

WIPO/IP/UNI/DUB/04/7

ORIGINAL: English

DATE: April 2004



AJMAN UNIVERSITY
OF SCIENCE AND
TECHNOLOGY



ASSOCIATION OF ARAB
UNIVERSITIES



THE ASSOCIATION OF ARAB
PRIVATE INSTITUTIONS FOR
HIGHER EDUCATION



WORLD INTELLECTUAL
PROPERTY ORGANIZATION

WIPO NATIONAL SEMINAR ON INTELLECTUAL PROPERTY FOR FACULTY MEMBERS AND STUDENTS OF AJMAN UNIVERSITY

organized by
the World Intellectual Property Organization (WIPO)
in cooperation with
Ajman University of Science and Technology (AUST),
the Association of Arab Universities
and
the Association of Arab Private Institutions for Higher Education

Ajman, May 5 and 6, 2004

**ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS: CHALLENGES,
REMEDIES AND PUBLIC AWARENESS**

*Lecture prepared by Dr. Michael Blakeney, Director, Queen Mary Intellectual Property
Research Institute, Center for Commercial Law Studies, University of London, London*

Causes of Piracy and Counterfeiting

The principal cause of piracy and counterfeiting is the incentive to unscrupulous 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. Obviously, this trade would not exist without consumer demand and the public perception that piracy and counterfeiting are innocuous infractions. 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 organisations to communicate to the consuming public of the dangers from the use of unauthorised products and of the deleterious social welfare effects from this trade; and (ii) the imposition of inadequately deterrent penalties by the judicial authorities.

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 digitisation 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 internationalisation of the economy, the expansion of means of communication and the opportunism of organised crime following the collapse of the political systems in central and eastern Europe and in the former Soviet Union.

The World Customs Organization 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.

In a number of jurisdictions, strong links have been noted between the grey market and smuggling and in a number of sectors grey market channels have been used to camouflage counterfeit products. In the fashion sportswear and software sectors, it is not uncommon in the grey market for traders to send genuine samples to the importer and mix the consignment with counterfeits.

In markets, for high tax products, such as tobacco and alcohol products, where grey market products may not be available, smuggling becomes the primary means of meeting the demand for those products. In smuggling, organised crime groups establish elaborate means of concealing their diversion of products from the legal to the illegal market. This is to avoid law enforcement initiatives and those by private industries seeking to maintain the integrity of their supply chains. The smuggling techniques are complex and trans-national 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.

In some cases, grey market goods may not be available, in which case, organised crime groups may decide to ensure a steady source of supply by becoming vertically integrated for the purposes of producing and distributing counterfeit and pirate products. This involves developing a supply chain that is wholly in the hands of organised crime groups from rogue manufacturing, through to smuggling the contraband across international borders, to illegal distribution and retailing to consumers.

The development of digitisation and the availability of used manufacturing equipment has facilitated the counterfeiting and piracy of a variety of products – from traditional industries like cigarettes and apparel to high-tech sectors like computer software and music CDs.

Rogue manufacturing sectors, which produce counterfeit and pirated products, have much, much lower production costs:

They are usually located in developing nations with extremely low labour and material costs.

The quality of material inputs is extremely low.

Quality control is virtually non-existent and the production facilities are often dirty, squalid workshops.

They are virtually a cash business. Payment is received either in cash, or within eight to ten days of a shipment being delivered. There is little need to finance receivables on a long-term basis.

There is little, if any, inventory. Production is closely tied to orders. This reduces the need to finance inventories and makes detection very difficult.

There are no costs associated with the oversight and accountability under which lawful businesses operate.

Economic Impacts of Counterfeiting and Piracy

The costs to those businesses whose products are pirated and counterfeited include: (i) loss of sales; (ii) competitive disadvantage to those enterprises which free-ride on the research and development and marketing expenses of legitimate enterprises; (iv) the possibility of product liability from defective imitation products; (v) loss of goodwill and prestige by a brand, where counterfeits are freely available; and (vi) 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 subsidise 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.

(i) Trade Diversion

The 1998 EC Green Paper on counterfeiting and piracy, 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.¹ 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. 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.² The Commission in its proposal for a counterfeiting Directive³ 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 Centre 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 1 266 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.⁴ 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.⁵

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 artefacts 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.

¹ *Countering Counterfeiting. A guide to protecting & enforcing intellectual property rights*, Counterfeiting Intelligence Bureau, International Chamber of Commerce, 1997.

² http://europa.eu.int/comm/internal_market/en/indprop/piracy/piracyen.pdf, pp. 14-15.

³ COM (2003) 46 Final

⁴ *Economic Impact of Counterfeiting in Europe*, Global Anti-Counterfeiting Group, June 2000.

⁵ *Sixth Annual BSA Global Software*.

(ii) Revenue Effects of Counterfeiting and Piracy

It is estimated that the tax and excise losses caused by counterfeiting and piracy are considerable. 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.⁶ 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.

Revenue losses are also incurred in those countries in which counterfeit and pirated products are produced. As this trade tends to be clandestine, the producers of infringing products will hide the size their production output also from the tax authorities. False documentation will accompany the false products, understating their sale price, for the purpose of reducing tax imposts in both the producing and importing countries.

(iii) Investment Effects

The major cost to those developing countries in which piracy and counterfeiting occur is the loss of access to foreign investment, because of concerns by investors that intellectual property which is produced as the result of the relevant investment, will be stolen by others. This discouragement of investment has the obvious short-term effect of reducing taxes and revenues and the longer-term effect of stifling economic development. More specifically, the establishment of key industries in developing countries, such as those in the IT, biotechnology and pharmaceutical areas, where intellectual property rights play a key role, will be difficult to establish in the absence of effective intellectual property laws or enforcement.

Similarly, technology transfer arrangements will be difficult to secure, where the basis of those arrangements is the bundling of proprietary technologies as part of the technology package. If there is an ineffective legal regime for the protection of those technologies, their transfer will be discouraged.

(iv) Employment Effects

In social terms, the damage suffered by businesses because of counterfeiting and piracy is reflected ultimately in its impact upon employment. Initially, employment may improve in those countries where pirate and counterfeit goods are produced. However, where local industries are developed which are dependent upon intellectual property rights, the local capacity to produce infringing products may have an ultimately harmful effect upon employment. 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

⁶ http://europa.int/comm/internal_market/en/indprop/piracy/piracyen.pdf, page 16, para. 7.2.1.

impact upon investment in those industries. Similarly, local music and art industries are vulnerable to the pirating and counterfeiting activities of copyists.

To some extent, the production of counterfeited goods in developing countries arises from the fact that the production of legitimate branded products in those countries, makes available to the authorised factory outlets, the brands and the tools of the trade mark proprietor. Sometimes unauthorised use is made of this equipment in the production of counterfeit products. To recover control over the integrity of its products, the brand proprietors will relocate that production in countries where control over the intellectual property rights can be assured.

In addition to of revenue to the State (customs duties, VAT), there may also be infringements of labour 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 destabilise the markets, including such fragile markets as that in textiles, and clothing.

Copyright and Piracy and the Criminal Economy

Counterfeiting and piracy has an adverse effect upon public security, where profits from this trade are appropriated by organised crime, which uses them as a means of recycling and laundering the proceeds of other unlawful activities (arms, drugs, etc.). Counterfeiting and piracy, which were once craft activities, have become almost industrial-scale activities offering criminals the prospect of large economic profit without excessive risk. With the advent of eCommerce the rapidity of illegal operations and the difficulty of tracking the operations further reduce the risks for the criminal. 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.

Organised criminals often combine counterfeiting and piracy with smuggling. The trade routes which were developed for the smuggling of drugs and arms have provided an existing infrastructure for the trade in counterfeit and pirate products. Indeed, the profitability of infringing products is now beginning to exceed that of drugs and arms, on a profit/weight basis.

The structure and commercial strategies of these organised crime groups is similar to those of licit enterprises. In response to market forces, participants in each are equally intent on being profitable. But the key difference between legitimate commercial enterprises and criminal ones involve the manner in which commercial disputes are settled, contracts enforced and dealings with the authorities are regulated. As those of criminal enterprises have to occur outside the court system, violence, coercion and corruption are a pronounced feature of this trade. Because manufacture is illegal, labour standards are not observed, reducing labour costs and taxes are not paid on the illicit manufacture, minimising revenue expenses, thus those involved in illicit trading in infringing products have a number of economic advantages over legitimate manufacturers, wholesalers and retailers.

