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# Counterfeiting and Piracy

From a right holders perspective

Master thesis  
20 points

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Intellectual Property Law

Autumn semester-07

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# Summary

This essay focuses on the increasing problems for companies and right-holders with counterfeited and pirated goods in the European Union and the problems for right holders to enforce their IPR rights. Will IPRED1 make a difference and is there really a need for the new Directive of Enforcement 2004/48/EG, or do the sanctions according to the TRIPS Agreement suffice. Further, IPRED2 is a follow up of IPRED1, with criminal sanctions to be implemented. Also the Council regulation (EC) No 1383/2004 concerning customs actions against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods to have infringed such rights will be discussed. The second question to ask is; are IPRED1 and The Council regulation effective enough to protect IP rights. Will the intention of harmonizing criminal measures be what is necessary to improve enforcement of intellectual property rights in the Member States.

Problems can arise when it comes to parallel import of goods, since there are no international directives for the customs to use against this kind of trade over the borderlines. The thesis will focus on infringement of intellectual property rights, mainly trademarks and design rights from a right-holders perspective and not the problems related to parallel import.

The European Union has seen a 900% increase in the amount of different counterfeit products coming into the European Union in the last five years<sup>1</sup>. Losses to U.S. business from the counterfeiting of trademarked consumer products is estimated at \$200 billion a year according to the Department of Commerce.

Often organized crime lies behind the trade of counterfeited goods and piracy.

In 1998, the EU commission presented the Green Paper in an attempt to fight piracy and counterfeiting within the common market. This has resulted in a new directive, called IPRED1 in which the protection of intellectual property rights are secured.

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<sup>1</sup> Statistics taken from EU institutions press release "Customs Counterfeiting and piracy in 2001", issued from Brussels, 26 July 2002.

# Preface

“If you don’t have problems with piracy in China you either have a lousy product or you are copied so good you haven’t noticed” said by Mr. Tell Hermansson of the International Chamber of Commerce (ICC)

This is very true. Fake products or counterfeited and pirated goods are in some cases so well made it is hard even for an expert to distinguish the original product from the fake one. This is certainly a challenge for all right-holders, since it will be difficult for the ordinary consumer to detect if a product being bought is counterfeit or genuine. Not even the price level is a certain indicator of a product not being genuine.

I would like to thank my colleagues at Sony Ericsson Mobile Communications AB for introducing me and making me aware of the problems for a right holder in connection with counterfeiting and piracy and the measures necessary to be taken to protect valuable assets, such as a company’s IP rights. I would also thank our Associates for assisting me with valuable advise and interviews for my thesis.

I would also like to thank my supervisor Ulf Maunsbach for his valuable advise on how to focus on main problems and to tackle the difficulty in making a thesis interesting.

Last but not least I would like to thank my family for their patience, my husband and my little daughter who really has been understanding, when Mammy needed peace and quiet.

# Abbreviations

CD	Community Design
CTM	Community Trademark
ECJ	European Court of Justice
EU	European Union
ICC	International Chamber of Commerce
IPR	Intellectual Property Rights
IPRED1	The Directive of Enforcement of Intellectual Property Rights 2004/48
IPRED2	The proposal for a Directive of the European Parliament and of the council on criminal measures aimed at ensuring the enforcement of intellectual property rights
OHIM	Office for Harmonization of the Internal Market
TRIPS	The WTO Agreement on Trade-Related aspects of Intellectual Property Rights
WIPO	World Intellectual Property Organization
WHO	World Health Organization
WTO	World Trade Organization

# 1 Introduction

Approximately 400 billion Euro is the value of the world trade in pirated goods. And it is no longer only exclusive fashion labels that are being copied, but pharmaceuticals.<sup>2</sup> 60 % of all pirated goods have its origin in China.

According to the Counterfeiting Intelligence Bureau set up by the International Chamber of Commerce (ICC) counterfeiting and piracy have grown into an international problem accounting for between 5% and 7% of world trade. This problem is affecting the proper functioning of the Market and to a reduction in investment. It has major repercussions not only at an economic and social level (100 000 jobs lost each year in the Community), but also in terms of consumer protection, especially as regards public health and safety. Therefore, it is important, that measures be taken to combat the present situation, securing the equality of competition in the Market.<sup>3</sup> Due to the seriousness of these facts the Commission sent the European Parliament and the Council a proposal for a Directive on criminal measures aimed at ensuring the enforcement of intellectual property rights.<sup>4</sup>

The terms of “counterfeiting” and “piracy” in relation to goods, refer to the manufacture, distribution and sale of copies of goods which have been made without the authority of the owner of the intellectual property. These goods are intended to appear to be as similar to the original as to be passed off as genuine items. When we speak of counterfeit we often mean all infringement of intellectual property rights, and when we speak of piracy, we mean infringement of copyright or design right.

The Directive of Enforcement 2004/84, here called IPRED1, contains 22 articles and is the result of a wish to create a more effective system of sanctions than the TRIPS Agreement does. This first Directive on the enforcement of intellectual property rights, was hastily passed before the Fifth Enlargement of the European Union of May 1, 2004<sup>5</sup>. It did originally include criminal sanctions provisions, but this rather controversial part was omitted in order to meet the deadline of May 1, 2004. A sufficiently

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<sup>2</sup> Brandnews, årgång 16 nummer 02 2005, Vadå kopia?

<sup>3</sup> Commission of the European Communities, Green Paper Combating Counterfeiting and Piracy in the Single Market

<sup>4</sup> Proposal for a Directive of the European Parliament and of the Council on criminal measures aimed at ensuring the enforcement of intellectual property rights, 26 April 2006, COM/2006/0168 final – COD 2005/0127

<sup>5</sup> OJ L 195,2.6.2004, p.16

dissuasive set of penalties applicable throughout the Community is needed to make the provisions laid down in this Directive complete. Certain criminal provisions need to be harmonised so that counterfeiting and piracy in the internal market can be combated effectively.

The Community legislator has the power to take the criminal-law measures that are necessary to guarantee the full effectiveness of the rules it lays down on the protection of intellectual property.

The Second Intellectual Property Rights Enforcement Directive, here called IPRED2 is a proposed Directive aimed to supplement IPRED1. The Directive was proposed on July 12, 2005 by the Commission of the European Communities. If this proposed second directive passes it will change the infringement of intellectual property rights from a civil offence to a criminal offence, and will extend current law, which currently only criminalizes commercial-scale infringement of copyright, to include patent violation, traditionally a civil offence. There is a need to harmonize criminal measures throughout all Member States.

## **1.1 Purpose**

This essay will discuss and compare the articles of enforcement of intellectual property rights according to TRIPS, with IPRED1. It is however too soon to tell if the Directive of Enforcement, IPRED1 has proved to have any advantages to right holders or had any effect, due to the fact that the speed of implementation varies in the different Member States. There is also an issue for right holders, since the harmonization of criminal measures varies in the different Member States. The TRIPS Agreement already deals with IP issues. Council Regulation (EC) No 1383/2003 of 22 July *concerning customs action against goods suspected of infringing certain intellectual property rights and measures to be taken against goods to have infringed such rights* is also mentioned and studied, since the role of Customs is important for a right holder, in preventing unlawful goods from crossing the border into the European Union, especially those goods suspecting of infringing a trademark or design right.

## **1.2 Method and Material**

In this thesis the author has used traditional legal method and described, examined and interpreted legislation and preparatory material. Acts like, for example Green Paper and proposals by the Commission as well as the TRIPS Agreement have been studied to analyze IPRED1 and IPRED2.

Since the Directive has only been in force a short period of time and not been implemented in all Member States yet, case law and doctrine are rather limited. Some of the parts written are based on the Authors experience, working eight years in a private law practice facing problems both from a right holders view and also from an Attorney's point of view. Interviews with various foreign Associates have also been made on the issue of IP enforcement.

### **1.3 Delimitations**

The study has been limited to the European Union, since IPRED1 only is applicable in Member States. The thesis leaves aside a comparative study with countries outside the EU, although the problem with counterfeiting and piracy exists all over the world and the difficulty for right holders to defend and protect their IP rights.

This thesis also focuses on the difficulty for a right holder to choose strategy when selecting the type of IP right to protect an asset. IP rights are in this thesis being limited to Design rights and Trademark Rights from a right holders view, leaving aside other IP rights as patents and copyright. Also the problems that can arise with parallel imported goods will not be a target for this essay.

