be remarkably effective. In the mid-1990s, for example, the Chinese were forced to take serious action against counterfeiting and piracy for the first time after it became clear the Clinton administration was ready and willing to impose a series of stringent trading sanctions against them if they did not. Since that time China has made major progress in putting in place a workable intellectual property protection infrastructure. (Wild, *Governments ...*, *loc. cit.*)

So even the importance associated to the fight against counterfeiting and piracy differs among various countries, most of the governments in many countries has recognized the vital importance of the enactment and amendment of the effective legislation and urged the enactment of specific language in the civil and criminal codes that deals with the remedies against and punishment of counterfeiting and piracy activities. The combat of counterfeiting and piracy is becoming one of the priorities of governments and the political will is growing to take the necessary measures, to instruct law enforcement officials and to educate consumers by appropriate means.

Government bodies should ensure effective introduction and implementation of legislation, with enforcement provisions and include penalties that will deter counterfeiting and make it more difficult for organized crime and terrorist groups to benefit financially. In order to achieve those ends, more enforcement resources need to be devoted to combat counterfeiting.

In recent years, government agencies improved their activities for combating counterfeiting and this can be demonstrated by the increased number of seizures of counterfeit and pirated goods and the enhanced efficiency in investigating, prosecuting and judging intellectual property cases. The intensive training has been provided to judges, specialized police, customs, and prosecutors by the initiation of the governments.

National governments have to be encouraged to empower competent authorities with the ability to examine import, export and transit merchandise, and to fully exercise that authority in taking appropriate action against counterfeit and pirated shipments.

Police forces around the world should report regularly and systematically to Interpol intelligence on, and incidents of, intellectual property crime so that more healthy statistics could be attained and experiences of one country could help to other police forces in other countries.

Patrick De Smedt states that when assessing current software piracy operations it is clear that they increasingly involve sophisticated, international networks of criminal groups. National governments play a critical role in providing the resources, legal tools, and political will necessary to dismantle these criminal operations. In his words, “One of the most important tasks for all of us is to share the role of educating the media, other parts of government and consumers about the problem, the victims and the cost involved.”³²⁵

In realizing above-mentioned objectives, one of the major challenges that confronts countries is coordinating the activities of different bodies that are all working on anti-counterfeiting initiatives. Different government bodies, such as police, customs, intellectual property offices, should all liaise with each other and exchange information so that the duplication of the efforts could be prevented and resources are allocated to more useful aims.

5.6.4. Role of the International Organizations

As the problem is becoming more complex in structure through decades, the solution to this problem should be found by the cooperative and coordinated activities of the all actors. International and regional organizations in this regard play a crucial role.

The WTO, under the TRIPS Agreement, provides minimum standards for the protection and enforcement of intellectual property rights, including border measures. Interpol has identified counterfeiting as a serious organized crime issue and is developing an initiative focused on fighting intellectual property crime. The WCO is developing a Supply Chain Security Initiative and has identified counterfeit products as high-risk goods. The WCO, with the assistance of the WIPO, is developing “model legislation” on border measures for enforcement of intellectual property rights to assist countries in complying with international obligations. In addition, the initiative of WIPO to enhance the experience of judges in the handling

³²⁵ Patrick De Smedt (Chairman, Microsoft Europe, Middle East and Africa), “Promoting the Implementation of Effective Strategies and Good Practices by Governments and Business”, Second Global Congress on Combating Counterfeiting and Piracy, Lyon, France, November 15, 2005, <http://www.ccapcongress.net/second/files/De%20Smedt.pdf>

of intellectual property disputes and cases of counterfeiting and piracy is another important part of the enforcement activities of WIPO. There is increasing awareness of the dangers of counterfeit pharmaceuticals and other drug products, not only by the pharmaceutical industry but also by the WHO and some national governments. They are initiating programs to safeguard the drug supply chain and make consumers aware of the risks of counterfeit products.³²⁶

International organizations, such as WIPO and WCO, are assisting and supporting some developing countries, which do not have sufficient financial, technical or knowledge capabilities to effectively introduce and enforce anti-counterfeit measures.

Interpol too stresses the importance of public private partnership. It established its Intellectual Property Crime Action Group (IIPCAG) with the aims of facilitating international law enforcement action against intellectual property crime; raising awareness of the economic and social impact of the trade in counterfeit products and pirated goods; creating intellectual property crime investigation training programs; and to improve the co-ordination of intellectual property related matters between police, customs and the private sector. The group is led by representatives of Interpol with participation and support from national police and customs agencies, rights holders' representatives, the WIPO, the WCO and the European Commission.

