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The role of customs and market surveillance authorities in the fight against counterfeiting & piracy

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Revision of Regulation Com - 1383/2003

1. Introduction

Counterfeiting and piracy of both industrial and consumer goods are increasingly posing a critical challenge for the European and world economies and also, in the engineering industries sector, for the safety of consumers and workers. In recent years Orgalime has campaigned in favour of a determined fight against counterfeiting and piracy and has welcomed initiatives from the European Commission and other international organisations supporting anti-counterfeiting and anti-piracy measures. Orgalime welcomes the Commission consultation on the Council Regulation (EC) 1383/2003 and sees this as an opportunity for the EU to truly make a difference in protecting its borders and markets from counterfeit and pirated goods. We comment hereafter in more detail.

2. The scope of Regulation 1383/2003 should cover all IPRs

The Commission consultation addresses the question of which IPRs should be covered by the scope of the Regulation. In the highly innovative sectors Orgalime is representing, companies heavily rely on IPRs. Thus, it is of utmost importance that the scope of the Regulation does not discriminate between different types of innovations and IPRs but covers all IPRs. In particular, it should continue to cover Member State patents (while possibly accommodating already for a future EU patent) and should also include Member State utility models. This is also in line with the Commission Statement concerning Article 2 of Directive 2004/48/EC (2005/295/EC) as reiterated by the Commission Communication „Enhancing the enforcement of intellectual property rights in the internal market“ (COM(2009) 467).“

3. Concerns which hinder Regulation 1383/2003 to fully explore its potential

Orgalime and its members are promoting and encouraging companies to take advantage of all the available legal and administrative instruments to fight counterfeiting and piracy. Companies very much welcome the possibility of cooperating with customs and especially both the "ex officio" procedure, which has allowed authorities in recent years to become more proactive than in the past, and the simplified procedure.

Orgalime, the European Engineering Industries Association, speaks for 33 trade federations representing some 130,000 companies in the mechanical, electrical, electronic, metalworking & metal articles industries of 22 European countries. The industry employs some 10.6 million people in the EU and in 2009 accounted for some €1,427 billion of annual output. The industry not only represents more than one quarter of the output of manufactured products but also a third of the manufactured exports of the European Union.

Despite the considerable improvement of the Regulation in 2003, we unfortunately see that this instrument is still not sufficiently known among European manufacturing companies. Furthermore, many companies that are aware of the existence of this instrument decide not to take action for many reasons which are described below. The degree of cooperation with customs authorities also largely depends on the sector and size of the company. While big multinational companies might possess sufficient staff to cooperate with customs and accept the obligations placed on them, most SMEs do not.

The following are reasons why the Regulation is not sufficiently used by European engineering companies:

- Perception that filing complaints would take too much effort, cost and time.
- A deterrent is the cost of storage (Article 6) and of destruction (Article 11) of counterfeit goods, which need to be borne by the rights holder. Many rights holders (who rightly regard themselves as victims of counterfeiting) do not understand why these obligations are imposed upon them. Another deterrent is the *uncertainty* of costs for storage and destruction: these are not known before the application for action is done.
- Concern over the financial risks of inadvertently supplying incorrect information to the authorities about a suspect shipment.
- The obligation to have *rights holders* on the spot within a very short timeframe to identify suspect products is in practice difficult to meet, especially for SMEs.
- Reluctance to deal with customs per se, as companies fear that additional requirements or costs will be imposed on them; it is often not the department dealing with IPRs but another department (e.g. export marketing and component purchasing) that deals with customs in a company, and they have often had previous (negative) experiences in dealing with them.
- A fear of bad publicity (certain companies are still concerned that it will harm their image if it is stated in the press that their products are being copied).
- Perception that many national customs authorities lack expertise in dealing with counterfeit industrial goods (whereas in traditional consumer goods such as textiles, watches, CDs, shoes etc. they have gained sufficient experience and have elaborated effective methods).

We invite the Commission to take such concerns into account when reviewing the Regulation. We would furthermore appreciate the performance of a study/analysis on the “popularity” of this instrument among EU industry. Orgalime has asked at several occasions for the publication of more information about the actual use of the Regulation by companies. We still lack knowledge on know *how many* companies have actually decided to cooperate with customs and to which extent engineering companies take advantage of it.