## 2 Background

### 2.1 History of earlier agreements

#### 2.1.1 The Greenpaper

The Green Paper on the fight against counterfeiting and piracy in the Single Market was presented by the Commission on 15 October 1998 and noted that counterfeiting and piracy had grown into an international issue with major repercussions at economic and social level and in terms of consumer protection, especially as regards public health and safety.<sup>6</sup>

An action plan was drawn up as part of the follow-up to the Green Paper and was included in a communication on the same subject from the Commission to the Council, the European Parliament and the Economic and Social Committee on 30 November 2000.<sup>7</sup> A proposal for a Directive was presented aimed at harmonizing the legislative, regulatory, and administrative provisions by the Member States on the means of enforcing intellectual property rights, ensuring that rights would receive an equal protection in the Internal Market.<sup>8</sup> The proposal was submitted on 20 March 2003. On 9 March 2004 the European Parliament voted to adopt the Directive of Intellectual Property Enforcement. It was endorsed in April 2004 by the Council of Ministers.<sup>9</sup> Member States have two years to implement the new enforcement provisions in their national law.

#### 2.1.2 TRIPS

The Trips Agreement was adopted at Marrakesh on 15 April 1994, as Annex 1C of the Final Act Embodying the Results of the Uruguay Round of Multi lateral Trade Negotiations.<sup>10</sup> Its scope is much broader than that of any previous international agreement – it not only covers all areas already protected under pre-existing agreements, it also gives new life to treaties that have failed in the past and protects, for the first time, rights that did not

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<sup>6</sup> Green Paper on Combating Counterfeiting and Piracy in the Single Market, COM (1998) 569 final, 15 October 1998

<sup>7</sup> COM (2000)789 final

<sup>8</sup> Enforcement of Intellectual Property Rights Thorough Border Measures Law and Practice in the EU, Vrins/Schneider, p 22

<sup>9</sup> OJ[2004]L195

<sup>10</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, 15 April 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments Results of the Uruguay Round vol. 31, 33ILM81 (1994), on-line at [http://www.wto.org/English/docs\\_e/legal\\_e/final\\_e.htm](http://www.wto.org/English/docs_e/legal_e/final_e.htm).

benefit from any multilateral protection. TRIPS expressly envisaged the possibility of cooperation between the WTO and WIPO in Article 63.2. As a matter of practice, the TRIPS Council has consulted with WIPO concerning the evolution of multilateral intellectual property norms. In December 1995 the WIPO and the WTO signed an agreement which establishes a framework for co-operation in providing technical assistance to developing countries in relation to the implementation of the TRIPS Agreement. The Agreement also provides for the mutual exchange of laws and regulations of both organizations. The TRIPS Agreement entered into force on 1 January 1995. With respect to developed (industrialized) countries, the substantive provisions of TRIPS entered into force on 1 January 1996. Developing countries and those in the transition from centrally planned economies had until 1 January 2000 to implement TRIPS.<sup>11</sup> TRIPS is a minimum standard agreement, and WTO Members may thus enact provisions that go beyond TRIPS.<sup>12</sup>

A start was made on harmonization with the entry into force of the TRIPS agreement which lays down minimum provisions on means of enforcing trade-related intellectual property rights. These include the implementation of criminal procedures and criminal penalties, but there are still major disparities in the legal situation in the European Community which do not allow the holders of intellectual property rights to benefit from an equivalent level of protection throughout the whole Community. As regards criminal penalties, there is a considerable difference, particularly as regards the level of punishment according to national legislation.

Article 3 of the TRIPS agreement obliges Member States to consider all intentional infringements of an intellectual property right on a commercial scale as a criminal offence. It also covers attempting, aiding or abetting and inciting such offences. The commercial scale criteria is borrowed from Article 61 of the TRIPS agreement, concluded and signed by all members of the WTO.

### **2.1.3 Enforcement of Intellectual Property Rights under TRIPS**

In article 41 – 61 enforcement provisions can be found. Article 41 of TRIPS has provided four elements as of the minimum of enforcement standards<sup>13</sup>;

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<sup>11</sup> Art 65 TRIPS

<sup>12</sup> Art 1(1) TRIPS: Members shall give effect to the provisions of this Agreement. Members may, but shall not be obliged to, implement in their law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement.

<sup>13</sup> TRIPS, Art. 41

1. National laws of Member States must permit effective action against present and future infringements
2. Necessary administrative and judicial procedures must be fair and equitable
3. Administrative authorities and courts must base their decisions regarding infringement of IPR on evidence available to all parties. The decisions must be rendered in a timely manner and shall preferably be in writing
4. State must provide a form of possibility to appeal for the decisions passed by the administrative authorities and by courts.

Article 42-49 deal with civil and judicial procedures for IPR enforcement of any intellectual property right covered by TRIPS such as fair and equitable procedures, parties being allowed to be represented by independent legal counsel, being allowed to present evidence<sup>14</sup>. Further injunctions, damages and other remedies according to Article 44-49.

Article 43 explains the procedures for discovery of evidence *“to order that this evidence be produced by the opposing party, subject in appropriate cases to conditions which ensure protection of confidential information”*.

Article 44 stipulates that Member States may order a party *“to desist from an infringement, inter alia in order to prevent entry into commerce in their jurisdiction of imported goods that involve the infringement of an intellectual property right, immediately after customs has cleared such goods”*. This provision limits such authority of Member States by withdrawing from its scope the cases that specifically concerns the infringement of patented inventions or innocent infringers of other IPR.<sup>15</sup>

Minimum standards regarding remedies are to be found in TRIPS Article 45. Art. 45.p.1 requires the judicial authorities of Member States to *“order the infringer to pay the right holder adequate damages to compensate for the injury the right holder has suffered because of an infringement of that person’s intellectual property right by an infringer who knowingly, or with reasonable grounds to know, engaged in infringing activity”*. Judicial authorities may order the infringer to pay attorneys fees and may also in appropriate cases order the recovery of profits and payment of pre-established damages even in cases, where the infringer not knowingly, or with reasonable grounds to know, engages in infringing activity.<sup>16</sup>

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<sup>14</sup> TRIPS Art. 42

<sup>15</sup> TRIPS Art. 44

<sup>16</sup> TRIPS Art. 45

According to Article 46 national courts shall have the authority to “*order that goods that they have found to be infringing be, without compensation of any sort, disposed of outside of the channels of commerce in such a manner as to avoid any harm caused to the right holder, or, unless this would be a contrary to existing constitutional requirements, destroyed*”.<sup>17</sup>

There is according to this article a reservation as of the need of proportionality between the seriousness of an infringement and the remedies ordered in considering requests for other remedies. Article 46 stipulates further that “*in regard to counterfeit trademark goods, the simple removal of the trademark unlawfully affixed shall not be sufficient, other than in exceptional cases, to permit release of the goods into the channels of commerce*”.

Articles 51-60 of TRIPS deal with requirements related to border measures. The articles addresses namely cases of counterfeiting and piracy in contrast to Articles 41-50 which addresses cases of infringement of any intellectual property right. If the right holder suspects the goods to be counterfeited or pirated, the competent authorities may upon request suspend from release the commercial goods into free circulation.

Article 61 obliges Member States to provide for criminal procedures and penalties to be applied at least in cases of wilful infringement on a commercial scale.

When Member States find it appropriate they “*may provide for criminal procedures and penalties to be applied at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale.*”<sup>18</sup>

Remedies available shall include “*imprisonment and/or monetary fines sufficient to provide a deterrent, consistently with the level of penalties applied for crimes of a corresponding gravity*”. In appropriate cases, remedies available shall also include 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*”. Member States may provide 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.

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<sup>17</sup> TRIPS Art. 46

<sup>18</sup> TRIPS Art. 61

The infringement must be intentional, the act must be deliberate, whether it is an actual infringement, an attempt at infringement, or aiding and abetting on inciting such an offence.

The TRIPS Agreement does provide for criminal sanctions for infringement of trademarks and copyright. Member States have also a possibility to impose more severe measures on a national level, should it be desired for the countries to do so. Harmonization of criminal measures on a Community level regarding trademark and copyright infringements would be in accordance with the requirements of TRIPS, on the other hand would criminal penalties for the enforcement of other intellectual property rights go beyond the minimum standards as stated in TRIPS.

## **3 IPRED1 (Directive of Enforcement 48/2004)**

### **3.1 General**

On 30 January 2003 the European Commission laid down a proposal to a Directive regarding protection of Intellectual Property Rights, COM (2003) 46 final. The objectives of this Directive were quite clear. By using national differences within the European Union when it comes to the protection of Intellectual Property rights, competition in the internal market and trade between the countries was affected.<sup>19</sup> The differences in the national sanction systems made it difficult to combat counterfeiting and piracy in an effective way.

One consequence was, according to the Commission that commercial and industrial life lost confidence in the internal market and the willingness for companies to invest went down. The Directive came in force on 29 April 2004 and is to be implemented in all Member States by 29 April 2006.