In the Eastern Europe and Central Asia regional congress on combating counterfeiting and piracy, all facets of this global problem were discussed and at the end some recommendations some of which is as follows has been declared in the Bucharest Declaration:³²⁷

- Supporting the OECD in completing a global study on the full impacts of counterfeiting and communicating the results of that study as part of an effort

³²⁶ Outcomes Statement (*Final*) The First Global Congress On Combating Counterfeiting and Piracy, 17/06/04.

³²⁷ The Bucharest Declaration, The Eastern Europe And Central Asia Regional Congress On Combating Counterfeiting and Piracy, 11-12 July 2006.

to better inform policy-makers on the full social and economic costs of counterfeiting and piracy;

- Supporting WIPO in implementing recommendations of its Advisory Committee on Enforcement, specifically in the areas of:
 - Strengthening awareness of consumers and decision makers of the need to respect intellectual property rights;
 - Improving and, where appropriate, encouraging the streamlining of policies in the combat of counterfeiting and piracy; and,
 - Enhancing cooperation and coordination at the international, regional and national levels.
- Encouraging Interpol to continue its efforts to raise the priority of intellectual property crime in member countries, highlighting the link with transnational organized crime. The purpose is to encourage policy makers in law enforcement agencies to invest more resources in combating counterfeiting and piracy;
- Developing the WCO Framework of Standards for global protection of intellectual property rights that can be offered to governments on a voluntary basis to fully empower their Customs Administrations in the fight against counterfeiting and piracy;
- Encouraging the WCO to review and enhance current legal mechanisms for sharing information between Customs Administrations on an international, regional and bilateral basis.

5.6.5. Role of the Private Sector

Counterfeiting and piracy affect all type of companies and all sectors. It is not only multinational companies but also local enterprises are also suffering due to these illicit activities. Joe Clark, the Executive Director of the Alliance Against Counterfeiting, states that “Companies that think only in terms of a cost of doing business are only thinking about their own bottom line and not about the wider implications of this activity”. Clark believes that companies have a responsibility to

ensure that the environment in which they do business is as clean as possible. If they ignore this, he says, they could run into serious problems.³²⁸

The private sector has established a number of organizations to increase awareness of the impacts and dangers of counterfeit products and on strengthening anti-counterfeit legislation and enforcement. Although there are many organizations representing private sector to improve the protection and enforcement regimes surrounding their rights, companies usually acts individually in practical matters concerning fight against counterfeiters. A number of companies have begun to recognize that they can only be successful in addressing the issue through a full scale, multi-discipline approach that includes the legal, security and investigative, public relations, governmental affairs, product development and even marketing functions. Those that take the problem seriously have invested millions in investigations and raids on counterfeiters, building and prosecuting cases, devising systems and putting in place teams to increase their chances of at least controlling the growth of counterfeiting of their brands. They understand that in doing this they not only have the best chance of minimizing actual financial loss but also of maintaining consumer confidence in their products.

The private sector has committed increased attention and resources to fight the problem and has elevated counterfeiting and piracy as a higher priority with the launch of a number of new global initiatives. Private sector started to develop closer working relationships through increased cooperation and better sharing of information with the major international law enforcement, customs and regulatory bodies, such as Interpol, WCO and WIPO.

Patrick De Smedt in the Eastern Europe and Central Asia regional congress on combating counterfeiting and piracy mentioned three key areas of specific action for the private sector:³²⁹

³²⁸ Joff Wild, "Trademark Owners Unite Against Counterfeits", Reports, Middle Ground, <http://www.anti-counterfeitcongress.org/wco2004/documents/trademark1.pdf>

³²⁹ De Smedt, *loc. cit.*

- The first action is to achieve reform of domestic laws and international IP standards to strengthen protection and enforcement of intellectual property rights throughout the world.
- The second action is to reduce piracy and counterfeiting activity through civil, administrative and criminal enforcement actions.
- The third action area is the use of technology to enhance collaboration between enforcement agencies.

In sum, counterfeiting and piracy are global problems and the transnational nature of the problem calls for global solutions. As the problem is an urgent concern for both developed and developing countries, all actors stated above should work in cooperation.