4. Cooperation between customs and market surveillance to be increased for CE-marked products

Efficient cooperation between the different authorities at both national and European level is crucial for the fight against counterfeiting and piracy. This is particularly relevant for the cooperation between market surveillance authorities and customs. The engineering industry is today dissatisfied with the lack of cooperation between those two authorities.

Member States’ market surveillance authorities (and the Notified Bodies to which they outsource technical testing) have the necessary expertise in identifying minor deviations and safety risks in products, which often go hand in hand with counterfeit products. With their field experience they have a better overview of the problem and could provide assistance to customs authorities, for example by *detecting* and *identifying* counterfeit products.

The lack of cooperation between customs and market surveillance has been addressed in theory in the New Legislative Framework (NLF). In our view, Regulation 765/2008/EC, as part of the NLF, provides the potential for better effectiveness of customs as well as for market surveillance authorities and for significant improvement of their cooperation: Member states are obliged to provide these authorities with the necessary resources and powers. Customs are obliged to suspend products from release for free circulation if a serious risk is assumed, if required documentation is lacking or if the CE marking is not applied in the correct manner. Customs have to notify market surveillance authorities in such cases. Orgalime insists that the Commission check whether all those requirements that Regulation 765/2008/EC imposes on national authorities are implemented correctly.

Authorities should be aware that within the engineering industries, counterfeit products are often accompanied by counterfeit CE marking, which consequently make the product by definition illegal and in breach of EU laws: these products did not respect the legal requirements imposed by EU Directives (be it the EU Machinery Directive, the Low Voltage Directive, the Pressure Equipment Directive and so on) and the necessary Standards during the production process; they have not been properly tested and certified, nor have they been declared by the original manufacturer to be in conformity with the applicable EU legislation and relevant harmonised standard according to Regulation 765/2008/EC.

5. The need for an information system between national and EU authorities

For cooperation between the different authorities to work effectively, Orgalime suggests introducing an internet-based information exchange system that would allow national authorities to inform each other on counterfeit and pirated products and trends. Also intelligence on suspect companies (importers, traders) both within and outside the EU could be networked across all applicable authorities within the EU.

Such a system could take shape in many ways, for example

- by creating an information exchange platform under the authority of the EU Observatory on Counterfeiting and Piracy,
- by linking it up with the electronic information exchange system foreseen by regulation 765/2008/EC,
- by linking it up with the current RAPEX and/or the ICSMS systems, or
- by any other method deemed appropriate by the Commission services.

In our view such a system could initiate a planned chain reaction of cooperative processes and follow-up actions to be taken by the different players. We invite the Commission to consider introducing such a system for counterfeit and pirated products.

6. Customs and market surveillance authorities need more resources in order to work efficiently

Customs authorities and market surveillance authorities have insufficient resources to deal with the counterfeiting and piracy challenge. Only a handful of EU countries have specialised anti-counterfeiting and anti-piracy teams. The EU border is only as good as its weakest point; as a result the same level of protection must be ensured throughout the EU.

Orgalime therefore invites policy makers to commit sufficient resources to authorities that deal with counterfeiting and piracy, to enable them to fulfill their obligations. Such resources are especially needed for:

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- Carrying out administrative checks and tracing counterfeit products and unlawful market operators both at the EU borders as well as within the EU;
- Improving physical controls; possibly also by investing in high tech scanning equipment, large enough to scan containers at the EU borders (especially for instances where documents do not match up with the products, included when this is done for the purpose of duty evasion);
- Developing a database that keeps track of infringements and infringers (exporters/importers that have infringed IPRs should be given the highest risk rating; simplified procedures of these exporters/importers should be revoked; future shipments of these exporters/importers should be inspected);
- Funding of information campaigns and for supporting co-operation with third parties and industry associations in order to better inform companies about their possibilities.
- Training customs resources on specific product sectors and especially for fake products with a potential for giving rise to health and safety issues, such as electrical or mechanical engineering products;
- Ensuring that the manufacturers declaration of conformity is asked during import procedures, as requested by Decision 768/2008 and referred to in Art 27 § 3b of 765/2008/EC;
- Improving the customs documentation that describes quantities, products, brands and country of origin (today's rules on documentation information seem too relaxed and allow products to escape tight control).