### **3.2 Background to the Directive**

On 15 October 1998 the Commission presented a Green Book on fighting counterfeiting and piracy in the internal market.<sup>20</sup> The Green Book had three purposes;

To evaluate the economic consequences of counterfeiting and piracy in the internal market, to evaluate existing legislation in the area and to determine which juridical improvements necessary and to evaluate if efforts from the European Union would be necessary to reach the goals.<sup>21</sup> The Directive is a minimum Directive, which means that national legislation which is more convenient to the right holder than the rules by the Directive may be preferred.

### **3.3 Content of the Directive**

The content of the Directive will be studied. In connection herewith the original proposal COM (2003) 46 will be discussed. IPRED1 aims at the harmonizing of national laws as a means to enforce intellectual property rights. The best practices already found in the legislations of different Member States shall create a level playing field for right holders.

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<sup>19</sup> COM (2003) 46 final, p. 3

<sup>20</sup> COM (1998)569

<sup>21</sup> COM (1998)569, p.7

### **3.3.1 IPRED1**

Article 1 establishes that the Directive relates to intellectual property, that is; trademarks, patents and so forth. According to article 2 the measures and sanctions prescribed in the proposal of the Directive shall be applicable to every infringement of intellectual property either followed by Community Law or national law. The article provides that the Directive shall not affect Community Directives governing the substantive law on intellectual property law on intellectual property and Member States' international obligations, particularly those under the TRIPS Agreement.<sup>22</sup> Article 3 obliges Member States to provide for measures and procedures that are proportionate and necessary for enforcing intellectual property rights. These measures shall be fair and reasonable and must not be complicated or costly. They shall also be efficient and proportionate. They shall be applied in a way, that no bar for legal trade will occur<sup>23</sup>. This is in accordance with reason 12 to the ingress of the Directive, where rules of competition, article 81 and 82 of the EC Treaty shall not be affected by the Directive.

An important reason for the Directive was that counterfeiting and piracy often is committed on a commercial scale which forces companies to compete with counterfeited and pirated goods put on the market. In order for the sanctions not to include measures taken by individuals the consideration for proportionality should have been made clearer by the creation of the Directive.

### **3.3.2 Target groups and costs**

According to article 4, right holders, persons authorized to use the rights and their representatives are entitled to apply for the measures according to the Directive<sup>24</sup>. Article 17 supplements Article 45 of the TRIPS Agreement concerning damages. Damages shall compensate for the suffering the infringement committed has caused, intentionally or by mistake.

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<sup>22</sup> IPRED1, Art. 2

World Trade Organization Agreement on Trade Related Aspects of Intellectual Property Rights, 1994.

<sup>23</sup> Art. 3

<sup>24</sup> Art. 4

Article 6 provides that Member States shall ensure that, on application by a party who has presented reasonably available evidence sufficient to support his claims, and has, in substantiating those claims, specified evidence which lies in the control of the opposing party, the competent judicial authorities may order that such evidence be produced by the opposing party, subject to the protection of confidential information.<sup>25</sup>

In case of an infringement carried out on a commercial scale, Member States are required by article 6(2) to “*take such measures as are necessary to enable the competent judicial authorities to order, where appropriate, on application by a party, the communication of banking, financial or commercial documents under the control of the opposing party; subject to the protection of confidential information*”.

According to Article 7, judicial authorities in the Member States shall ensure that the evidence-protection measures may be subject to the applicant’s lodging of an adequate security or equivalent assurance intended to ensure compensation for any prejudice suffered by the defendant.<sup>26</sup> This is also in line with TRIPS, art 43. According to article 8 Member States shall provide for measures that will ensure evidence of an infringement taken place. In case of an unjustified application, a guarantee to ensure compensation for the defendant and a physical seizure may be made. These measures supplements TRIPS article 43, and has its origin from the Anton Pillar<sup>27</sup> order and Mareva injunctions<sup>28</sup> in the U.K.

Right of information is to be found in Article 9, which supplements Article 47 TRIPS Agreement on the right of information. The right of information means that in the context of proceedings concerning an infringement of an intellectual property right and in response to a justified and proportionate request from the claimant, the competent judicial authorities may order that information on the origin and distribution channels of the goods or services which infringe an intellectual property right shall be provided by the infringer and /or the person, who is dealing with infringing goods on a commercial scale, who was using infringing services on a commercial scale, or been pointed out to be providing on a commercial scale services used in

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<sup>25</sup> Art. 6

<sup>26</sup> Art. 7

<sup>27</sup> In the UK and similar legal systems, an “Anton Pillar” order is a court order which provides for the right to search premises and seize evidence without prior warning. This is a measure which is used in order to prevent the destruction of incriminating evidence, particularly in cases of alleged trademark, copyright or patent infringements.

<sup>28</sup> The Mareva injunction, which freeze consumer’s bank accounts and other assets without a court hearing, is a legal procedure initially created by English courts. The injunction is used to prevent the dissipation or removal of the defendant’s assets.

infringing activities, was indicated by the person referred to of production, manufacturing or distribution of the goods or services.<sup>29</sup>

If necessary, the information shall contain the names of the manufacturer, seller and distributor and address, and also information about quantities and price. The article does not affect laws, giving an individual the right not to reveal information, which would force the individual to admit their own or a close relatives participation to an infringement.<sup>30</sup>

In the proposal it was suggested that it should be possible to identify and file charges against those who really made a profit from the infringement and that the Member States should ensure that the proper juridical authorities could demand that bank- finance- or business files should be handed over or confiscated. Confidential information should be protected though. Infringing goods were to be confiscated if there was a risk that evidence would be destroyed. Every individual involved in an infringement was obliged to leave information of name, address of manufacturers, retailers and distributors and the quantity of the manufactured goods or the quantity of goods being accepted by the infringer. The proper authorities, for instance the Police and Customs, who held the same information were also to inform the right holder enabling him to take legal action in court and to receive a decision of cease and desist.

### **3.3.3. Evidence, measures to secure evidence and right to information**

The articles in the Directive concerning evidence and the article about protection of evidence should be looked over, due to professional secrecy. The right of information was also considered being something new in Swedish Law. This article meant that individuals who were involved with infringing goods or services would be forced to reveal information of the origin of the goods and distribution channels. This article was even considered to be in contrast to article 6 of the EC Treaty where the right to confidentiality was established. According to this article no physical or juridical person should be forced to contribute in an investigation and leave incriminating information about their own guilt.

From a competition point of view it was important that the rules were formed in a way so that right holders would not use the rules to stop or limit competition. In the proposal it was clear that measures were not to be used

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<sup>29</sup> Art. 9

<sup>30</sup> COM/2003/0046 final, p 15, EUR-Lex – 52003PC0046 – EN  
<http://eur-lex.europa.eu/LexUriServ.do?uri=CELEX:52003PC0046:EN...13-03-2007>

in a way that would hinder lawful trade, since there was an obvious risk that right holders would go too far to defend their intellectual property right.

### **3.3.4 Provisional measures**

According to Article 9 Member States shall ensure that the judicial authorities may at the request of the applicant make provisional measures. The provisions supplement those of Article 50 TRIPS Agreement. The provisional measures are very important for right holders, since in case of infringement it is essential to act fast. Paragraph 1 grants an injunction on a provisional basis, subject to a financial penalty, intended to prevent any impending infringement, or forbid the continuation of the infringement. According to Paragraph 2, such provisional measures may when appropriate be taken without the other party being heard, when a delay would cause harm to the right holder. Paragraph 3 provides that the application for an injunction is admissible only if proceedings were instituted within 31 days from the day on which the right holder was made aware of the infringement. According to Paragraph 4 the applicant may lodge a guarantee to ensure compensation of the damage suffered, in case of an unjustified application. Paragraph 5 is a parallel to Article 50(7) of the TRIPS Agreement and is covering compensation for the defendant in certain situations, when harm is suffered as result of provisional measures set out in this Article.<sup>31</sup>

Article 11 provides for the granting of injunctions to restrain infringers and against intermediaries whose services used by a third party to infringe an intellectual property right.<sup>32</sup>

According to Article 13 goods infringing intellectual property rights must be removed from channels of commerce without any compensation.<sup>33</sup>

In the proposal the Commission stated that provisional measures were very important in connection with suspected infringements and it is essential for a right holder to be able to act without delay.