The most serious consequences of the trade in counterfeit and pirate products is the stimulation of organised criminal activity and the consequential effects upon public and private corruption. This penetration of organised crime into otherwise lawful economic sectors also has a pernicious impact on public morality. As a contraband market develops, it puts significant pressure on retailers to either participate or go out of business. If they decide

to join in, they may be forced to do other kinds of business with organised crime. Legitimate businesses see their prices undercut by cheaper contraband products and feel obliged to enter the black market to protect their businesses and their livelihoods. Once they have entered this trade it becomes difficult to withdraw.

The World Economic Forum in Davos in January 2003 was informed by the World Customs Organization (WCO) that the trade in counterfeit and pirate products was as high as US\$450 billion per annum and was controlled by organised crime and was being used to fund terrorist activity.

To the extent that consumers participate in a contraband market, this undermines respect among ordinary citizens for the law. Studies have shown that the initial act of law-breaking can influence subsequent behaviour. Once people develop a taste for cheating, they keep on cheating. 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.

A European survey by the Alliance Against Contraband (AAC) on the significance and influence of organised crime in counterfeiting and piracy identified the penetration of organized crime in the following industries⁷:

Branded goods, including clothing, footwear, perfume, and household consumer products;

Cigarettes;

Alcoholic beverages;

Pharmaceuticals;

Software; and

Recorded music

Branded goods

A difficulty in detecting this illicit trade is the use of subcontractors or outworkers who produce more goods than those ordered by the trade mark proprietor and for which the subcontractor is licensed. The outworking system is not uncommon in many developing countries, where a consolidator will accept a contract to deliver a quantity of branded products to a rights holder and then will subcontract the production of that quantity to smaller production units. This provides an opportunity for outworkers, who may be provided with moulds and dies for the authorised production of protected brands, to produce additional unauthorised quantities, which are counterfeit. In Europe, clothing and footwear companies are estimated to lose EUR 7.5 billion a year to counterfeiting.

Cigarettes

The trade in contraband cigarettes is one of the most lucrative organised crime sectors. In Europe, annual losses in tax revenues from cigarette smuggling are estimated at EUR 4.0 billion in Italy, EUR 3.9 billion in the UK, EUR 230 million in Germany, EUR 208 million in Spain.

Alcoholic Beverages

⁷ The results of the survey can be found on the web site of the World Customs Organization, www.wco.org

As with cigarette smuggling, the trade in counterfeit alcoholic beverages is tax driven. In all countries in which counterfeit alcohol is produced and sold, there are health concerns about noxious additives.

CONTRABAND PHARMACEUTICALS

The World Customs Organisation estimates that around 5% of the world trade in pharmaceuticals involves counterfeit products. Contraband activities in the pharmaceutical sector are an especially great concern to law enforcement because of the public safety dangers involved. The production of counterfeit drugs from inert or noxious substances is a particular problem in developing countries.

CONTRABAND SOFTWARE

Software counterfeiters operate on a commercial scale in most parts of the world. There is a major problem, particularly in developing countries, involving small scale manufacturers using relatively low-cost technology that allows duplication of software using recordable CD burners. Pirated software is often sold at flea markets, through mail order and newspaper advertisements and through the Internet. In many instances this software is substandard and infected with viruses, which involve the purchaser in the unforeseen expense of sanitising infected systems.

Contraband Recorded Music

It is estimated that world-wide one in three recordings is pirated. The estimated CD manufacturing capacity of a number of countries vastly outstrips local market needs. This product inevitably finds its way into the hands of pirate manufacturers. In developing countries, the pirating of local music has the effect of undermining the establishment of a local music industry.

Globalisation of the trade in counterfeit and pirate products

The survey by the Alliance Against Contraband (AAC) on the significance and influence of organised crime in counterfeiting and piracy identifies the established trend of global trading in infringing products.⁸ Improvements in transportation, particularly with the development of containerisation has made it far cheaper and easier to ship goods around the world. At the same time, crime groups are able to shift production facilities to take advantage of market opportunities. It reports, by way of example that a Chinese crime group dismantled a factory in Hong Kong which was producing pirate CDs and rebuilt it in Paraguay and staffed with Hong Kong engineers. In January 2000, police in Germany seized 500,000 counterfeit CDs manufactured in the Ukraine and destined for Uruguay. In China, 190 billion counterfeit cigarettes are produced each year, making it a major source country for European-destined fakes. Malaysia, Singapore and Taiwan are major locations for counterfeiters of audio and software products. Major counterfeiters of Western designer apparel goods are located in China and Hong Kong.

Consumer Protection

Counterfeiting and piracy likewise have damaging consequences for consumers. They generally involve: (i) extorting a higher price from consumers for the infringing product, than

⁸ The results of the survey can be found on the web site of the World Customs Organization, www.wco.org

they would be prepared to pay for copies; (ii) consumer deception about the quality of the counterfeit product, with the consequent risk to health and safety; (iii) the absence of after-sales service or any effective recourse in the event of damage or injury.

Counterfeiting and piracy are generally accompanied by deliberate cheating of the consumer as to the quality entitled to be expected from branded products since counterfeit or pirated products are produced without the quality checks imposed by public standards authorities and by the brand proprietor, which will inevitably be concerned to protect the quality standards associated with registered brands.

In addition to its economic impact, counterfeiting and piracy has been identified as having a damaging effect upon public health in both developing and developed countries. The ICC has reported that:

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:

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;
In Uganda the National Drug Authority discovered expired anti-bacterial drugs labelled 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 aluminium blisters reassembled, and labels replaced to provide new, later, expiry dates.

The World Health Organization in a reported that the use of ethylene glycol instead of glycerine, led to the deaths of more than 500 patients in Argentina, Bangladesh, India, Nigeria and Haiti. The lack of active ingredients in anti-malarials and the general danger that

counterfeit and substandard medicines contribute to global antibiotic resistance.⁹ In a report on counterfeit drugs in Brazil, the WHO reported that between 10% and 30% of drugs are counterfeit. It appears that non-generics are counterfeited more than generics.¹⁰ Specifically, the report referred to: birth control pills made with wheat; Prostate cancer drug without the active ingredient and diet pills comprising dangerous concoctions of thyroid hormones, tranquilizers, diuretics and laxatives to ensure rapid weight loss, leaving users suffering from anxiety and other side effects like hepatotoxicity.¹¹

A similar WHO report on counterfeit drugs in Nigeria¹² estimated counterfeits to number 40-60% of all the drugs in the country. Counterfeit drugs include products with little or no active ingredients or products for which active ingredients have been replaced by less expensive alternatives, giving as examples: children's deaths at Jos University Teaching Hospital, from ingestion of paracetamol syrup adulterated with diethylene glycol; the seizure of blood pressure medication containing chalk and insulin vials filled with sugar water; analgesics passed off as antimalarials and medicines that have long expired are put back in the market, relabeled with new dates.

The World Customs Organization reported:

89 people were killed in Haiti in 1995, having taken a paracetamol-based syrup contaminated with glycol diethylene (a toxic chemical used in antifreeze).

A number of cases of counterfeit pharmaceuticals have been reported in China, including:

deaths from Chinese-made counterfeit diet pills that were found to contain banned substances.¹³

The *Shenzhen Evening News*, reported that approximately 192,000 people died in China in 2001 because of fake drugs.

On June 7, 2001, one major drug company (Novartis) testified in a House Subcommittee that a counterfeit ring they uncovered produced "millions of yellow tablets that were virtually indistinguishable from the genuine product made of boric acid, floor wax and lead-based yellow paint used for road markings."

Almost 2500 people were killed in Nigeria in 1995 through injecting a supposed anti-meningitis drug during an international vaccination campaign. A batch of this vaccine was counterfeit.

⁹ WHO, Counterfeit Drugs in Brazil: The Public Health Dangers and Potential Solutions, 2001, citing: Reidenberg, M. & Conner, B. 2001, 'Counterfeit and substandard drugs', *Clinical Pharmacology & Therapeutics*, vol. 69, no. 4, pp. 189-193; Williams, R. & Heymann, D. 1998, 'Containment of Antibiotic Resistance', *Science*, vol. 279, no. 5354, pp. 1153-1154.

¹⁰ Citing Csillag, C. 1998, 'Sao Paulo: Epidemic of counterfeit drugs causes concern in Brazil', *The Lancet* (Online), vol. 352, no.28, p.553, Available: Northeastern University (Accessed 10 Mar. 2002); Taylor, D. 1992. 'Counterfeiting drugs can kill', *British Medical Journal* (Online), vol. 304 no. 6823, p. 334, Available: Northeastern University (Accessed 10 Mar. 2002).