6. CONCLUSIONS

In the 21st century, understanding the correlation between on the one side the economic growth and the economic competitiveness and on the other side the protection of the intellectual property rights is very crucial. Relying on the protection of intellectual property rights as a driving force of the economic growth is an essential element for the competitive success in a market economy, which heavily depends on the intellectual property assets.

The economic benefits accrued from the commercialization of the intellectual property rights have captured the attention of both legitimate traders and also illegitimate criminals such as counterfeiters, pirates or organized criminal groups. Today, the illegal duplication of software, music, and other digitized information and the trafficking in counterfeit products are very well known phenomena to all industries and to nearly all countries in the world. In addition, intellectual property crime has started to be used as a source of income for a number of terrorist organizations. It is stated that counterfeiting can be seen as the most widely occurred crime of the 21st century.

All these threats posed by counterfeiting, piracy and other intellectual property infringements to the economic interests and national security of the states brought about an awareness rising in the related circles for working hard to prevent intellectual property crime and to strengthen intellectual property enforcement around the world. Intellectual property enforcement has become a top priority for the states heavily depending on the protection of the intellectual property rights not only within their own national boundaries but also in a wider framework, in various countries at the same time. Since the right holders compete in a global marketplace, promotion of intellectual property protection is needed internationally.

In recent years, it is understood worldwide that the drafting of intellectual property laws is meaningless unless effective implementation mechanisms are put into

practice. Intellectual property owners should be empowered with sufficient tools to fight with counterfeiting and piracy. The mechanisms developed for the fight with these phenomena were analyzed in Chapter 5. Provision of technical assistance and training to developing and less developed countries in terms of employing effective enforcement policies are necessary. Intellectual property enforcement training and technical assistance on a truly global basis foster respect for intellectual property, encourage governmental and corporate efforts to combat and deter infringement, and promote honest business practices in the use and development of intellectual property.

Today, the focus of the enforcement efforts in these technical assistance and training programs is directed to two directions. Firstly, the difficulties that the legislature should face in developing and less developed countries in meeting international obligations should be addressed. Minimum levels of protection established by the TRIPS standards constitute the basis of such international obligations for the contracting states. Secondly, the role of the local authorities in their own enforcement issues should be addressed. Some of the issues raised in these activities include the use of obligatory sentencing guidelines for intellectual property crimes; support for specialized intellectual property rights' courts; establishing appropriate procedures for investigation, prosecution and conviction of intellectual property rights' criminals; and how to effectively address trans-border intellectual property rights' crime, as well intellectual property crime committed over the Internet.

Developing and less developed countries are expected to create an integrated enforcement system consisting of civil, criminal and administrative procedures and remedies as well as border measures in order to fulfill obligations stemming from the TRIPS Agreement. Government officials should be aided in developing effective intellectual property enforcement systems based on an interdisciplinary approach in which civil, criminal, administrative and border measures work together and separately. Developed countries, international and regional organizations should aid countries in meeting their obligations in two ways: First, from a structural point of view, by having the laws and procedures in place to conform with the TRIPS requirements and second, from an effective enforcement point of view, by having the

experience and capability to enforce intellectual property rights using the structural mechanisms established in compliance with TRIPS. In addition, because of the growing problem of Internet piracy, assistance in developing enforcement mechanisms to deal with technological advances in intellectual property protection and enforcement is quite important. These countries will need assistance in understanding and implementing the WIPO Internet Treaties to establish the legal framework to combat piracy. The challenges posed by enforcing intellectual property on the Internet, and building the requisite legal framework in their domestic laws to meet the Internet challenge, including through implementation of WIPO Internet Treaties require a heavy focus on practical applications in the digital universe.

As it is stated, not only drafting of new laws but also implementation of those laws on enforcement is necessary. However, there are some difficulties in the implementation procedures. In general, enforcement procedures exist in most domestic legislation, but those procedures are not put into practice effectively. Remedies are not sufficiently high, expeditiously applied. Even they are carried out they are not deterrent enough for preventing further infringements. Some of the nation states, which are very famous about the levels of counterfeiting and piracy, find excuses for the ineffective implementation of enforcement provisions. They claim that implementation of enforcement provisions will interfere with legitimate trade. Also, there are not safeguards against abuse of enforcement procedures and corruption. Prescribed time limits adopted for border measures create problems for right holders to initiate proceedings on the merits of the case. In addition, procedures in most of the cases entail hidden costs and burdensome evidentiary requirements for right holders.