### **3.3.5 Damages**

In article 17 Member States are obliged to provide for damages to be paid in case of an infringement committed intentionally or by mistake. The party is

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<sup>31</sup> Art. 10

<sup>32</sup> Art. 11

<sup>33</sup> Art. 13

entitled to a fixed rate and the judicial authorities should consider all relevant facts such as the negative financial consequences, including loss of earnings for the suffering part.<sup>34</sup>

According to the proposal the infringer shall compensate for the damage caused whether or not the infringement was intentional or not.

### **3.3.6 Publication of judicial decisions**

According to Article 19 publication of judicial decisions is considered to be an effective measure for informing the public and a deterrent against infringement of intellectual property rights. The cost is to be held by the infringer.<sup>35</sup>

### **3.3.7 Provisions under criminal law**

The Article is to ensure that all serious infringements of intellectual property rights, as well as attempts at, participation in and instigation are punishable by effective, proportionate criminal penalties.

### **3.3.8 Legal protection of technical devices**

Technical devices can be used to protect and prove the authenticity of products and services. Technical devices can be security holograms, optical devices, smart cards, magnetic systems, special inks or microscopic labels etc. According to Article 21 Member States must forbid manufacture, import, distribution and use of illegal technical devices.<sup>36</sup>

### **3.3.9 Discussion**

Issues have been discussed whether the original proposal went too far and was written in too general terms. With the proposal the Commission wished to focus on infringement being committed on a commercial basis or had serious consequences for right holders. This is considered to be a vague limitation, since infringement of patents, trademarks and other intellectual property always constitutes an infringement on a commercial scale. A

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<sup>34</sup> Art. 17

<sup>35</sup> Art. 19

<sup>36</sup> Art. 21

Directive which only is aimed to treat intentional or obvious infringements would be difficult to enforce.<sup>37</sup>

The question has also been raised as to whether the Directive is necessary, since for instance the TRIPS Agreement already offers protection of intellectual property rights, which must be respected by the Member States and Members of WTO. A suggestion has been raised as to why there has not been a survey in the different Member States of what has been done to comply with the rules according to the TRIPS Agreement. However, there has been no proof of the Member States not being willing to fulfil all demands according to the TRIPS Agreement, and therefore a proposed Directive should be aimed at issues where it would have been necessary to raise the standard. To be able to implement this, the argumentation should have been more precise than the ones which were implemented in the Directive.<sup>38</sup> Questions have also been raised as to whether the proposed Directive even did fulfil all requirements for a Directive, as for the harmonizing effect on the Internal Market. Was it proportionate? Did it respect the principles of subsidiarity?<sup>39</sup> Also sanctions intended to deal with, condemn and to create an awareness and responsibility in handling pirated goods like the obligation for a business proprietor to examine the goods.<sup>40</sup>

The very essence of the proposed Directive was to come to terms with infringement on a commercial scale and its serious consequences, but this was very vaguely formulated so that most infringements would fall under the scope of this definition, despite that these infringements previously were permitted.

In the action plan following the Green Book COM (2000) 789 the intention was to give more information to the public of the negative consequences of counterfeiting and piracy. This is a good goal. To give a business proprietor an obligation to examine the goods would also lead to an increased awareness both for business proprietors and the public. Some of the sanctions of the proposed Directive have also been new to Swedish Intellectual Property Law. For instance publication of juridical decisions is new to Swedish Law.

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<sup>37</sup> Cornish, Drexl, Hilty, Kur "Procedures and Remedies for Enforcing IPR's: the European Commissions Proposed Directive" p. 447

<sup>38</sup> Levin, Marianne, Upprop, NIR 2003 p. 359

<sup>39</sup> Cornish, Drexl, Hilty, Kur "Procedures and Remedies for Enforcing IPR's: The European Commissions Proposed Directive", p. 447

<sup>40</sup> Levin, Marianne, "Ett harmoniserat immaterialrättsligt sanktionssystem", NIR 2003, s 359

According to Article 3 measures and actions to be taken shall be effective and proportionate. When a decision is made concerning measures and sanctions to be taken, consideration shall be taken in account regarding the circumstances in a particular case.

Some of the proposed measures according to the Directive have received a different wording. For instance the calculating of damages, which according to the proposed Directive had the effect, that damages to be paid would be higher than the actual damage caused and not proportionate.

There is of course the question, whether there actually is a need for the Directive, or if it had been sufficient if the Member States had made an extra effort to follow the Agreements which they are already bound to.

The Directive will most certainly look different in the various Member States and the disparities in the legal situation in the Community can lead to, that it will not have the same harmonizing effect as intended and this will not allow right holders of IP rights to benefit from an equivalent level of protection throughout the Community.

There are high potential profits to be made without the risk of serious legal penalties for anyone involved in these activities. Additional provisions to strengthen and improve the fight against counterfeiting and piracy are therefore necessary to supplement IPRED1.

Minimum means that national law which is more favourable for a right holder than the articles according to the Directive can be prescribed. Probably will not even the high equal level of protection which one had hoped for be reached.<sup>41</sup>

### **3.4 IPRED2**

The need for a second directive of enforcement of intellectual property rights, IPRED 2 was announced by the Internal Market Commissioner Frits Bolkestein on the same day as IPRED 1 was approved by the EU Parliament<sup>42</sup>. Bolkestein said “*criminal sanctions that were cut out were essential in the fight against counterfeiting and piracy*”. With IPRED 2, the

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<sup>41</sup> Norrgård, Marcus, NIR 2004 p.443 Immaterialrättens sanktionssystem och Enforcement-direktivet

<sup>42</sup> Intellectual Property Watch, <http://www.ip-watch.org/weblog/index.php?p=354&res=1024&print=0>

Commission tabled again what had been previously voted down as incompatible with European Community law because so-called EU first pillar decisions covering economic and social and environmental policies of the Community could not address criminal sanctions. The most important point is that IPRED2, besides that it will set forth criminal measures for Intellectual Property rights infringement, also will introduce higher sentences than there is in a number of Member States and it would deeply involve industry representatives into policy investigations. All intentional infringements of Intellectual Property rights on a commercial scale, and aiding or abetting and inciting such infringements, are treated as criminal offences.

As in IPRED1, intellectual property covers all intellectual property rights.

According to article 2 the definition of a legal person is “*any legal entity having such status under the applicable national law*”.

The offences that fall under the scope of IPRED2, from the beginning article 3, indicated that all IPR infringements shall lead to criminal liability if committed intentionally and on a commercial scale. Since IPRED2 does not make any distinction between the different Intellectual Property rights, also infringement of a patent or industrial design may lead to criminal liability.

The term commercial scale is well known from Article 61 TRIPS Agreement which obliges Member States to provide for criminal procedures and penalties “*at least in cases of wilful trademark counterfeiting or copyright piracy on a commercial scale*”.

Remedies provided shall include imprisonment and/or monetary fines.

Intentional according to IPRED2 is explained as an infringement that must be deliberate, whether this is an actual infringement, its attempt or aiding, abetting or inciting such an offence.

IPRED2 provides for criminal penalties for the offences according to Article 4;

\* custodial sentences for natural persons

\* fines and confiscation of the infringing objects, instrument, products or goods for natural and legal persons.<sup>43</sup>

Member States are also empowered to ensure alternative penalties in appropriate cases, this includes destruction of infringing goods, total or

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<sup>43</sup> Art. 4

partial closure, permanently or temporarily of the facilities used primarily to commit the offence.

Article 5 of IPRED2 lays down, besides the minimum requirement set down by TRIPS, rules regarding the level of penalties. IPRED2 obliges Member States to ensure that Intellectual Property Rights offences are “*punishable by effective, proportionate and dissuasive penalties*”, that include both criminal and non-criminal fines.<sup>44</sup> The fines have been set for EUR 300 000 for serious cases and EUR 100 000 for cases less serious. The high fine of EUR 300 000 has been set for cases committed by criminal organizations or involving health or safety risks.

Imprisonment for a maximum sentence of at least four years is provided in two cases; if the offence according to Art. 3 of IPRED2 carries health or safety risks or if the offence is being committed by a criminal organization.<sup>45</sup>

If people risk being injured by a counterfeit product being put on the market, a health and safety risk exists.

### **3.5 Criticism of IRPRED 1 and IPRED 2**

There are doubts whether IPRED1 complies with the principles of subsidiarity and proportionality. Further, the harmonisation of criminal law measures on the EU level is not as vital and essential nor advisable and wishful as presented by the European Commission in its proposal;

- First, it had not been established in the proposal that effective measures to combat piracy demand the expansion of the existing range of measures and sanctions under procedural law
- Second, there is no factual justification in the proposal of the European Commission that in the event of a major difference in penalties between the member states, the pirates and counterfeiters could operate from the country with the lowest maximum sentences and that this would seriously hinder effective protection of intellectual property.