¹¹ Citing: Pecoul, B., Chirac, P., Trouiller, P., & Pinel, J. 1999, 'Access to Essential Drugs in Poor Countries: A Lost Battle', *Wall Street Journal* 24 Aug. 2001, p. B1.

¹² Ekinadese E. Aburime, Counterfeit Drugs in Nigeria and Current Interventions, WHO, 2003.

¹³ "Chinese Diet Pill Casualties Mount," July 21, 2002; www.cnn.com/2002/WORLD/asiapac/east/07/21/japan.pills/index.html,

The Anti-counterfeiting Group (ACG) UK reported finds in Nigeria of:

Brake shoes and linings made from compressed grass rather than friction material and which burst into flames on testing, as well as eye drops which contained no active ingredient and made from contaminated water, which could cause blindness if put into an infected eye.

Cultural Effects

Intellectual property rights hold particular relevance for the cultural sector, especially in the audiovisual sphere. The audiovisual medium is a particularly potent means for the preservation of records of music, dance, performance, ritual and other non-written folkloric forms. The lack of adequate protection of these cultural forms, would not only severely undermine the development of a major economic sector but would, above all, pose a threat to our heritage and cultural diversity. This is particularly the case where unauthorised audiovisual works ignore the cultural sensitivity which may be required in the revelation and depiction of these subjects.

This sector is particularly under threat from piracy, particularly in smaller states where there are no economies of scale. The replacement of analogue by digital media has considerably exacerbated the problem in that it has rendered copying both cheap and easy.

Impacts upon competition

Innovation has become one of the most important vectors of sustainable growth for businesses, and of economic prosperity for society as a whole. Businesses must constantly improve or renew their products if they wish to keep or capture market shares. Sustained inventive and innovatory activity, leading to the development of new products or services, puts businesses at an advantage in technological terms and is a major factor in their competitiveness. Businesses often invest large amounts of money in research and development and in the advertising and marketing of their products. This investment will not be undertaken unless they are in a position to recoup their expenditures. 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. Since counterfeit and pirated goods are, by definition, substitutes in the economic sense for lawfully marketed goods which they imitate, the divergences in the cost base in for illegal operators will also give rise to differences in the conditions of competition for the lawful operators. Counterfeiters and the producers of pirate goods are saved the research and development costs and the marketing costs of legitimate traders. Their free-riding enables them to capture an increasing share of the market, thereby producing distortions in the conditions of competition and to diversions of the natural trade flows of legal goods. The phenomena of counterfeiting and piracy thus leads to the loss of turnover and market shares by legitimate businesses. Additionally, they suffer the loss of future sales from the loss of brand image with their customers. The spread of counterfeit and pirated products leads to a prejudicial downgrading of the reputation and originality of the genuine products particularly when businesses gear their publicity to the quality and rarity of their products. This phenomenon also involves additional transaction costs for businesses (costs of protection, investigations, expert opinions and disputes) and in certain cases may even lead to tort actions against the *de facto* right

holder of the products marketed by the counterfeiter or pirate where the proof of good faith is in doubt.

3. The Regulation of Counterfeiting and Piracy under the TRIPS Agreement

3.1 Overview

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 multi lateral framework of principles, rules and disciplines dealing with international trade in counterfeit goods, taking into account work already undertaken in the GATT.

Consequently, Part III of the TRIPS Agreement obliges Members to establish a comprehensive enforcement regime.

The five paragraphs of Article 41 enunciate the general enforcement obligations which are incumbent upon Members. Articles 42 to 50 set out the civil and administrative procedures and remedies which are required to be offered intellectual property rights holders. Article 61 requires the institution of criminal procedures and remedies in the case of wilful trademark counterfeiting or copyright piracy on a commercial scale'. A significant innovation is the scheme for the border control of intellectual property counterfeiting which is contained within Articles 51 to 60, which is discussed in the next chapter. As a corollary to the enforcement provisions of the Agreement, measures are adopted in Articles 63 and 64 for the establishment of multilateral consultation and dispute settlement procedures.

3.2 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'.

In amplification of the latter qualifications, Art.41.2 requires that '[p]rocedures 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 work load which the court system has to bear. To ameliorate 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 place a judicial system for the enforcement of intellectual property rights distinct from that for the enforcement of law in general'.

Article 41.3 requires that '[d]ecisions 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 '[d]ecisions 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, para.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. 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.

3.3 Civil Procedures

In relation to the intellectual property rights covered by the TRIPS Agreement, Article 42 requires Members to make available civil judicial procedures for the enforcement of those rights to rights holders, including federations and associations having legal standing to assert such rights. Article 42 requires that these procedures are fair and equitable in that defendants are entitled to 'written notice which is timely and contains sufficient detail, including the basis of the claims'.

Representation by independent legal counsel is also required by Art.42. All parties to such procedures 'shall be duly entitled to substantiate their claim and to present all relevant evidence', without the procedures imposing 'overly burdensome requirements concerning mandatory personal appearances'.

Finally, Art.42 provides that the procedure ‘shall provide a means to identify and protect confidential information, unless this would be contrary to existing constitutional requirements’.

3.4 Evidence

(a) Discovery and interrogatories

As is conventional in civil proceedings in most jurisdictions, Art.43.1 provides for procedures in the nature of discovery and the administration of interrogatories, once a party has ‘presented reasonably available evidence to support its claims and has specified evidence relevant to substantiation of its claims which lies in the control of the opposing party’. A concern which is particularly acute in patent actions is that these pre-trial procedures may result in trade secrets being revealed. 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 the UK a plaintiff is required in these circumstances to show that there are ‘formidable grounds’ for suspicion that the defendant is infringing a plaintiff’s rights. Where there are concerns about the disclosure of trade secrets to a commercial rival the court may require the inspection of discovered evidence by an independent expert.

In the event that a party to a proceeding ‘voluntarily and without good reason refuses access to, or otherwise does not provide necessary information within a reasonable period, or significantly impedes a procedure relating to an enforcement action,’ Art.43.2 permits Members to accord the judicial authorities ‘the authority to make preliminary and final determinations, affirmative or negative on the basis of the information presented to them’. This will include ‘the complaint or the allegation presented by the party adversely affected by the denial of access to information’. Article 43.2, does however provide the opportunity for the parties to be heard on the allegations or evidence.

(b) Securing and Preserving Evidence

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*¹⁴ 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. 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.

A similar procedure, the *saisie-contrefaçon*, has been developed by the French courts. Because of the exceptional nature of these orders, in their impact upon an individual’s civil rights, after the demonstration that there is a very strong *prima facie* case of infringement, the courts have

¹⁴ [1976] RPC 719.

insisted upon proof that there is a strong possibility that evidence in the possession of a defendant is likely to be destroyed before an application *inter partes* can be made. Additionally, the British courts have insisted upon the safeguards of the attendance upon a search, conducted in business hours, by both parties' legal representative, sometimes with a neutral supervising solicitor who has experience in the execution of these orders. 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.

The *saisie-contrefaçon* and *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'.

As with the *Anton Piller* order, Art.50.2 permits the judicial authorities 'to adopt provisional measures *inaudita altera parte* where appropriate, ...where there is a demonstrable risk of evidence being destroyed.' Also the judicial authorities may have authority pursuant to Art.50.3 'to require the applicant to provide any reasonably available evidence in order to satisfy them with a sufficient degree of certainty that the applicant is the right holder' and that an infringement has occurred or is imminent. Additionally, Art 50.5 provides that to assist the authority which will enforce the provisional measure, 'the applicant may be required to supply other information necessary for the identification of the goods concerned'

As with measures to prevent abuse and to protect a defendant's rights, Art. 50.3 provides for an applicant to be ordered 'to provide a security or equivalent assurance' and Art.50.4 provides that where provisional measures have been adopted *inaudita altera parte*, notice must be provided to the affected parties 'without delay after the execution of the measures at the latest'. Paragraph 4 also provides for 'a review, including a right to be heard' upon the request of the defendant 'with a view to deciding, within a reasonable period of notification of the measures' whether they should be 'modified, revoked or confirmed'. Additionally, if proceedings leading to a decision on the merits of the case have not been initiated within a reasonable period, Article 50.6 permits the defendant to request the revocation of the provisional measures or for a determination that they cease to have effect.

