# European Commission Proposals For New Legislation To Combat Counterfeiting And Piracy In The

RICHARD BINNS AND CHARLIE EVERITT*

The economic consequences of counterfeiting and piracy are an increasing concern to governments within the European Union (EU). Recent industry estimates have suggested that counterfeiting accounts for a reduction of m8 billion (around US $9 billion) annually in EU GDP, with both businesses and their employees feeling the negative effects. The counterfeiters' lack of respect for national borders has meant that the problems have now been raised to a regional level within the EU, with interest being expressed by the European Commission in tackling the issues. In fact, the European Commission has recently launched proposals for two new pieces of legislation aimed at giving greater powers to rightsholders and national authorities to combat the flow of infringing goods. This legislation will be of particular interest to rightsholders in industry sectors such as the software, food and pharmaceutical product sectors (which are among those that suffer the most from counterfeiting). It may be of greatest relevance for rightsholders who actively license the use of their rights, and who will want to protect those rights, but also to be seen (by their licensees) to be doing so.

## Proposed Regulation concerning customs' powers

On 20 January 2003, the European Commission (the "Commission") issued a proposal for a new EC Regulation concerning customs authorities' powers to combat counterfeiting and piracy. This is intended to make it easier for customs authorities within the EU to act against goods which infringe intellectual property rights, including trade marks, copyright and design right.

There is an existing EC Regulation (3295/94) under which the holder of a relevant intellectual property right can file an application with customs authorities in EU countries for action to be taken against goods suspected of infringing that intellectual property right. The goods can then be detained and the competent authorities are entitled to take certain action where those goods are later found to be infringing (including by destroying them). The new draft Regulation proposed by the Commission does not affect the basic principles of the existing law. Although it is designed to replace Regulation 3295/94, it is, in the Commission's own words, simply intended to improve the working of the existing Regulation and to extend its scope to new intellectual property rights. This is a reflection of the fact that in spite of the existing law, the level of fraudulent goods available in the EU has continued to rise.

The Commission's proposal has been prompted by concerns over the increasing level of EU traffic in infringing goods—over the four year period from 1998 to 2001, customs administrations reported a rise in the number of infringing goods intercepted at the EU's external frontiers from 10 million to 100 million items (with an estimated market value of around m2 billion). This growth has been accompanied by changes in the nature of the products which are being counterfeited and pirated, and the methods being used to do so. Increasingly, lower value household items are being targeted, with counterfeit foodstuffs and pirated CDs being among the most popular types of products for counterfeiters. In 2001, seizures of counterfeit foodstuffs, spirits and drinks (amounting to some 4 million items) were up nearly 75% from the previous year, while seizures of pirated CDs were up 300% from 1999.

The principal measures proposed in the draft Regulation are:

- the extension of the scope of the existing Regulation to new forms of intellectual property right—plant variety rights, geographical indications and designations of origin;
- the abolition of the prescribed fees and securities—this is apparently intended to provide small and medium sized enterprises with free access to the protection offered by the Regulation. However, rightsholders will still be required to enter into an undertaking confirming that they will assume liability for relevant costs, including customs' costs of destroying infringing goods;
- the extension of the scope of the ex officio procedure available to customs authorities which allows them to act without a prior application being in place—this procedure is already used by UK customs (among others) to inform rightsholders of suspected infringements and to allow a period of three working days for lodging of a relevant application;
- the introduction of a right to receive more detailed and frequent information from the customs authorities;
- the confirmation of rightshold-

*Richard Binns and Charlie Everitt, Intellectual Property Group, Simmons & Simmons, London.

ers' entitlement to the provision of sample products for analysis—again, this is something which is already offered by UK customs;

• the tightening of controls over non-commercial traffic in infringing goods falling within the limits of personal duty-free allowances (currently m175—around US $190). Customs will now be in a position to act if they suspect that this traffic is part of a larger-scale operation—this extension of customs' powers is perceived by the Commission to be of particular interest to business;

• the reduction of costs by allowing rightsholders to have goods destroyed without the need to await the outcome of legal proceedings, if they can obtain the agreement of the person declaring those goods.

The Regulation will also impose some further obligations and restrictions on rightsholders. In particular:

• the quality of information to be provided to customs authorities by rightsholders applying for action will be extended (although the lodging of applications by computer will be encouraged). In practice, this is unlikely to be of great concern as it is already of benefit to rightsholders to provide the fullest available details when lodging their applications;

• if information provided to a rightsholder by customs is abused or used for purposes other than those laid down by the Regulation, that rightsholder's application may be suspended or even not renewed.