Presently, WTO member states are obliged to impose criminal sanctions on copyright piracy and trademark counterfeiting by TRIPS. IPRED2 applies to

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<sup>44</sup> Art. 5

<sup>45</sup> Proposal for a council framework Decision on the fight against organized crime of 19.1.2005 (COM/2005/0006 final) – CNS 2005/0003

any commercial scale infringement on any intellectual property. Organised criminals do not choose the country with the lowest punishment, but the country where the probability to be caught is minimal. This is a fact that the Directive can not and will not change. In most countries IP infringement prosecution is not a priority. IP rights typically are owned by commercial entities that can and must enforce their rights with civil law procedures, if only because commercial parties do not wish to put their competitors in prison, but to receive damages or perhaps raise injunctions<sup>46</sup>.

There is a genuine wish to limit the directive to clear cases of piracy. The text in the directive uses words “piracy” and “counterfeiting”, but these concepts are not defined. To make a distinction between piracy and legitimate competition the infringing item has to be defined. Further, the definition of commercial scale is weak. It does not clearly protect consumers and the young generation. A definition of commercial scale, by the Max Planck Institute was not used: “*commercial activity with an intention to earn profit*”. Instead; Infringement on a commercial scale means any infringement of an intellectual property right committed to obtain a commercial advantage; this would exclude acts carried out by private users for personal and not for profits purposes.

Registered Community Design applications and database rights are unexamined. Companies may very legitimately decide intentionally to infringe design rights on the basis that they unlikely be held valid. A criminalisation of these cases hampers legitimate competition beyond proportion and criminalises legitimate enterprises.

It is particularly difficult with registered designs. It is widely recognised that the effect of having no substantive examination is that there are many designs registered which are not valid. If criminal sanctions applied to infringement of such rights then it would seriously impact on the freedom of others to use those designs. Even if it were a defence to show the registered design was invalid or that it was believed to be, it is likely that there would be a substantial adverse effect on legitimate competitors, who would not be willing to take a commercial risk in relation to civil liability – that they will be found liable for damages if their commercial judgement is wrong; but such issues should be left to civil remedies, and not criminal ones<sup>47</sup>.

Article 61 TRIPS already contains relatively wide-reaching provisions against trademark and copyright piracy which are binding for the Member

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<sup>46</sup> <http://www.ip-watch.org/weblog/index.php?p=354&res=1024&print=0>, comment by Reinier Bakels 11 July 2006 at 9:39 pm

<sup>47</sup> Interview with a German Associate

States.<sup>48</sup> The Criminal Measures IP Directive does not comply with the principle of proportionality, since the Directive is not limited to piracy. The elements of a crime must be defined as clearly as possible. All commercial scale infringements will be crimes and the IPRED1 criminalises IPR disputes that are essentially of a civil nature and occur between legitimate commercial enterprises. Even untested rights, which may soon evaporate in a civil court cases, become grounds for prosecution and the right holders may assist the police.

Beyond clear cases of piracy, it is impossible to tell in advance whether an act is an infringement or fair competition. On a daily basis companies try out the boundaries of IP rights. Is this product a look alike? Is this a copycat? Is this work an independent recreation? Companies reach agreements or fight it out in civil courts.

If a right was indeed infringed, damages are paid. This is a fair process. Adding criminal sanctions to this fair process creates a big threat that inhibits the desired freedom to act on the market. To combat piracy the legal means are already installed. What is actually needed is better coordination between countries. Copyright “piracy” and trademark counterfeiting are already crimes throughout the EU, the TRIPS-treaty sees to that. Unlike the Directive, the national laws are carefully balanced. With its weak definitions, the Directive is considered to distort carefully balanced national law systems.<sup>49</sup>

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<sup>48</sup> Hilty, Kur, Peukert, text based on discussions in a working group

<sup>49</sup> Interview with a German Associate

## 4. Council Regulation (EC) No 1383/2003

This regulation of 22 July 2003 concerns customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights<sup>50</sup>. This Regulation also lays down measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeited and pirated goods.

The Regulation is considered to be a powerful tool in the fight against counterfeited and pirated goods. The regulation allows customs authorities, on their own initiative, ex officio, or upon a request from a right-holder, to retain goods suspected to infringe intellectual property rights. The right-holder can initiate proceedings to determine if an intellectual property right has been infringed. If this should be the case, the infringing goods will be destroyed.<sup>51</sup>

The marketing of counterfeited and pirated goods, and indeed all goods infringing IP rights, damages law-abiding manufacturers and traders and right holders, including deceiving and in some cases endangering the health and safety of consumers. Such goods should, as far as is possible, be kept off the market and measures adopted to deal effectively with this unlawful activity, without impacting the freedom of legitimate trade.

In cases where counterfeited goods, pirated goods, and more generally goods infringing an IP right originate in or come from third countries, their introduction into the Community customs territory, including their transshipment, release for free circulation in the Community, placing under a suspensive procedure and placing in a free zone or warehouse, should be prohibited and a procedure set up to enable the customs authorities to enforce this prohibition as effectively as possible.<sup>52</sup>

One of the most important articles in this Regulation is Article 11, which gives customs the possibility, in case of suspected infringement of intellectual property rights, to use a simplified procedure. With the right holders agreement, the procedure enables customs to have goods abandoned

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<sup>50</sup> [2003] OJ L196/7 (2.8.2003)

<sup>51</sup> Vrins/Schneider, *Enforcement of Intellectual Property Rights Through Border Measures*, Law and Practice in the EU, p 65

<sup>52</sup> Interview with a U.K. Associate

for destruction under customs control. There is no need to determine whether an intellectual property right has been infringed under national law.

It is also possible for customs to detain samples of a seizure of suspected counterfeit goods, making it possible to identify whether the goods is counterfeit or not. The identification should be done by the right holder.

#### **4.1 Historical background**

The first Regulation laying down measures to prohibit the release of free circulation of counterfeited goods, Council Regulation (EEC) No. 3842/86, entered into force on 1 January 1988. Trademark owners could lodge an application requesting the suspension by the customs of the release of goods suspected of infringing trademark rights.<sup>53</sup> Goods found to be counterfeit were destroyed.

In 1993 the Commission had plans to further extend the scope of Regulation 3842/86 to additional intellectual property rights and customs procedures other than the entry for release for free circulation.

Regulation No. 3295/94 was laying down *measures “concerning the entry into the Community and the export and re-export from the Community of goods infringing certain intellectual property rights.”*

The scope of Regulation No 3295/94 of 22 December 1994 was extended to copyright, neighbouring rights, designs and additional customs procedures.<sup>54</sup> With this Regulation the *ex officio* procedure was introduced.<sup>55</sup>

#### **4.2 Customs *Ex Officio* procedure**

Article 4 extends the rights for Customs to act *ex officio*, i.e. take action by their own initiative and without an application first having been filed by a right holder. If there is a suspicious ground, Customs may *ex officio* suspend products in cases of suspected infringement.

After detention of the goods, Customs has to inform the right holder and the importer. The suspension or detention lasts for 3 working days from the

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<sup>53</sup> Regulation No. 3842/86, Art. 3(1), Vrins/ Schneider, Enforcement of Intellectual Property Rights through border measures, p. 68

<sup>54</sup> Regulation No. 3295/94, Art. 1

<sup>55</sup> Cf *ibid*, Art. 4

time the importer and right holder receive information of the intervention by Customs, during this time period an application for action has to be filed; if not the goods will be released. This gives a right holder not very much time to file an application. Article 4 (2) prescribes that details of the suspended or detained goods is confidential until the application for action has been granted.

The measures to be taken are relying on the interest of a right holder to take action and the interest to protect a right. The application being filed has to be very accurate. In some cases it is difficult, since sensitive information will not be revealed by a right holder. Therefore, the application most probably is suited for an *ex officio* action.

On 22 July 2003, Regulation No. 1383/2003 was adopted and came into force on 1 July 2004. The Member States are given a certain liberty of action, when deciding for a simplified or juridical procedure.<sup>56</sup> A right holder or an importer is given an alternative to juridical procedure by choosing a simplified procedure, which allows a right holder to demand an immediate destruction of the infringing goods, without a juridical statement of infringement, which would be in accordance with the law of the Member State where the seizure took place.<sup>57</sup>

### **4.3 Simplified procedure**

It is always the right holder's decision, whether he wishes to initiate proceedings or not, simplified or juridical. If the simplified procedure should not be applicable, the juridical procedure is used upon a right holders request and the matter settled by the national legislation of the Member State where the goods have been detained.