Similar to the safeguards which have been developed in relation to the *saisie-contrefaçon* and *Anton Piller* procedure, Art 50.7 provides for the compensation of a defendant where 'the provisional measures are revoked or where they lapse due to any act or omission by the applicant, or where it is found subsequently that there has been no infringement or threat of infringement of an intellectual property right'.

3.5 Injunctions

(a) Introduction

A civil remedy which is important for the preservation of intellectual property rights is injunctive relief. 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. Article 44 permits the conferral upon the judicial authorities the power 'to order a party to desist from an infringement, *inter alia*, to prevent the entry into channels of commerce in their jurisdiction of imported goods that involve the infringement of intellectual property rights'.

The injunctions which may be granted under Article 44 are grounded upon infringing conduct. Where proof of consumer deception is the central feature of the infringement, the remedy proffered by Art. 44 may be rendered nugatory where a sufficient time is required to provide an opportunity for consumers to become deceived. After this has occurred, it might be futile to hope that this deception can be undone. In this circumstance the provision of interlocutory relief is essential.

(b) Provisional injunctions

Article 50.1 provides that the judicial authorities 'shall have the authority to order prompt and effective provisional measures...(a) to prevent an infringement of any intellectual property right from occurring'. The trade-related context of this remedy is emphasised by the supplementary particularization in sub-paragraph (a) that provisional measures may be taken 'to prevent the entry into the channels of commerce in their jurisdiction of goods including imported goods immediately after customs clearance.

As a matter of practice the provisional injunction, although it is only intended to have a preservative effect, will actually be the basis of the final determination of parties' rights, as it is very seldom that after the interlocutory hearing, the defeated party will proceed to the determination of final relief. If an appeal is to be taken, it will usually be on the issue of interlocutory relief. Provision is made in Art.50.6 for a defendant to request that provisional measures be revoked 'if proceedings leading to a decision on the merits of the case are not initiated within a reasonable period, to be determined by the judicial authority'. Where such a period is not determined, Art. 50.6 prescribes 20 working days or 31 calendar days, whichever is the longer.

here the damage claimed will easily be compensable by way of damages, the court may lean against the grant of injunctive relief, this will particularly be the case where the grant of a provisional injunction will have a significant impact upon the business of the defendant. On the other hand, where the claimed infringement may be likely to have a significantly deleterious impact upon the business of the applicant, the court may consider the inconvenience to the respondent to be accommodated by an undertaking by the applicant or by the payment by it of monies into court in anticipation of compensation or costs being granted to the respondent. These principles are adopted in Art.50.7 which provides that

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 upon request of the defendant, to provide the defendant appropriate compensation for any injury caused by these measures.

(c) Final injunctions

Article 44 permits the judicial authorities ‘to order a party to desist from infringement, *inter alia*, to prevent the entry into channels of commerce in their jurisdiction of imported goods that involve the infringement of an intellectual property right’.

The remedy of injunction is usually granted on a discretionary basis. Among the factors considered are whether: (a) damages provides an adequate remedy; (b) the order will require constant supervision by the court; (c) the applicant has engaged in some disintitling conduct, such as its own infringing activity; and (d) the applicant has delayed in seeking its remedy or has acquiesced in the respondent’s conduct.

Another discretionary ground which is contained in Art.44 is that Members are not obliged to accord the remedy of injunction ‘in respect of protected subject matter acquired or ordered by a person prior to knowing or having reasonable grounds to know that dealing in such subject matter would entail the infringement of an intellectual property right’. It is difficult to see the justification for this qualification and how it will operate in practice. Article 50 permits the grant of provisional measures to prevent an infringement occurring on the application of a single party, where appropriate. A respondent may at that time discover that the products which it has purchased are infringing, but it cannot be enjoined from selling those products under Art.44, since it acquired the knowledge of infringement after the date of the contract of acquisition. Some sense may be made of this qualification by virtue of the fact that the respondent would still be liable to pay damages if it persisted in distributing infringing products.

3.6 Damages and Compensation

Article 45.1 provides that the judicial authorities shall have the authority to order ‘the infringer to pay the rights holder damages adequate to compensate for the injury...suffered because of an infringement of that persons intellectual property right by an infringer who knowingly, or with reasonable grounds to know, engaged in infringing activity’.

There is no assistance contained in Art.45.1 to deal with the complex issue of quantifying the damages suffered as the result of an intellectual property infringement. Where the plaintiff and defendant are competitors, the measure of damages is likely to be what the defendant would have had to pay for a licence if one had been requested. Alternatively, the court may look to the losses which the plaintiff has suffered, which are conveniently assessed on the basis of the profits made by the defendant.

A particular problem arises in with assessing the losses suffered by a trader where the parties do not compete in the same market. For example, in the case of the counterfeiting of prestige branded products, invariably the defendants are the producers of large quantities of inferior products which are sold to an entirely different class of consumer to those which purchase the genuine article. Infringement is undeniable, but the plaintiff will not directly have lost customers to the counterfeiter. On the other hand some customers may have been lost if the

presence of large quantities of counterfeits has depreciated the cachet of the genuine product. The computation of the plaintiff's losses in this situation will be extremely difficult.

Article 45.1 is couched in the language of compensation for injury suffered. An alternative approach may have been to provide the option for the defendant to provide an account of profits. Obliging a counterfeiter of low quality products to disgorge its profits, obviates the difficult calculation of the impact which the sale of those counterfeits may have upon the business of the trademark owner.

3.7 Guilty Knowledge

Article 45.1 provides for compensation orders against infringers 'who knowingly, or with reasonable grounds to know, engaged in infringing activity'. A general standard of reasonableness is usually applied to the question of guilty knowledge. The courts have taken the view, for example that a person who copies a new product ought to have inquired whether it was patented. Conventionally, the existence of relevant knowledge is sought to be established by the delivery of a cease and desist letter to an infringer. A continuation of infringing activity after receipt of such a letter is evidence of guilty knowledge.

Article 45.2 permits Members to authorise the judicial authorities 'to order the recovery of profits and/or payment of pre-established damages even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity'. This sort of remedy is usually ordered in cases of unfair competition or passing off.

3.8 Costs

Article 45.2 permits judicial authorities 'to order the infringer to pay the rights holder expenses, which may include appropriate attorney's fees'. These expenses can also include court filing fees, witnesses expenses and any costs involved in preparing evidence.

3.9 Other Remedies

Article 46, under the justification of creating an effective deterrent to infringement, allows Members to empower the judicial authorities 'to order that the goods which they have found to be infringing be, without compensation of any sort, disposed of outside the channels of commerce in such a manner as to avoid any harm caused to the rights holder'. Alternatively, where existing constitutional requirements so permit, the infringing goods may be destroyed. A constitutional obstacle which exists in some jurisdictions is the obligation to provide 'just terms' for any goods which are compulsorily acquired.

A supplementary power which is conferred upon the judicial authorities is the power 'to order that materials and implements, the predominant use of which has been in the creation of the infringing goods' be similarly disposed of outside the channels of commerce' in such a manner as 'to minimise the risks of further infringements'.

In considering requests for orders to dispose of or destroy infringing goods and equipment used to produce such goods, the judicial authorities are required to take into account 'the need for proportionality between the seriousness of the infringement and the remedies ordered as well as the interests of third parties'. In the case of counterfeit trademark goods, Art. 46 indicates that 'the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit the release of goods into the channels of commerce'.

3.10 Right of Information

A particularly useful innovation is the authority which is conferred by Art.47 '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 counsels the exercise of this power where it is not 'out of all proportion to the seriousness of the infringement'. No guidance is provided as to how seriousness is to be evaluated nor whether the touchstone of seriousness is damage to the party seeking the information, or whether from the perspective of the public interest in suppressing wrongful acts. For example, the large-scale counterfeiting of low quality trademarked goods may be of minimal concern to a trader producing high quality products which are not likely to be confused with the counterfeiter's products. However there may be a public interest in the protection of consumers from the poorer quality goods. There may also be a more fundamental public interest in inculcating an ethos of commercial morality.

3.11 Indemnification of the Defendant

Where 'enforcement measures have been abused' Art.48.1 provides that the judicial authorities shall have the authority to order a party 'at whose request enforcement measures were taken' to provide 'adequate compensation for the injury suffered because of such abuse' to a person wrongfully enjoined or restrained. Article 48.1 also provides for the applicant to be ordered to pay the defendant's 'appropriate attorney's fees'.