Judiciaries create some problems for right holders due to lack of special expertise on this technical area of law. Many countries have perceived this problem and specialized tribunals for dealing exclusively with intellectual property infringement cases have been set up. Regarding border enforcement, right owners are required to know every detail of the information on infringing goods and this leads to some problems in the application procedures to the customs authorities. Ex officio border enforcement provides effective remedies and customs authorities must be

empowered to act their own initiative. Criminal penalties are also underutilized in many countries. Even a strong civil system is dealing with most of the intellectual property infringement cases; civil proceedings are not deterrent for the intellectual property criminals. Governments should strive to prevent the ability of criminal infringers to reenter the market by seizing and destroying both the infringing goods and also any materials and implements the predominant use of which has been in the commission of the offense. Otherwise, the return of those items to defendant would negate the value of the enforcement system.

All these problems and challenges cited above indicates the urgency of the solutions for finding best practices at all levels. The effective enforcement strategies should be developed for fighting with counterfeiting and piracy. Three separate strategies that are interconnected with each other should be implemented together for achieving this aim. First one is related to the harmonization of anti-counterfeiting laws. Second one is the coordination of enforcement actions; training and education by international and governmental officials and business. The third strategy primarily addresses the demand-side of counterfeiting by raising the public's awareness.

Lack of harmonization among nation-states regarding the enforcement measures creates a profitable platform for the pirates and counterfeiters to pursue their illegitimate trade. In parallel to the growth in international trade, there is an enormous increase in the trade of the fake goods all around the world. This urged governments, private sector and international organizations to act in coordination and diverted their efforts to agree to minimum standards of enforcement. The TRIPS Agreement, part III establishes those minimum standards and the TRIPS Agreement itself is a remarkable achievement in the way of achieving harmonization among member states' procedures regarding enforcement. The need for national laws to be amended in order to comply with TRIPS provided an excellent opportunity for countries to go beyond the minimum standards of TRIPS.

As it is extensively studied within Chapter 3, in the Part III of the TRIPS Agreement, there are provisions relating to general obligations, for example, fairness and equity; civil and administrative procedures and remedies such as evidentiary proof and

injunctive relief; special requirements related to border measures, such as notice and duration of suspension; and criminal procedures relating to imprisonment and fines.

In the 1990s, there was another major harmonization effort of the WCO to provide its members with a tool for transposing customs related provisions of the TRIPS Agreement into their own national legislation. In order to strengthen border enforcement, draft model legislation has been provided by the WCO to many countries. In addition, the 1988 WIPO Model Provisions for National Laws on Measures against Counterfeiting and Piracy has been updated by the collaboration of many international organizations in order to assist national legislatures to enact comprehensive anti-counterfeiting laws.

Those efforts on updating the draft model legislations aimed at broadening the definition of counterfeiting so as to include preparation for manufacturing of counterfeit goods, counterfeit service marks, the transportation and storage of counterfeit goods, and the organization and financing of counterfeiting activity; providing for seizure of all materials and implements used to manufacture or package counterfeit goods, and imprisonment as a sanction against failure to comply with a disclosure order; providing for trademark owners to recover costs incurred in the detection and investigation of acts of counterfeiting; and making information about criminal counterfeiters available to relevant authorities in other countries.

The harmonization efforts have continued both at a global level and also on a regional basis. The most recent advance in harmonization on a regional basis has been the European Directive for enforcement of intellectual property rights. The positive and negative sides of this Directive have been discussed in Chapter 4 in detail. In general most of the stakeholders have welcomed the Directive as a means to create at the Community level a legal framework that would ultimately serve in the fight against counterfeiting and to complement the EU Customs Regulation. The most important weakness of the Directive is the removal of the provisions on criminal penalties from the original texts of the Directive at the final stage. It does leave open the possibility of member states to impose criminal penalties.

First strategy for all actors in the fight with the infringing activities is the harmonization of the national laws on the enforcement of intellectual property rights. However, harmonization without coordination of government and business enforcement activities at the international, regional and national levels will lead to wasted resources and the duplication of the efforts for achieving identical objectives. Therefore, coordination is standing as the second strategy to be employed for success.