Of course, an application for action must first have been filed and lodged. The right holder then has to decide if he wishes to initiate further proceedings, simplified or juridical and inform Customs in writing within 10 working days (or 3 working days, if the goods are sensitive, such as foodstuffs) after he has been informed of the detention. The information given by Customs should consist of the quantity and the nature of the goods and the also the identity of the importer of the goods, if known.<sup>58</sup>

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<sup>56</sup> Cf *ibid*, Art. 11

<sup>57</sup> COM (2003)20 final, *supra* 42, analysis of the main articles, article 11, Vrins /Schneider, *Enforcement of Intellectual Property Rights Through Border Measures, Law and Practice in the EU*, p 65

<sup>58</sup> According to Regulation No. 3295/94, this information was not allowed. Now the information constitutes a prerequisite for the existence of a simplified procedure, since it is

If a right holder has informed Customs within the given time period of 10 working days, that court proceedings will be initiated to settle a possible infringement, the importer of the goods involving patent rights or design rights, trademarks are excluded, has the right to have the goods released in accordance with article 14 of the Regulation, unless any precautionary measures have been authorized or if Customs is not satisfied or finished with the necessary formalities.

The simplified procedure is a very important amendment to Regulation 1383/2003 and facilitates action taken regarding smaller consignments or goods, where the importer, the consignee or the declarant is unknown.<sup>59</sup>

When goods are destroyed, Customs have to save samples for future possible use, should further investigation be necessary. Should a verdict be in favour of the importer of the suspected infringing goods, he is entitled to compensation for the loss of goods according to the national law of the Member State where the action has been taken.

The question to be answered is, how effective the new procedure is for a right holder and how high the cost is, should a later court proceeding occur.

In cases where a right holder has not initiated further proceedings, the goods will be released into free circulation and a right holder has indirectly given his consent to entry through the external border.<sup>60</sup>

#### **4.4 Seizure of suspected infringing goods**

When Customs detain suspected goods, they inform the right holder, provided an application has been filed. Right holders or their legal representatives have the right to obtain information from Customs regarding the detained goods including details of the importer, sender /manufacturer, consignee or the origin of the goods. In the *Adidas* case, suspected counterfeit goods was being detained by Swedish Customs, and the right holder wished to receive information of the identity of the sender enabling to make a decision whether to start proceedings or not. This request was rejected by the Swedish Customs and legislation. After the case had been

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based on an Agreement between the right holder and the suspected holder of the goods. A right holder risks being a target for civil liability in the Member State, where the action has been taken, if he uses or misuses the information of the suspected goods and its owner for other purposes, than that of a simplified procedure. (Regulation 1383/2003, art.12)

<sup>59</sup> Regulation 1383/2003, art. 11-13

<sup>60</sup> Regulation No. 1383/2003, art. 11 (2) and 13

referred from the Swedish court to the European Court of Justice (ECJ), it was clear that national legislation was held too strict and not at all fulfilling the purpose of the Regulation, that is, to stop infringement of intellectual property rights.

This means, that national law is applicable in the Member State where the Customs action has taken place, but the interpretation of the legislation must not be too strict, that it contradicts the Regulation.<sup>61</sup>

A right holder or his legal representative is entitled to inspect samples of the suspicious consignment.<sup>62</sup> Sending of samples can also involve pictures being sent by e-mail. It is up to the right holder to request a physical sample and to make an identification. If the sample being examined is found not to infringe a right, the right holder must return the sample to Customs before the suspected goods are released.

#### **4.5 Discussion**

A right holder must take an active part in watching over his intellectual property rights and cooperate with customs by filing and lodging an application. An important amendment in the Regulation is the simplified procedure, to detain and destroy infringing goods, without having a juridical judgement, but with at least a passive consent from the holder of the goods. This procedure is less expensive and is more efficient since action is being taken very fast. The holder of the goods has 10 working days within to contact the right holder.

A right holder has the right to enforce his right according to article 2 (2). However an issue has been discussed concerning the risk of unfair competition, since a right holder could use border detention to delay and disturb legitimate competitors.

Regulation 1383/2003 lays down measures to be taken against infringement of intellectual property rights and is therefore not applicable to genuine goods, which are not infringing such rights. Importers who are expecting non infringing goods should not be affected.

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<sup>61</sup> Case C233-/98 [1999], E.C.R. I-7081, Adidas

<sup>62</sup> Regulation No. 1383/2003, art. 9 and 12

Trademark infringement is rather common, however most of the times easy to detect, since the infringement in many cases is visible, for example a trademark could be misspelled and it is obvious that the goods being obtained is referring to a well known brand. Design rights are often infringed in counterfeit cases as well, but the rules concerning counterfeiting seems to be preferred. In cases of Design infringement, the question arises – what is the real meaning of “copy”? Due to lack of a more precise definition, Custom Officers in the various Member States are obliged to create a template for interpretation. Important is to harmonize such interpretations, if not the whole purpose of the Regulation to harmonize to be more efficient is endangered.

Every Member State has its own provisions, which differ to a greater or lesser degree and this is accepted as long as it not hinder EU legislation. Sweden accepts unregistered, established trademarks, in their national applications for action. In many States unregistered or established trademarks do not exist, and it has therefore been objected to, on the grounds that confusion may arise if the rights cannot be found in any register.

It can be discussed whether Council Regulation 1383/2003 has the desired effect to protect intellectual property rights within the European Union.

# 5. Infringement

## 5.1 How can a right holder protect himself from infringement

First of all, a right holder needs to have a valid registration of his trademark, patent or design in as many countries as possible or at least in the countries, where business is being done. Having a valid national registration enables a right holder in case of infringement to enforce his Intellectual Property right. This of course, a rather high cost for a small or medium size company to take. But the cost for protection of IP rights must be considered, since the absence thereof will make it impossible to enforce any infringement.

### 5.1.1 Community Trademark / Community Design with OHIM

If a right holder considers filing of a Community Trademark or Community Design application, he will get protection from the date of filing through all Member States. As the EU enlarges the protection of rights will extend to also include the new Member States. A Community Design application or trademark application is filed with OHIM (Office for Harmonization of the Internal Market) in Alicante. The duration for a Community Design is 25 years. To keep the registration alive, renewal is possible every five years.<sup>63</sup>

### 5.1.2 International Registration of Designs with WIPO

The European Commission adopted two regulations which are necessary to give effect to the accession of the European Community to the Geneva Act of the Hague Agreement concerning international registration of industrial designs. The EC accession will allow EU companies, with a single application, to obtain protection of a design not only throughout the EU with the Community Design, but also in countries which are members of the Geneva Act.<sup>64</sup> EU businesses would be able to benefit from the new system as from 1 January, 2008.

## 5.2 Design right infringement

The owner of a registered design right may exclusively use the registered design or any design similar to it.

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<sup>63</sup> Facts based on Authors experience

If a third party is not licensed to manufacture, sell etc., the owner of the registered design right can claim design right infringement, if the right holder has paid annual / renewal fees.

The details of a registered design right are those specified in the request submitted in the application for design registration and the attached drawings. The drawings should always reflect the final design and the actual product put on the market. However, because the scope of a design right extends not only to the registered design but to any similar design, similarity of the design (whether it is similar or not) is an issue for the determination of design infringement.

In making an actual judgement regarding similarity, it is common for two designs to be deemed similar after comparing the two designs and finding similar the overall dominant constitution and the specific constitution of both designs and the feature (characteristic creation, outstanding part when the article is being used, etc), of the designs. A common dominant constitution in both designs or only a slightly different dominant constitution in both designs or the difference is not notable (i.e., the difference is a well-known constitution).

### **5.3 Trademark infringement**

The owner of a trademark right owns the exclusive right to use the registered trademark for the designated goods or services listed in the application for trademark registration (“Designated Goods” or “Designated Services”) for 10 years of duration from the date of registration. The duration of the right may be extended through renewal every 10 years.<sup>65</sup>

The use of the registered trademark by another party for the Designated Goods or Services listed in the application for trademark registration is deemed to infringe the trademark rights. Furthermore the following are also deemed to constitute trademark infringement:

1. Use of a trademark that is similar to the registered trademark for Goods/services that are identical to the Designated Goods/Services and
2. Use of the registered trademark for goods/services that are similar to the Designated Goods/Services. In addition, in order to make the protection of trademark rights effective, a preliminary act of direct

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<sup>65</sup> Facts based on Authors experience

infringement, such as possession of a package of Designated Goods for assignment, is also deemed as an infringement.

Similarity of a trademark of goods/services becomes an issue, in many cases, in determining the existence of trademark infringement because the use of a registered trademark (or a trademark that is similar to the registered trademark) for goods/services that are similar to the Designated Goods/Services is also deemed to constitute trademark infringement. The determination of the similarity of goods/services is made in consideration of an actual transaction and based whether confusion arises over the source of the goods and services or not when the goods/services bear the mark in question.