3.12 Exemption of public officials

A problem about which rights holders have complained in some jurisdictions is the caprice and abusiveness of the implementation of administrative procedures by public officials concerned in the enforcement of intellectual property rights. This is perceived to be particularly the case where the litigant is a foreign party. Public officials have been able to shelter behind the immunity which is invariably attached to their office. Article 48.2 provides that in relation to the administration of any law pertaining to the enforcement of intellectual property rights, exemption will be provided to public authorities and officials '*only*...where actions are taken or intended in good faith in the course of the administration of that law'.

3.13 Criminal Sanctions

(a) Overview

Article 61 provides that Members shall provide for criminal procedures and penalties 'to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale'. Among the criminal sanctions which are listed in the Article are: 'imprisonment, and/ or monetary fines sufficient to provide a deterrent, consistently with the

level of penalties applied for fines of a corresponding gravity'. Also in appropriate cases, Art.61 provides for 'the seizure, forfeiture and destruction of the infringing goods and any materials and implements the predominant use of which has been in the commission of the offence'.

Article 61 also provides for criminal procedures and penalties to be applied in other cases of infringement of intellectual property rights, 'in particular where they are committed wilfully and on a commercial scale'.

(b) Standard of proof

A consequence of providing for 'criminal procedures' in the case of certain wilful 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 defences exist, the defendant will usually carry the burden of making out the defence, usually on the balance of probabilities.

(c) Knowledge

Article 61 permits the institution of criminal penalties in the case of wilful infringement. As a matter of practice it is not uncommon in intellectual property disputes for a complainant to send a cease and desist notice to an alleged infringer to put them on notice that they may be infringing the complainant's intellectual property rights. This may, however, be unrealistic in cases of large-scale copyright piracy and trademark counterfeiting, particularly where the perpetrators may be involved in organized crime.

A particular problem in proving the wilfulness of corporate defendants is in identifying the persons whose state of mind is relevant to the culpability of the corporation. Generally speaking, a company is liable for the acts and knowledge of persons who could be described as part of the directing mind and will of the company. These would include the board of directors, the managing director and other superior officers who carry out the functions of management and who speak for the company. The persons who are treated in law as the company are to be found by identifying those natural persons who by the memorandum and articles of association, or as the result of action taken by the directors, or by the company in general meeting pursuant to the articles, are entrusted with the exercise of the powers of the company.

(d) Quantification of penalties

The degree of wilfulness or deliberation in the infringing conduct will have a bearing on the size of any pecuniary penalties which are imposed. Also relevant as a quantification factor will be the multiplicity of offences by a defendant and the recurrence of similar offences. Article 61 also refers to the deterrent effect of penalties. This will involve a consideration of the capacity of the defendant to pay, the incentives for wrongdoing and the likelihood of recurrence.

4 Border Measures for the Protection of Intellectual Property Rights

4.1 Overview

A key feature of the TRIPS Agreement is the obligation of members to introduce border measures for the protection of intellectual property rights. Given the concern about the trade in pirated and counterfeit goods which precipitated the interest of GATT in intellectual property protection, it was probably to be expected that the architects of the TRIPS Agreement would look to the customs authorities to assist in the interdiction of this trade. It is obviously more effective to seize a single shipment of infringing products while they are in transit, rather than to await their distribution in the market. Section 4 of Part III establishes a scheme for suspension of the release into circulation of suspected counterfeit trademark or pirated copyright goods. This suspension may be on the application of a right holder or pursuant to ex officio action by the border authorities.

The stratagem of utilizing border seizure to control the trade in infringing goods is foreshadowed in the Paris Convention, which in Art.9(1) provides that 'all goods unlawfully bearing a trademark or trade name shall be seized on importation into those countries of the Union where such mark or trade name is entitled to protection'. It was envisaged in Art.9(3) that this seizure would take place at the request of 'the public prosecutor, or any other competent authority, or any interested party'. The Paris Convention contains no provisions providing for the seizure upon importation of other intellectual property infringements.

In any event, as a matter of practice, although a number of countries had provided for the seizure by customs authorities of goods bearing infringing trademarks, this was more symbolic than real. The priorities for customs authorities had been the collection of trade-related revenues and the control of the trade in weapons, drugs and noxious substances. Their resources and expertise did not equip them to deal with the trade in intellectual property infringements. The identification of intellectual property protection as a trade-related issue has obliged the customs authorities to reorder their priorities.

4.2 Suspension of release of goods by Customs authorities

The key border control provision of the TRIPS Agreement is Article 51 which requires Members to adopt procedures to enable a right holder, who has valid grounds for suspecting that the importation of counterfeit trademark or pirated copyright goods may take place, to lodge an application with competent authorities, administrative or judicial, for the suspension by the customs authorities of the release into free circulation of such goods.

As a footnote to this provision, the term 'counterfeit trademark goods' is defined to mean 'any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation'. The term 'pirated copyright goods' is defined to mean 'any goods which are copies made without consent of the rights holder in the country of production and which are made directly or indirectly from any 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'.

In addition to the suspension of release of goods involving a suspected counterfeit trademark, or which are pirated copyright goods, Article 51 also provides that an application for suspension may also be made in respect of other intellectual property rights infringements,

such as carrying ornamentation which infringes a registered design or involving production in breach of a patented process.

The Article also provides that the procedures for the suspension of imported goods also apply to the 'release of infringing goods destined for exportation from their territories'. On its wording this provision could permit the seizure of goods originating within the country served by the customs authority, as well as goods which are in transit, having originated in another country. As a matter of practice, the customs authorities are not particularly well suited to dealing with goods which are being shipped from the hinterland as the perspective of the customs authorities tends to be outward facing. However, there is no reason why they cannot scrutinize goods passing in both directions.

The Article does not apply to a Member of the WTO which 'has dismantled substantially all controls over movement of goods across its border with another Member with which it forms part of a customs union'. For example, the EU provides in its statutes for the free movement of goods between member countries.

4.3 Application process

Article 52 provides that

Any right holder initiating the procedures under Article 51 shall be required to provide adequate evidence to satisfy the competent authorities that, under the laws of the country of importation, there is *prima facie* an infringement of the right holder's intellectual property right and to supply a sufficiently detailed description of the goods to make them readily recognizable by the customs authorities.

In relation to those intellectual property rights which are obtained by registration, such as trademarks, registered designs and patents, it would be reasonable for a customs authority to require submission of documentary proof of ownership of that right, such as a copy of the relevant registration certificate, by an applicant for suspension. Particular problems will arise in relation to those rights which do not arise from registration in the jurisdiction. In practice, the most important of these will be well-known trademarks and copyrighted works.

Well-known trademarks are those which have such a great international reputation that they are capable of protection in a country even without registration. Where the proprietor of a well-known mark applies to suspend the release into free circulation of goods which allegedly infringe a well known trademark, the customs authorities will be obliged, first, to determine the well-known status of the mark; and secondly, in the absence of registration documents, to determine whether the goods which are the subject of the application, infringe the well-known trademark. This will require the border authorities to develop some intellectual property expertise, or the development of close liaison with the intellectual property authorities.

A similar problem will arise in relation to pirated goods where the border authorities will have to develop sufficient expertise to be able to satisfy itself on the question of ownership of copyright and on the subject of infringement.

Following receipt of an application for suspension, the competent authorities are required by Art.52 to inform the applicant 'within a reasonable period whether they have accepted the

application' and, where it has been determined, the period within which action will be taken by the competent authorities.

4.4 Security or Equivalent Assurance

To protect persons who are the subject of an application for suspension and also the competent authorities from abuse, Art.53.1 empowers the competent authorities to require the provision of 'a security or equivalent assurance to protect the defendant and the competent authorities'. However, Art.53.1 provides that the requirement of a security or equivalent assurance shall not unreasonably deter recourse to these procedures.

In certain limited circumstances, Art 53.2 provides for the release of suspended goods upon the payment by a defendant of an amount sufficient to protect the right holder for any infringement as security. This procedure applies (a) where there has been a suspension of goods involving industrial designs, patents, layout designs or undisclosed information by customs authorities on the basis of an administrative decision which has not been reviewed by a judicial or independent authority; (b) the period prescribed by Art.55 for notification to the customs authorities of commencement of proceedings to determine the merits has expired; and (c) all other conditions for importation have been complied with.

Article 53.2 provides that the payment of such security shall not prejudice any other remedy available to the right holder and that the security shall be released if the right holder fails to pursue the right of action within a reasonable period of time.