Such financial support could be provided within the framework of European Structural Funds or other, in particular to assist Member States whose geographic or economic conditions place them in a weaker position to fight against illegal trade and unlawful imports from abroad. The Commission could use peer pressure and benchmarks to help Member States achieve a comparable level of anti-counterfeiting and anti-piracy activities.

7. Sharing the burden and the responsibility: the engineering industry should not fulfill the obligations of state authorities

While it is evident that it is in the rights owner's own interest to combat counterfeiters and pirates who infringe the rights holders IPRs, Orgalime would like to point out that there is a joint responsibility to fight such illegal practices. State authorities need to ensure that EU consumers have access to safe products and that companies/persons who illegally produce or sell goods are prevented from doing so. Today's way of thinking, however, provides that the burden of responsibility lies on the rights holder, who is in fact the victim of counterfeiting and piracy.

Many rights holders, especially SMEs, do not agree that when cooperating with customs authorities it should be up to them to bear all storage costs of goods that are suspected of infringing IPRs and bear all costs for the destruction of goods that infringe IPRs. Within the EU, fighting counterfeiters is even more difficult since an "ex officio" procedure seems to be lacking. For many companies such obligations are more of a deterrent than a motivation to engage in the fight against counterfeiting and piracy.

If the rights holder is not in the position to travel to the port or airport at which the counterfeit goods were detected and is not willing to bear the costs of storage and destruction, the counterfeit goods are released and finally enter the EU market. Neither the customs authorities nor the market surveillance authorities "feel responsible" in such cases. This is an unacceptable situation for both the safety of users and consumers and the level-playing field conditions that all internal market operators deserve. For example we have seen that chain saws, pumps and valves for pipelines or for chemical plants, valves for nuclear power plants, electrical circuit breakers, whole machines and installations and many other engineering products are today being counterfeited and pirated.

In our view it would be justified that authorities deal with such products in another manner than with other simple non-dangerous counterfeit products.

8. Protection beyond classical IP rights: analysing current loop holes and reflection on new creative approaches

Orgalime would like to invite the legal services of the Commission to study whether cases which would fall into a “grey area” – that is cases where no clear-cut infringements of registered IPRs¹ can be proven - could also be dealt with in future EU customs legislation.

One could for example analyse whether practices described in Directive 2005/29/EC on Unfair Commercial Practices or other EU legislation could constitute a trigger for future customs control measures. In this context, we would also like to invite the Commission to study the legislation of other countries and to check whether certain practices would be worthwhile to be also applied by the EU. Companies have, for example, pointed out that in the US there exists legislation which goes beyond the protection provided in the EU. Further study of the US “Section 337 Investigations”² would be of interest, as it allows the confiscation of products that can be regarded as unfair competition “such as misappropriation of trade secrets, trade dress infringement, passing off, false advertising, and violations of the antitrust laws.”

9. Conclusion

Orgalime would again like to stress how important the protection of IPRs is to our industries, which is one among the most innovative manufacturing sectors of the EU and the leading exporter of manufactured products. We invite the Commission and Member States to consider a comprehensive review of Regulation 1383/2003 and to especially introduce better cooperation mechanisms with market surveillance authorities. We feel that there is now an opportunity to modify the Regulation and make it more user-friendly for companies in need of a simple and effective system that will respond to and follow up on counterfeit and pirated products that severely damage their business. Actions in this direction, we believe, have the clear potential to improve the EU’s Regulatory framework for companies and therefore the attractiveness of the EU as an investment and manufacturing location.

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¹ Compared to companies from other EU industries, engineering companies face an additional challenge, since they often cannot profit from IPR protection: patent protection for engineering products is often costly and difficult to obtain on an international basis or they do not fulfil the criteria of an “inventive step” which is necessary for patent protection. The option of registering an industrial design is usually not available for products in the engineering sector since product design in this sector is seen as “functional”. The result is that innovations and products manufactured by engineering companies often stay unprotected.

² Please see more information at http://www.usitc.gov/intellectual_property/documents/337_faqs.pdf.