#### **5.4 Multiple IP protection**

It is also possible to protect a product with more than one intellectual property right, for instance to protect a product both with a trademark and design. In case of infringement, a right holder could either enforce his right by claiming that a product is affixed with his trademark, without the right holders consent. Or, in the absence of a visual trademark, he could claim his right by claiming design protection, if the design is similar to the one that is protected.

##### **5.4.1 Technical devices**

In many countries, so-called anti-piracy devices, such as holograms, stickers or microscopic labels have been developed, which are placed on products prior to their distribution on the market.

Such devices aim at marking, each original copy of a work by optical means, so that they could be easily identified, when offered and distinguished from fake products. Such a system enables customers to be aware of the legitimacy of a product and allows the authorities to act quickly when infringing goods appears on the market. The most prevalent technology in this respect today probably is the hologram, mainly because copying is relatively costly and technically complicated.<sup>66</sup>

It is important to have a plan when you suspect that your products are being counterfeited or pirated;

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<sup>66</sup> Facts based on Authors experience

First of all you need to confirm that your products are protected by IP rights, secondly you have to investigate the distribution channels of the pirated or counterfeit goods. It is also necessary to obtain samples of the actual counterfeit and pirated goods.

A registered design is a monopoly right for the appearance of the whole or part of a product, resulting particularly from the features of the lines, contours, colours, shape, texture and materials of a product or its ornamentation.

It is important to track where counterfeit or pirated goods are produced and the area of distribution, in order to know against whom countermeasures for the counterfeited or pirated goods should be taken and to determine what measures to take.

If a right holder happens to find counterfeited or pirated goods in a store, he needs to trace the origins of the products to the distributors and to the manufacturer since prevention of production is the most effective measure to prevent damage from counterfeited or pirated goods. It is however important to be very careful when tracing the origin. Since it is a known fact that organized crime is involved in counterfeiting and piracy, considerable risks are involved. In many cases, counterfeited and pirated goods are found in retailer stores, trade shows or exhibitions, and advertisements in newspapers and on the internet and the right holder needs to pay attention to them.<sup>67</sup>

If the goods are being imported, a research company or law office can be used to provide you with assistance in the country in question.

In order to identify goods as counterfeit or pirated the right holder need to obtain the actual suspected counterfeit product. This will enable him to judge whether or not there is an infringement of a right, the appropriate countermeasures to be taken and of course the potential outcome of a law suit.

Whether counterfeited or pirated goods infringe IP rights of the right holder's products or not is based on different determining factors and processes depending on the kind of rights held by your company.

If the right holder finds products that violate a right holder's IP rights there are some options. A right holder can choose to negotiate with the other

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<sup>67</sup> Facts based on Authors experience

party, use alternative dispute solution procedures outside the court such as mediation. A right holder may even come to an arrangement to license the infringer to use your design, in return for payment of a fee.

#### **5.4.2 What can a right –holder do, if he discovers infringement of his IP rights?**

First he needs to find out if his IP right exists. If the right refers to copyright or an unregistered design, the question arises, whether the demand for a certain inventiveness is fulfilled, or if the design is considered to have individual character and is new.<sup>68</sup> If the right is registered, information of the scope of how it is registered must be examined. A patent can be declared to be invalid and a trademark or design can be revoked. Further a right holder needs to find out who the infringer is. A right holder also must examine the impact the infringement may have on his business. Further, the seriousness and the extent of the infringement, or the question of repeated infringement must be cleared.<sup>69</sup>

A right holder should seek to settle the situation in a friendly way, by informing the infringer of the activities in question and pointing out the existence of the right owners intellectual property rights.

In cases of non-voluntary infringements, an infringer may stop his action upon being informed of the illegal behaviour.

In some countries, such a step may also be of importance in future court proceedings. A plaintiff who has failed to give such a notice of warning may risk incurring, with the costs of the proceeding if the defendant acknowledges the claim in the first hearing.

However, if a right holder does not have sufficient reasons for assuming an infringement, he could become liable for damages resulting from an unjustified warning and subsequent action.<sup>70</sup>

If an infringer does not agree to stop or change his activities, negotiation may become an important element of enforcing ones rights. The success of such proceedings will strongly depend on the circumstances of the case.

Often, it may be useful for the right holder to seek help of professional assistance by an IP attorney or agent before deciding on an appropriate

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<sup>68</sup> Bengtsson, Lyxell, Åtgärder vid immaterialrättsintrång, p 33

<sup>69</sup> Facts based on Authors experience

<sup>70</sup> Interview with an Associate at a Law firm in Shanghai

course of action. It may also be useful for a right holder to consider contacting a respective right owners association. In some cases it might even be recommendable for a joint action, in case of infringements of several right holders IP rights.

The right holder might even consider to take legal action against the infringer. In most jurisdictions, remedies, that may be available to right owners such as injunctions, damages or provisional measures, will be handled in civil courts. To bear in mind that the costs involved in civil litigation can be quite substantial.

In most countries, criminal sanctions are available for serious IP infringement, which are undertaken intentionally and for commercial purposes. National laws govern the procedures and the relationship, between such criminal action and any other action taken by the right holder. In case of criminal offences, action by the competent authorities in some legal systems, does not depend on, but will be facilitated and supported by, the initiative of the right holder.

## **5.5 Countries for a right holder to consider as high priority**

### **5.5.1 China**

Over the past twenty years China has enacted a series of laws, regulation and judicial interpretations combating producing and marketing counterfeit products and piracy to protect intellectual property rights. Particularly, after its accession into WTO, China as a member of the international community has observed its commitments and established a relatively comprehensive system of IPR related laws and regulations in line with the international norm.

Criminal Law of China prescribes seven crimes of infringing on IP rights, covering infringements on trademarks, patents, copyrights and business secrets, and provide quite severe punishments for these crimes. Except for the crimes of infringement on patent and of selling works reproduced by infringing on the copyright of the owners, for which the perpetrator shall be sentenced to fixed term imprisonment of not more than three years or criminal detention, all the other five crimes are punishable by fixed-term imprisonment of up to seven years. Meanwhile fines may be imposed as supplementary or independent punishment against all the seven crimes<sup>71</sup>.

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<sup>71</sup> Interview with a Chinese Associate at a Law firm in Guangzhou in September 2007

In addition, according to the Criminal Law in China some conducts against intellectual property rights may be punishable as crimes of illegal business operations or of producing and marketing fake or substandard commodities. Also some conducts against IP rights may be punishable as crimes of illegal business operations or of producing and marketing fake or substandard products. It is necessary to point out that according to the law in China, producing and marketing counterfeit products and piracy are punished either by administrative or judicial means. Criminal legislation on IP rights in China is rather comprehensive and in consistency with Article 61 of the TRIPS agreement, which emphasizes providing “*for criminal procedures and penalties to be applied at least in cases of wilful trademarks counterfeiting of copyright piracy in a commercial scale*”. Compared with many other countries, punishments on IPR related crimes are relatively severe in China.<sup>72</sup>

In some regions IPR violations such as producing and marketing counterfeit products and piracy remains an outstanding problem. One reason is that China’s society and economy have not been highly developed and that its laws and regulations and the environment for law enforcement need further improvement. There is also difficulties in collecting evidence , which has affected the number of cases tried.

The Supreme People’s Court has decided to make appropriate supplements and improvements as to give full play of its role of punishing and preventing IPR related crimes.

In addition to principal punishments, applications and enforcement of fines will be enhanced. The Supreme People’s Court is also carrying out researches focusing on the improvement of the system of IPR Protection. Another important effort to improve the openness and transparency of IPR related trials is to publicise judgements of the relevant cases on line.

The Supreme People’s Court issued a notice in March 2006 requiring local courts throughout the country to announce on line convicted cases on IPR related crimes. In April 2006, the Court opened a website on IPR protection, where some documents of judgements were published<sup>73</sup>.

As crimes against IP rights are often of a transnational nature, joint efforts of all countries are needed to tackle the problem. The Supreme People’s Court has made good attempts by conducting cooperation with WIPO and

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<sup>72</sup> Interview with a Chinese Associate at a Law firm in Shanghai

<sup>73</sup> [www.ipr.gov.cn](http://www.ipr.gov.cn)

the European Union. China's entry into the World Intellectual Property Organization Copyright Treaty and the WIPO Performances and Phonograms Treaty enables the country to improve the Internet copyright protection by working with and learning from other countries. Fifty Service Centers for IPR protection have been set up to receive IPR reporting and complaints related to infringement of trademarks, patents and copyrights. On April 26, 2006 the country opened its official website for IPR protection: [www.ipr.gov.cn](http://www.ipr.gov.cn), the only online channel to accept IP rights complaints and reports for the Centers. The reporter or complainant may also call the hotline of the corresponding region or city where the infringement has taken place<sup>74</sup>.