4.5 Notice of Suspension

Article 54 provides for the prompt notification of both the importer and the applicant of the suspension of the release of goods under Art.51.

4.6 Duration of Suspension

Article 55 provides for the release of suspended goods by the customs authorities, provided that all other conditions for importation or export have been complied with, if 'within a period not exceeding 10 working days after the applicant has been served notice of the suspension, the customs authorities have not been informed that proceedings leading to a decision on the merits of the case have been initiated by a party other than the defendant, or that the duly empowered authority has taken provisional measures prolonging the suspension of the release of the goods'. The Article provides for an extension of the time-limit by another 10 working days in 'appropriate cases'.

Where proceedings leading to a decision on the merits of a case have been initiated, the defendant is permitted by Art.55 to request a 'review, including a right to be heard' with a view to deciding, within a reasonable period, 'whether these measures should be modified, revoked or confirmed'.

Finally Art.55 provides that where the suspension of the release of goods is carried out or continued in accordance with a provisional judicial measure, Art.50.6 shall apply to require that the suspension shall be revoked or cease to have effect if proceedings leading to a decision on the merits of the case are not initiated within a reasonable period, to be determined by the judicial authority, or, in the absence of such a determination, within 20 working days or 31 calendar days, whichever is the longer.

4.7 Indemnification of the Importer and of the Owner of Goods

Where the importer, consignee and the owner of goods suffer injury through the wrongful detention of goods, or through the detention of goods released under Art.55, Art 56 empowers the relevant authorities to order the applicant to pay those persons ‘appropriate compensation’.

4.8 Right of Inspection and Information

A particularly useful innovation effected by the border control provisions of the TRIPS Agreement is the authority conferred by Art.57 empowering Members to provide the competent authorities, where a positive determination has been made on the merits of a case, with the authority to inform the right holder ‘of the names and addresses of the consignor, the importer and the consignee and of the quantity of the goods in question’. This will obviously assist a right holder in its further investigation of other persons involved in the counterfeiting or piracy of goods.

The right holder is inevitably in the best position to assist in the identification of infringing goods, Art.57 permits Members to provide the competent authorities with the authority to provide the right holder with ‘sufficient opportunity to have any goods detained by the customs authorities inspected in order to substantiate the right holder’s claims’. Similarly, the competent authorities are also to be provided with the authority give the importer an equivalent opportunity to have the goods inspected.

4.9 Ex Officio Action

Article 58 envisages that Members may permit the competent authorities to act upon their own initiative in suspending the release of goods where they have *prima facie* evidence that an intellectual property right is being infringed. In these circumstances the Article permits the competent authorities to ‘seek from the right holder any information that may assist them to exercise these powers’.

Article 58(b) requires that both the importer and right holder shall be promptly notified of the suspension and that where the importer has lodged an appeal against the suspension with the competent authorities, the suspension shall be subject to the conditions, *mutatis mutandis*, set out in Art.55.

An exemption is provided by Art.58(c) to both public authorities and officials ‘from liability to appropriate remedial measures where actions are taken or intended in good faith’.

4.10 Remedies

Without prejudice to the infringement actions which may be brought by a right holder, and subject to the right of a defendant to seek review by a judicial authority, Art.59 provides that the competent authorities shall have the authority to ‘order the destruction or disposal of infringing goods’ in accordance with the principles set out in Art.46. Article 46 requires any disposal of goods to be outside the channels of commerce ‘in such a way as to avoid any harm caused to a right holder’. In deciding upon destruction, the competent authorities will take into account the seriousness of the infringement and the interest of third parties. In regard to counterfeit goods, Art.46 provides that ‘the simple removal of a trademark, unlawfully affixed shall not be sufficient, other than in exceptional cases to permit the release of the goods into the channels of commerce’. Similarly, Art.59 provides, in relation to counterfeit goods, that the authorities ‘shall 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’.

4.11 *De Minimis* Exports

Article 60 permits Members to exclude ‘small quantities of goods of a non-commercial nature contained in travellers’ personal luggage or sent in small consignments’ from the border control provisions of the TRIPS Agreement.

5. Best Practices for Enforcement of Intellectual Property Rights

A survey conducted by WIPO in 2002 indicated that the principal barriers to eliminating counterfeiting and piracy did not subsist in the substantive law, but rather in the remedies and penalties available (or not available) to stop and deter counterfeiting and piracy.¹⁵ The ineffectiveness of enforcement systems was attributed, in many cases, to a lack of human resources, funding and practical experience in IP enforcement of relevant officials, including the judiciary; insufficient knowledge on the side of right holders and the general public, concerning their rights and remedies; and systemic problems resulting from insufficient national and international coordination, including a lack of transparency.

The following were identified as among the best practices for the implementation of the enforcement provisions of the TRIPS Agreement:

5.1 National Cooperation and Coordination

The fight against counterfeiting and piracy would have much greater chances for success if it is a coordinated one, involving all the relevant stakeholders, and dealing with all the various intellectual property rights. A number of Member States have established coordinating or taskforce units involving, *inter alia*, the various relevant ministries and agencies, such as the industrial property offices, customs, police and justice. Also involved are members of such bodies as associations of right holders, copyright societies, medicines control agencies and trading standard authorities, as well as leading manufacturing, retail and consumer organizations. These units sometimes have specialized smaller committees, dealing with more specialized intellectual property issues such as the drafting of new legislation and the development of frameworks for cooperation on enforcement action against intellectual property crimes.

¹⁵ WIPO Doc., WIPO/EIM/3.

The aims of this cooperation included the coordination of enforcement activities; the development of greater expertise, particularly among customs officers at all points of import and export; the improvement in general liaison procedures with all national agencies involved in enforcement; the enhancement of contacts with right holders and their representative organizations; the establishment of benchmarks with specialist anti-counterfeiting units in other Customs administrations; and the participation in public awareness campaigns. The exchange of officials is considered to have produced good results, allowing them to benchmark their performance and structure against specialist units that operate in other Member States. Right holders have been encouraged to contribute to the training of customs staff in the identification of counterfeit and pirated goods, and in intelligence reporting from their own sources to assist officers in identifying consignments of counterfeit or pirated goods.

5.2 International Cooperation

In some Member States, cooperation with international intergovernmental organizations has resulted in the creation of bilateral cooperation and support programs in the field of enforcement. It has been suggested that industrialized Member States be requested to create an international computer network covering the ownership of merchandise that passes through customs. It was observed that the same intellectual property rights registered in a number of countries could be affected by the same types of infringements. Information networks could consequently be useful for the exchange of information on infringement cases.

5.3 Public Awareness and Cooperation

Ultimately, the fight against counterfeiting and piracy has to involve the public, since it is its purchasing power which causes these practices to flourish. National anti-counterfeiting and anti piracy campaigns could be used to indicate the link between intellectual property, crime and job losses, the debilitating effects of organized crime, and the dangers to health and safety of infringing goods.

5.4 Right Holder Cooperation

As intellectual property rights are ultimately private rights, right holders have the largest immediate financial stake in ensuring the protection of those rights. For this reason rights holders have been particularly willing to assist in enforcement efforts by providing information to assist in the identification of infringing products and in co-operating in awareness and training programmes.

The border control provisions of the TRIPS Agreement envisages that in the first place it will be the rights holders who will apply to the Customs authorities to intercept shipments of counterfeit and pirated products. Inevitably the rights holders will be in the best position to identify infringing products. Some rights holders provide Customs authorities with guides to the identification of genuine products, as well as with lists of authorised dealers in their products. Thus, Customs is put on notice when a shipment is directed towards a non-authorised dealer.

An example of rights holder co-operation with the enforcement authorities is the establishment in the People's Republic of China of the Quality Brands Protection Committee

(QBPC), which was founded in 2000. The QBPC consists of 76 foreign companies, such as Compaq, Siemens and Kodak, with investments in China totalling some \$US 14 billion. The QBPC cooperates in the fight against counterfeiting with local administrations. In 2003 it introduced awards for the most successful anti-counterfeiting activities by 13 local administrations.