Rightsholders who have experience of the EU border enforcement process will welcome any attempts to streamline that process and to widen the scope of customs' powers. The reality, of course, is that the Commission's proposal is still some way off becoming law—it first needs to be approved by a qualified majority of the EU Council of Ministers, following consultation with the European Parliament. Even if it does proceed it is unlikely on its own to lead to a significant increase in the detection and prevention of the flow of counterfeit or pirated goods. Nevertheless, the benefits for rightsholders in filing applications with customs authorities are clear, and it would be prudent for licensees to insist that their licensors have done so before entering into licences. In fact, licensees are themselves entitled to lodge applications as "persons authorised to use" the intellectual property rights concerned, and this may be of interest where a licensor fails to do so. At the same time, the proposal is only one of a number of current initiatives being considered in the area of counterfeiting and piracy. In particular, the Commission has also proposed a Directive to assist with the fight against infringing goods.

## Proposed Directive concerning enforcement of intellectual property rights in the EU.

Hard on the heels of the Commission's proposal for its new EC Regulation, it issued a proposal for a Directive on the enforcement of intellectual property rights in the EU. As well as seeking to harmonise EU member states' national laws on enforcement, this latest proposal hopes to establish a general framework for the exchange of information between the various responsible national authorities. It is intended to address the issue of counterfeit and pirated goods and services circulating within the EU, and therefore to compliment the proposed Regulation dealing with suspected infringing goods at the EU's external borders.

The primary objective of the proposed Directive is to create a single legal framework applicable across the EU for dealing with infringements of intellectual property rights. This single legal framework is to draw on existing best practices from within the various member states to ensure a level playing field for rightsholders in the EU and to act as a deterrent to counterfeiters. In formulating its proposal, the Commission has sought to maintain a balance between assisting rightsholders to defend their rights and protecting users from unfair litigation. Having said this, the proposed Directive is a direct result of research suggesting that more than 17,000 legitimate jobs are lost annually through piracy and counterfeiting in the EU. At the same time, industry sources have estimated counterfeiting to account for a reduction in EU GDP of m8 billion annually, and losses continue to rise. Annual revenue losses as a result of counterfeiting are currently estimated at 7.2% for the perfume and toiletries sector, 5.8% for the pharmaceuticals sector and 11.5% for the toy and sports sector. 37% of the software in the EU is believed to be pirated—this is almost identical to the worldwide figure of 36%, or 5 billion units. It is therefore unsurprising that the Directive is largely beneficial to rightsholders and should result in a general strengthening of their position. The Commission hopes that the harmonisation of national legislation will prevent differences between member states in the enforcement of intellectual property rights from being exploited by pirates and counterfeiters (who currently target those jurisdictions where enforcement is least effective).

The Directive follows what has been called a "TRIPs plus" approach. In other words, it replicates and goes beyond the minimum level of protection already set out in the TRIPs Agreement (the Agreement on Trade-Related Aspects of Intellectual Property Rights), by which all EU member states are bound. It will therefore require all member states to provide (among other things) for injunctions to halt the sale of infringing goods, protective measures such as seizures of bank accounts, powers to order compensation, and so on. It will also require them to treat serious infringements or attempted infringements of intellectual property rights as criminal matters, punishable by criminal sanctions. The Directive will introduce the following provisions:

• a ban on machinery used to forge security devices;

• a right for trade associations and collecting societies to initiate legal proceedings;

• a power for judicial authorities to force infringers to disclose information about the origin, quantity and value of their infringing products;

• a duty to allow publication of judgments; and

• the availability of a remedy ordering the withdrawal, at the infringer's expense, of infringing goods put on the market by them.

One particular focus of the Directive is the imposition of greater sanctions for infringements committed for commercial reasons or which cause "significant harm" to the rightsholder in question. It also deals, in some depth, with the issue of infringement over the Internet, suggesting that established EU practices that require Internet service providers to disconnect illegal websites, once informed of the presence of illegal material, should be extended to apply to intellectual property right infringements. Having said this, and with a view to protecting legitimate trade and the development of the information society, there are a number of safeguards included in the proposed Directive. For example:

• There is a general statement that procedures within member states should be fair, not unnecessarily complicated, slow or costly, and should not create barriers to legitimate trade;

• Any penalties applied to offenders will have to be "effective, proportionate and deterrent";

• Where the Directive allows for interim injunctions, the person who has been ordered to stop participating in the suspected infringement can ask for a review of the injunction;

• When an offender has acted in good faith (in other words, neither intentionally nor negligently), he will be given the opportunity to agree a fair settlement with the rightsholder so that imposed sanctions can be avoided.

The proposed Directive will now go forward to the European Parliament and the EU's Council of Ministers for adoption under the so-called "co-decision" procedure (a different procedure from that faced by the proposed Regulation). If the Directive is eventually implemented into member states' laws, then it will undoubtedly promote harmonisation and should lead to an increase in the effectiveness of enforcement procedures and the sanctions available in many member states. It will be of particular interest to rightsholders with a multinational presence whose intellectual property rights are protected, and infringed, in several member states of the EU, although in some jurisdictions, such as the UK, relatively little practical change is expected. The new legislation should not have any effect on the position as between licensors and their licensees. It will remain the case that licensees will be well advised to ensure that they have sufficient contractual protection to be able to call upon licensors to enforce their intellectual property rights, or to allow the licensees to step in and do it themselves. What