On the international level, the WCO, WTO and WIPO, started to work in coordination with each other and increased their efforts on intellectual property enforcement. The roles of those organizations were discussed in detail in Chapter 3. The WCO's IPR Strategic Group offers an opportunity for customs and businesses to discuss border enforcement issues and to consider strategic actions for joint implementation. Under the umbrella of the WTO, the TRIPS Council has responsibility for ensuring WTO member states' compliance to the TRIPS standards. In addition, the WTO dispute settlement mechanism provides a kind of relief for the countries seeking obedience to the TRIPS standards. Many countries has to pursue a convenient policy for their own national economic and social interests in seeking a balance between the choices of applying scare resources to intellectual property enforcement and the creating a more attractive environment for foreign investment which leads to higher employment and economic growth.

As the world's most influential institution dealing with intellectual property protection, WIPO plays a crucial role in this coordination strategy. Under the initiative of WIPO, an Advisory Committee on Enforcement (ACE) was formed to fill the gap in technical assistance to member countries and to build an expert staff on these issues. ACE's activities such as preparation of specific meetings, workshops and conferences on enforcement issues have been welcomed by the member states, international organizations and the right holders.

Coordination efforts on the regional level are at varying degrees of development. In this regard, one of the most developed regions is Europe. The European Commission's Directorate Generals specifically dealing with counterfeiting set the

structures and mechanisms in place, which eventually led to the adoption of the Enforcement Directive. The European Commission is playing a center role for coordinating enforcement efforts in the region and with its trading partners. Increasing number of the EU member states and the relations with the candidate countries necessitates the harmonization and coordination efforts for the region.

The political will and the effective allocation of the resources to the fight with counterfeiters and pirates at the national level constitute the core of the all efforts. The success of all other mechanisms applied by the international and regional organizations is determined by the commitment of the individual governments. Communication and information exchange between national and local enforcement agencies are critical in stemming the flow of counterfeits. Governments fulfill important functions in assisting business sector in understanding the enforcement laws and regulations and developing information and educational campaigns targeted at consumers. In short, governments should regard the counterfeiting and piracy as two evils of the economic development and they have to understand the struggle with these problems as a public policy priority.

Third strategy is the related to the demand side of the intellectual property infringing activities that is public awareness. Raising public awareness about the issue and changing the public's attitude towards fakes is the most daunting challenge in the fight against piracy and counterfeiting. There have been many efforts on the part of individual trademark owners, business and governmental organizations to educate the consumer that counterfeiting is a theft and it has no difference from other kinds of crimes.

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APPENDIX: ORGANIZATIONS CONCERNED WITH INTELLECTUAL PROPERTY ENFORCEMENT.

- AACP - Alliance Against Counterfeiting & Piracy.
- ABAC / BAAN - Belgian Anti-Counterfeiting Group.
- ACG - The Anti-Counterfeiting Group.
- AIM - European Brands Association.
- AIPLA - American Intellectual Property Law Association.
- AIPPI-The International Association for the Protection of Industrial Property.
- APM - The Action Group of Pharmaceutical Manufacturers.
- BMR - British Music Rights.
- BPI - British Phonographic Industry.
- BSA - The Business Software Alliance.
- CEIPI - Centre d'Etudes Internationales de la Propriété Industrielle.
- CIPR - Coalition for IP Rights (Russia).
- CISAC - International Confederation of Societies of Authors and Composers.
- Comité Colbert.
- Counterfeiting Intelligence Bureau.
- DACG - Danish Anti-Counterfeiting Group.
- ECTA - European Communities TM Association.
- ESA - The Entertainment Software Alliance.
- FACG - Finnish Anti-Counterfeiting Group.
- Federation of the Swiss Watch Industry.
- FIM - Fédération des Industries Mécaniques.
- GACG - Global Anti-Counterfeiting Group.
- GRUR - German Association for Intellectual Property.
- IACC - he International Anti-Counterfeiting Coalition.
- IBA - International Bar Association.
- ICC - The International Chamber of Commerce.
- ICMP/CIEM - International Federation of Music Publishers.
- IFPI - International Federation of the Phonographic Industry.

- IIPA - International Intellectual Property Alliance.
- INTA - International Trademark Association.
- IPA - International Publishers Association.
- IRMA - International Recording Media Association.
- IVF - International Video Federation.
- MARQUES - Association for European Trademark Owners.
- MPAA - Motion Picture Association of America.
- MPI - Max Planck Institute For Foreign And International Patent, Trademark And Copyright Law.
- Product & Image Security Foundation.
- REACT - European Anti-Counterfeiting Network.
- SIIA - Software & Information Industry Association.
- Union des Fabricants.
- VBP - German Anti-Piracy Association.