5.5 Judicial Enforcement

(a) Provisional measures

The effective participation of right holders in enforcement actions against counterfeiters and pirates. An effective way of facilitating this participation is through the ordering of prompt provisional measures to preserve evidence and to prevent infringements. In some jurisdictions, the right holders apply *ex parte* for an order to enter the premises of the alleged infringer in order to attach and preserve evidence. This can be done on short notice, but right holders have to substantiate their claims and may have to provide security. The applications for *ex parte* orders should be acted upon and executed within a short time period and security requirements should not unreasonably deter recourse to these procedures. Similarly, the appropriate authorities should have the right to order the seizure of suspected infringing goods and other relevant evidence as soon as there is reason to suspect that rights are being or are about to be infringed. The ability to seize or preserve should cover not only the infringing articles themselves, but also the equipment and other materials used in the infringing operation, including the production and distribution aspects.

In some jurisdictions the freezing of the defendant's bank account(s) and other assets may be ordered in order to assure funds to satisfy compensation awards and judgments, may be ordered, pending the court's consideration of the merits of the case. In the USA such orders, executed by the police authorities, under the anti-racketeering legislation, allows the enforcement authorities to confiscate assets of organised criminals, such as real property, vehicles and boats, to be used in subsequent enforcement activities.

(b) Damages

In cases involving infringements of intellectual property rights, it is important that courts be empowered to award damages that both compensate the right holders and deter potential infringers from engaging in illegal activities. National laws therefore should contain rules on the calculation of damages that allow courts to award such damages as to create a deterrent, and adequately compensate right holders. In common law countries, right holders are entitled to an "account of profits", ie the right to receive all profits from the infringement. Exemplary damages, may be used as a deterrent in cases of flagrant counterfeiting and piracy.

(c) Ancillary orders

In a number of countries, the courts can order the destruction of infringing goods and/or implements used in the manufacturing thereof, particularly where the defendant has acted in bad faith. Judicial procedures may also be adopted whereby offending goods that have been placed on the market are recalled at the infringer's expense, as long as they were not sold to consumers. In some countries, infringers may be required to undertake corrective advertising.

(d) *Evidentiary rules*

In some States, the rules of civil procedure have been amended to include a rebuttable presumption, that the judicial authorities shall presume that a person who has infringed an intellectual property right had reasonable grounds to know he was infringing such right. The presumption is rebuttable, where the defendant is able to provide concrete proof to the contrary. Additionally, proceedings are facilitated by the presumption of ownership of an industrial property right, evidenced on the relevant registration certificate. In copyright matters the person or legal entity whose name was indicated as the author, producer, performer or publisher of the work, in the usual manner is, in the absence of proof to the contrary, presumed to be the lawful right holder of the work. A person claiming to have a copyright licence carries the burden of producing a true copy of the license agreement.

5.6 Administrative enforcement

Given the expense and complexity of the judicial enforcement of intellectual property rights, administrative remedies are often a less expensive solution. In the People's Republic of China, there are, apart from Customs, two governmental administrative bodies which handle intellectual property cases: 1. The Administration for Industry & Commerce (AIC), handling trademarks, trade dress and trade name related disputes; 2. The Technology Supervision Bureau (TBS), handling cases of pure Counterfeit under the Product Quality Law. This protection is considered to be comprehensive, speedy and low cost. In relation to trade mark disputes, seeking an administrative route for enforcement of rights is the norm. Their actions take place without any recourse to the courts and involve government departments exercising specific powers of inspection and punishment. Punishment can include confiscation of infringing goods, orders and fines.

5.7 Border Control

People's Republic of China

The Customs Law of the People's Republic of China¹⁶ gives Customs the power to check inward and outward means of transport and examine inward and outward goods and articles. In allowing Customs to check outward goods, this measure exceeds the requirements of the TRIPS Agreement. Customs can act ex-officio and they can be notified by individuals. Customs is entitled to examine, re-examine or take samples from the goods. The consignor of the export goods shall be present and be responsible for moving the goods and opening and restoring the package. The customs shall be entitled to examine or re-examine the goods or take samples without the presence of the consignee or the consignor whenever it considers this necessary.

To facilitate its border control of infringing goods, the Customs Law of the PRC provides for the recording by rights holders with Customs of

Notarised and legalised power of attorney appointing an agent or representative.

¹⁶ Adopted January 22 1987, and July 8, 2000.

Notarised and Legalised certificate of incorporation in the owner's domicile (which must be translated in Chinese).

Certification of the rights concerned.

Samples of goods.

Other details such as licensees and suspected infringers.

Where infringing goods are sought to be Customs is permitted to confiscate the goods, impose a fine on the party concerned and, investigate and prosecute the criminal responsibility according to law where the export constitutes a crime.

Hong Kong

Hong Kong has enacted two pieces of legislation in order to implement the Border Control provisions of the TRIPS Agreement, which permit Customs officers to stop and search any vessel, aircraft or vehicle, and seize, remove or detain any suspected infringing copy of a copyright work or counterfeit goods, other than goods in transit.¹⁷ A right holder (copyright or trademark) may apply to Hong Kong Customs to record its trademark or copyright. Accompanying the application form are: evidence of ownership, information of the right holder's products (and samples whenever possible), and letter of authorization provided to their authorized representatives. Hong Kong practice also provides for an updating of this intellectual property information and for changes of right holders or its address, addition or deletion of licensees, substitution of the IP owner's agent, or changes in use of the IP on products such as packaging designs. Upon recordal, Hong Kong Customs can take ex-officio action. Additionally, Hong Kong Customs possesses extended powers to enter premises and inspect and seize goods and documents. This includes investigations into the full distribution chain i.e. import, export, manufacturing, inland distribution, storage and/or retail outlets.

Indonesia

Indonesia has implemented its TRIPS obligations through a battery of legislation, which provides that right holders can either approach the District Court of Customs for a suspension of the importation of infringing goods.¹⁸ The National Police play an active part in the investigation of complaints, with the assistance of rights holders.

Jordan

Jordan has instituted a border control system which provides for the joint enforcement of registered marks by Customs and the industrial property office.

Republic of Korea

¹⁷ Copyright Ordinance (Chapter 528); Trade Descriptions Ordinance (Chapter 362).

¹⁸ Ie: 1997-Law No. 12: revision of the 1982-Law No. 6, revision of the 1987-Law No. 7 relating to copyrights; 1997-Law No. 13: revision of the 1989-Law No. 6 relating to patent rights; 1997-Law No. 14: revision of the 1992-Law No. 19 relating to trademark rights and 1997-Presidential Order No. 15 relating to the improvement on the 1979-Presidential Order No. 24 relating to the ratification of the Paris Convention and the convention for establishing the World Intellectual Property Organization (WIPO) for the protection of industrial property rights; 1997-Presidential Order No. 18 relating to the ratification of the Bern Convention for the Protection of Literary and Artistic Works.

In the Republic of Korea three authorities are involved in enforcement of its Border Control provisions:

Korean Customs Service.

Anti-Counterfeiting Division, Korean Industrial Property Office (KIPO).

Criminal Division Supreme Public Prosecutor's Office.

The Customs Department has established a Trademark Declaration System, which provides for the registration by trademark owners of matters concerning their trademark, including:

Name of the right owner.

Contents and scope of the trademark right.

Names of exporters or importers, or exporting or importing countries that may possibly infringe the trademark right.

The Commissioner of the Korean custom service has the authority of investigation equivalent to that of the prosecution and carries out the investigation jointly with the Public Prosecutor's Office, or under the supervision of the Prosecutor's Office. If an infringement is found the case is referred to the Public Prosecutor's Office.

The Korean Industrial Property Office (KIPO) is concerned with offences against the Unfair Competition Prevention Law. This Act prohibits trademark infringements and the deceptive use of marks. After investigation, the case is referred to the Public Prosecutor's Office.

Malaysia

The Ministry of Domestic Trade & Consumer Affairs (DTCA) has established an Enforcement Division which initiates actions in case of possible criminal offences. Under the Trademark Act and the Customs Act the Enforcement Division has been granted the authority to search, raid, arrest, fine with penalty and seize infringing goods. The Enforcement Division of DTCA carries out raids in co-operation with the Police. The Enforcement Division also co-operates with Customs in search and seizure of infringing goods based on the Customs Act.

Philippines

The Philippines has implemented the TRIPS Border Control provisions in its Customs Administrative Order No. 7-93. The Bureau of Customs maintains a registry of trademarks, patents and copyrights, and other pertinent information and where sufficiently detailed description of the goods are recorded to make them readily identifiable by the Bureau of Customs. The Bureau of Customs, for monitoring purposes, has also established an alert list of persons, either provided by intellectual property owners or other sources, known or suspected to be infringing, counterfeiting or otherwise copying or simulating marks or trade-names protected under the subject laws. On the basis of the alert list or upon written request by the trademark patent and copyright owners, the Bureau of Customs shall place under alert orders shipments known or suspected to be infringing upon their trademarks or copyrights. However, the said owners shall bear expenses if their information turns out to be negative. For this purpose, the Bureau of Customs may require the said owners to provide a security to answer for the said expenses.