Customs has also been successful. On March 13, 2006, a large batch of counterfeit Motorola and Philips mobile phones were seized by Huanpu Customs in Guangzhou, capital of South China's Guangdong Province. After customs reported the find to the city's police and the industrial and commerce bureau, the three agencies destroyed an underground operation that produced the phones and recovered 17,893 handsets valued at \$94,000. The four suspects received between eight and nine months imprisonment for the crime of counterfeiting a registered trademark.<sup>75</sup>

The advice to give to a company planning on starting manufacturing goods in China is to build a strong IP portfolio, and to strike early before pirated goods are being spread. It is also important to do a thorough due diligence of potential business partners and a thorough control that the negotiating party is competent. It is also important to let employees sign non disclosure agreements and also agreements limiting competition.

The Customs Law of China<sup>76</sup> gives the 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 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 whenever it considers it necessary.<sup>77</sup>

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<sup>74</sup> China Daily, April 16, 2007 " 10 steps to IPR protection"

<sup>75</sup> China Daily, April 16, 2007 " 10 steps to IPR protection"

<sup>76</sup> Adopted January 22, 1987 and July 8, 2000

<sup>77</sup> Interview with a Chinese Associate at a Law firm in Guangzhou in September 2007

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

- Notarized and legalized power of Attorney appointing an agent or representative
- Notarized and legalized certificate of incorporation in the owner's domicile (which must be translated in Chinese)
- Certification of the rights concerned
- Samples of the goods
- Other details such as licensees and suspected infringers

Where infringing goods are sought by the 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.

### **5.5.2 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.<sup>78</sup> A right holder (copyright or trademark) may apply to Hong Kong Customs to record its trademark or copyright. 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.<sup>79</sup>

The Border Control Legislation of Hong Kong<sup>80</sup> 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 who the goods have been seized or detained;
- The nature and quantity of the goods;
- Other information the Customs thinks fit to disclose

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<sup>78</sup> Copyright Ordinance (Chapter 528); Trade Descriptions Ordinance (Chapter 262)

<sup>79</sup> Interview with an Associate at a Law firm in Hong Kong in September 2007

<sup>80</sup> Copyright Ordinance (Chapter 528) – Section 126, Trade Descriptions Ordinance (Chapter 362) – Section 16C

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.

## 6 Conclusion

This thesis focuses on problems for a right holder in relation to counterfeited and pirated goods and as mentioned in the beginning of this thesis, the regulations and directives to support enforcement of intellectual property rights. It is evident that without any IP rights it is not possible to enforce rights in case of infringement.

For a company, use of its trademarks is a way to distinguish the company's products from products of other companies. A trademark is a symbol for a company's image referring to its product quality. A trademark becomes therefore very important to a company. A well known and well reputed trademark may guarantee income and survival for the company. This however, can also lead to that the company risks getting its products counterfeited and pirated by well organized criminals. This can of course result in negative consequences during a longer period of time. If the importance of distinguishing your mark and the fact that a mark symbols quality disappears, it will be hard for any company to recover.

A registered design right gives a product protection for its shape and features. In cases of infringement where no brand is visible, design rights are important for a right holder making enforcement possible.

It is essential to have efficient protection of IP rights to protect a company from infringement. Job opportunities and future engagements could otherwise turn obsolete.

There is a certain uncertainty when it comes to Community Trademarks, since they reach over several borders and are supposed to function throughout the whole Community. Problems can arise if a local trademark already exists. Both trademarks could therefore be forced to co-exist.

It is clear that when competition tightens it is obvious that the company with the strongest IP portfolio is the winner. It has also been discussed that the protection of intellectual property and also the terms to keep an intellectual property right in force has increased. A product can be protected by several intellectual property rights. This in turn narrows the space of what is allowed to be used by others than the right holder without forcing them to pay licence fees.

The freedom to independently create is being limited by costs for payment of royalties to those companies with exclusive rights, which makes it a harder and much tougher environment to be creative in.

It is therefore important to discuss what should be protected and how. Since Intellectual Property rights represent one of the most valuable assets to a company they are important to maintain for a long period of time, in order for the investment in creating the rights to be repaid.

After the Green Book it is obvious that the problem with counterfeited and pirated goods has been brought to every ones attention more than before.

My conclusions are that for a right holder the TRIPS agreement sets out a minimum of rules to be applied by, all Member States, which gives protection and makes it possible to take legal action against those infringing intellectual property rights. TRIPS provides for criminal sanctions for trademark counterfeiting and copyright piracy where the offences are committed wilfully and on a commercial scale. IPRED1 is supposed to have more severe and further going sanctions than the TRIPS Agreement. Since IPRED1 has not been implemented in all Member States the effect and advantages, if any, to right holders is not yet known. It is hard to please all Member States because of the differences between national law and case law. Organized criminal individuals may take advantage of the national legal differences throughout the Member States and therefore it becomes even more essential to harmonize criminal measures for Intellectual Property Enforcement in the Community. If the Directive really will have any effect harmonizing civil and administrative sanctions for Intellectual Property infringements, as mentioned, in the beginning of this thesis is not yet known, or even if it is possible to stop counterfeiting and piracy.

Further, there are fears that IPRED1 will threaten the freedom to engage in business and to compete at an equal level. The criminal sanctions or even the threat of using them may scare of competitors, in cases when the right holder has a larger business and has substantial financial means. The proposed criminal measures may have an effect of criminalizing consumers or just plain ordinary people – if not for offences themselves when committed on commercial scale, for abetting and inciting the infringements.

The term “commercial scale” is also considered to be a too broad definition.

As concerns IPRED2, it should only be considered in cases of very serious trademark counterfeiting and copyright piracy. Other infringement of Intellectual Property should be handled under the sanctions under civil law.

EC Regulation 1383/2003 has made a great difference. Customs are able to detect and detain suspected counterfeited and pirated goods. To educate custom officers together with right holders becomes important, since some pirated goods are so well made, they are hard to identify as being fake. A problem that still remains for Customs is parallel imported goods. Customs cannot intervene against parallel trade with genuine products within the European Community. There is a problem to know whether these goods are pirated or not.

For instance Trademarks Directive 89/104/ECC- gives the proprietor of a trademark the Right to prohibit the transit of goods bearing an identical sign through the territory of a Member State in which the mark enjoys protection.

Counterfeiting and piracy goes hand in hand, and it is hard to distinguish the one from the other. Therefore it becomes even more important for a right holder to protect his intellectual property and even if he is not doing business in China, Hong Kong or the United Arab Emirates, it is essential to file for protection in these countries. The manufacture and distribution of counterfeited goods is still a large problem in China and Hong Kong. The United Arab Emirates is acting as a hub for counterfeit and pirated goods on its way to Asia. For a small or medium sized company the cost to take in connection with protection of its intellectual property rights might seem too high.

Some people will not think too much about buying a fake product, not thinking of the damage this does to a right holder. One thing is however certain, the problems are increasing and also the awareness that measures must be taken to stop the illegal trade. What will happen if the illegal business does not stop? One consequence could be that companies are not willing to invest a lot of money, if their investment cannot be guaranteed and protected.

Small businesses must improve their IP awareness or they risk missing out on valuable income from new ideas or technology. It is also very important not to accept the illegal trade. Right holders must protect and also detect cases of infringement. A right holder knows his products best and is the one best equipped to identify his own products as being originals from fake products.

A big problem is that some copies are so well made, and not always of poor quality, that they are impossible for the ordinary consumer to be identified as being fake. The price sometimes even is almost the same, and therefore you might believe that you are buying the real thing. Of course, if the

product does not work properly the consumer, who bought the product in good faith contacts customers support of the original product. The manufacturer of the original products gets the blame and the bad will this might bring. On top of it a very dissatisfied customer who may never ever buy this product or similar again, since this brand obviously is crap and not worth paying for. Therefore from a company's and a right holders view it is better with a product that clearly is so poorly made that it is obvious to anyone that it is a fake, than products that are so well made that they are too alike the original product and hard to identify as being fake.

Even if China is a key country when it comes to manufacturing of counterfeited and pirated goods, China is making progress in its effort to provide better protection for IP rights.

Now that everyone is focusing on China it is possible to believe that criminal individuals who earn their income from counterfeited and pirated products will take their illegal business elsewhere. India is assumed to be the next hot spot for illegal manufactured goods. The world's future competition is the competition of IPR and IPR protection is the urgent need for a country's development.

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