South Africa

Border measures and fighting counterfeiting in South Africa are based on the “Counterfeit Goods Act of 1997”. The Act provides that the Commissioner for Customs and Excise upon having granted an application to that end by the owner of an intellectual property right, will have the power to seize and detain counterfeit goods or suspected counterfeit goods imported into or through or exported from or through the Republic of South Africa during a particular period and calculated to infringe that intellectual property right. If a right owner has grounds to suspect that counterfeit goods are being imported into or exported from the Republic of South Africa it may lay a complaint with customs, accompanied by sufficient information and particulars from which it is possible for customs to identify the alleged counterfeit goods, a power of attorney (if the complaint is done by a representative) and prima facie evidence the goods are protected (e.g. trademark registration). A customs officer can only act if a warrant has been issued by a judge of the High Court or a magistrate who has jurisdiction in the area where an act of dealing in counterfeit goods (is likely to) has taken place.

If during regular inspections a customs officer comes upon counterfeit goods he has to inform the right owner and furnish an original of the inventory list of the shipment seized within three days. The right owner must file a criminal complaint within three days or initiate civil proceedings within ten working days after the notification. If no such action is initiated Customs will have to release the goods.

United Arab Emirates (UAE)

In the UAE, the Customs imposes a tight control on the import/export of cargo. All airlines, shipping companies, shipping agents and importers have to register with the Customs. Each one of them would be allotted with an Importer Code or Agent Code. Traders are not allowed to import or export goods without registration. Through the installation of computer terminals in the customs offices in the airport, seaports and free trade zones, upon the receipt of delivery orders from the shipping agents customs officers can add a "Hold" or "Warning" remark, where appropriate, to alert the officers of the Operation Section. The latter will then take appropriate actions in accordance with the remarks on screen, e.g. direct the importer to produce their goods for customs physical inspection. When suspected infringing goods (whether in printed [e.g. books] or non-printed [e.g. CDs, VCDs, DVDs] formats) are found, samples are sent to the Ministry of Information and Culture for examination and follow-up investigation. In the case of suspected counterfeit goods, Officers consult the Chamber of Commerce to see whether the trademark owner was registered. If the trademark owner was located, he would be invited to verify the genuineness of the goods. The importer in question would be put on a blacklist and classified as high risk. Inspectors of the Inspection Section will monitor those consignments imported by those blacklisted importers and select their imported goods for examination until no further irregularity was found after several months.

5.8 Criminal Procedures

A number of countries have introduced criminal sanctions in relation to piracy and counterfeiting. Article 61 of the TRIPS Agreement requires criminal procedures and penalties for cases of wilful trademark counterfeiting or copyright piracy on a commercial scale. A number of countries provide for both civil remedies and criminal penalties in relation to piracy and counterfeiting, as well as for the seizure, forfeiture and destruction of the infringing goods and of any materials and implements the predominant use of which has been in the commission of the offence.

In a number of developing countries criminal penalties apply also in cases of patent infringement.

5.9 Right to Information

A “right to information” has been identified as a valuable instrument in the fight against counterfeiting and piracy. It would enable right holders to identify the key persons involved in infringing activities, particularly, where the infringing activity involves a number of countries. Providing the right holder with information about infringing goods, as well as about persons involved in the infringements, enables to rights holder to identify the chain of distribution.

The Border Control legislation of Hong Kong¹⁹ provides that Customs may disclose the following information to right holders:

- The time, and the address of the place, of seizure or detention of the goods;
- The name and the address of the person from whom the goods have been seized or detained;
- The nature and quantity of the goods;
- Other information the Customs thinks fit to disclose.

The right owner or his authorized agents may apply to the Court of First Instance for an order requiring the Commissioner to disclose such information or document, and the Court of First Instance may on such an application make such order for disclosure as it thinks fit.

5.10 Deterrence of Publicity

In some countries, to provide protection for the public, as well as raising the awareness of the value of intellectual property rights, judicial authorities, have the power to order the official publication of court decisions, particularly those with a deterrent effect.

5.11 Specialized Courts

Some developing countries, such as Thailand and China, have established specialised courts to hear IPR-related cases as a means of improving their capacities for national enforcement, though such a measure is not formally required under TRIPS. A more attractive approach for developing countries is probably to establish (or strengthen) a commercial court, which may hear IPR-related cases *inter alia* and provide improved access to justice for the business sector as a whole. In any event, in most developing countries, a considerable programme of training for the judiciary and other enforcement agencies in IP subjects will be required. The “private” nature of IP rights suggests the importance of resolution of disputes between parties either out of court or under civil law. Indeed, as state enforcement of IPRs is a resource-intensive activity, there is a strong case for developing countries to adopt IPR legislation that emphasises enforcement through a civil rather than a criminal justice system. This would reduce the enforcement burden on the government in the case of counterfeiting on a large scale, although the state enforcement agencies would still be required to intervene. That said, we note that developing countries have come under pressure from industry which advocates

¹⁹ Copyright Ordinance (Chapter 528) - Section 126, Trade Descriptions Ordinance (Chapter 362) - Section 16C.

enforcement regimes based on state initiatives for the prosecution of infringements. Such pressures should be resisted, and right owners assume the initiative and costs of enforcing their private rights.

5.12 Accelerated Procedures

The WIPO survey of proposed best practices²⁰ urged that, in order to relieve the courts and their congestion, that accelerated cost reducing procedures could be considered. For example, after the customs authorities have seized the goods, the applicant or the person who is entitled should have the possibility to file a written objection within a short time limit. If no objection is filed, the goods would be destroyed or taken from the market in a different way. If an objection is raised, the seized goods would be handed over to the right holder, if the applicant cannot prove that he has brought an action with the competent court within a time limit of, e.g., 10 or 20 days. It was also suggested that alternatively, intellectual property cases could be dealt with in interim, informal procedures, which could be held on a very short notice and following which the infringement might be stopped immediately. This abbreviated procedure could be followed by proceedings on the merits. The right holder could make a reasonable case for having an urgent interest and he should do so within reasonable time after the discovery of the infringements, otherwise, he should start proceedings on the merits.

5.13 Mediation and Arbitration

A means of reducing the expense and bureaucratic delays in the enforcement process in a number of developed countries has been to introduce alternative dispute resolution procedures, such as mediation and arbitration. These procedures encourage the exchange of information in order to facilitate the settlement of disputes at an early stage.

5.14 Regulation of Optical Media Manufacturing

A particular problem, particularly in Asia, has been the manufacture of pirated optical discs. The Macao SAR Government has taken a series of measures to deal with optical disc piracy. It requires controls over the import and export of optical disc production equipment, stampers and media products, as well as raw material for optical discs. Shops selling optical discs must be registered (stating business hours) before business operation, and penalty shall be levied for any operation beyond registered business hours. The law enforcement authority, under this action, is able to control the irregular operation of shops. Source documents (e.g. an invoice) must be available for tracing the activities of selling, storing and shipping in/out of optical disc products, otherwise, a penalty shall be levied. Fines and imprisonment are imposed in relation to selling, storing, and shipping in/out of pirate disc production.

The industry standard for the identification of discs is the Source Identification Code ('SID Code'), which was introduced on a voluntary basis in 1993 and is now generally accepted as the worldwide standard for unique identifiers. Regulation of this manufacture could also allow competent authorities to monitor the traffic in key raw materials, especially in optical grade polycarbonate, and manufacturing equipment, as important tools in tracing pirate manufacture of optical discs.

²⁰ WIPO Doc., WIPO/EIM/3.

5.15 Contact Points and Information Providers

For effective *ex officio* and normal actions, the security forces and customs authorities must have access to information concerning the right holders. In order to achieve this, the contact points, in a number of WIPO Member States, have been established as the national intellectual property offices, which under the right circumstances, can provide useful and fast information on right holders and rights. In some Member States, the intellectual property office plays a pivotal role in the drafting of clear instructions to enforcement officials on how to proceed in these cases and do studies and compile useful reports to assist in this aim. The intellectual property office has been called upon to give binding or non-binding reports, and other relevant information, to assist the courts.

[End of document]