



Transatlantic IPR Collaboration

An explorative analysis of counterfeiting, piracy and IP enforcement with special emphasis on policy approaches in the EU and the U.S.

FINAL EDITION - June 29, 2009



provided with the support of EU



About the project

In January 2008, the ‘*Transatlantic IPR Collaboration*’ project was launched. The consortium worked on three undertakings: 1) a joint study; 2) an SME workshop in Brussels, Belgium; and 3) a conference organized in Washington, DC, USA.

The study: The objectives of this study include:

- Comparative analysis of EU and U.S. IPR policies and an assessment of US-EU joint action strategy
- Public awareness strategies and data on the extent and impacts of counterfeited goods and the need to address such infringements
- Issues impacting companies (including SME specific aspects) on IPR protection and enforcement
- An assessment of key distribution networks of counterfeiters
- Recommendations for future policy strategies and methods to improve enforcement

The underlying study presented in this report is the final version. It replaces all previous versions that do not carry this remark. Such previous versions are to be considered draft in nature.

SME Workshop in Brussels: On June 16, 2008, the consortium brought together, 19 European and American businesses to discuss the impact of counterfeiting and piracy on SMEs. In addition to the companies, delegates from the European Union (EU) including DG Trade and DG Internal Market, as well as representatives from the U.S. Department of Commerce, U.S. Department of Justice and the U.S. Federal Bureau of Investigation (FBI) participated in the roundtable. The day-long event entitled “*The Impact of Counterfeiting and Piracy on SMEs: Challenges and Best Practices*” explored the types of counterfeiting and piracy experienced by the participating SMEs, the impact on their companies and how they are currently managing the problem. Furthermore, participants discussed the effectiveness of current EU and U.S. anti-counterfeiting programs and policies and recommended further actions.

Transatlantic IP Conference in Washington, DC: On April 27-28, 2009, the consortium brought together policy makers and industry experts from Europe, the U.S. and Asia to debate the key themes of this study. The two-day conference was entitled “*Transatlantic IPR Collaboration*”, Day 1: “*Debate on the Results of Major Study on U.S. and EU Policy Approaches to Protecting IP*”; Day 2: “*Strategies for Communicating the Value of IP*”.

Project partners

AT Consult



AT Consult KG

AT Consult is an international consulting group specialized in international business development, global market intelligence, and cross-cultural management and communication. The entire service portfolio of AT Consult is designed to assist clients in meeting the challenges of international business in their business as well as in their cross-cultural dimensions.

The origins of AT Consult date back to 1996, when founder Dr. Nikolaus Buch started an international consulting firm in New York City. Since then and true to its mission a consulting network was initiated, consisting of subsidiaries and strategic partnerships in the world's most important locations (North America, Europe, South-East Asia, and China).

Today, AT Consult delivers best business practices to clients on many different aspects of international business development worldwide. AT Consult enjoys knowledge in a variety of different industries, however, our practice is not mainly industry centred but concentrates on clients' challenges relating to their international growth and development.



Austria Wirtschaftsservice GmbH

AWS is the federal bank specialising in Austrian business promotion. With a staff of about 230 people AWS is the largest Austrian service provider for evaluating and financing technological inventions. The main aim of AWS is to strengthen the domestic business location and the competitiveness of its companies as well as to secure jobs on a long-term basis. AWS offers subsidies and financing for Austrian enterprises, advice in all phase of company growth, and support to procure innovation and technologies. AWS is well established internationally and supports projects in more than 50 countries. AWS runs offices in Washington, Brussels and Shanghai.

PLM (Patent & License Management) is the business unit of AWS responsible for patenting issues and for commercialising intellectual property by means of technology transfer. The core business of PLM is the implementation of innovative projects. Amongst its various services, PLM defines itself as a vital link between R&D and industry, identifying commercial applications for promising products and processes developed by Austrian scientists.



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EUROCHAMBRES forms one of the key pillars of business representation to the European institutions. It represents, serves and promotes over 19 million enterprises in Europe through 45 national associations of Chambers of Commerce and Industry, and a European network of 2000 regional and local Chambers. EUROCHAMBRES' mission is:

To strengthen the voice and position of European Chambers as significant, respected, valued influencers of EU affairs on all major economic issues.

To develop the participation of European Chambers in projects of value to business.

To work as a network, delivering network services to their members, developing a European network of services for enterprises, and to strengthen the European Chamber network through linkages and joint programmes.

EUROCHAMBRES' vision is an enlarged competitive Europe where:

entrepreneurial behaviour is promoted and rewarded,

the legislative and physical environment for profitable business is the best in the world,

SMEs are encouraged and supported,

competition is free but fair and which is open to free and fair trade with the rest of the world.



KMU FORSCHUNG AUSTRIA

The Austrian Institute for SME Research was founded in 1952 and specialises in social and economic research on small and medium-sized enterprises (SMEs). It is an independent, private, non-profit association that aims to provide information and figures to facilitate decision-making for organisation and their advisors, for institutions responsible for economic policy-making and business development as well as for universities, higher education institutions and other research institutions. The Austrian Institute for SME Research has about 40 members of staff, and is the largest research institute in Austria focussing on SMEs. It has been operating continuously for more than fifty years and has considerable experience in the field. The diverse academic backgrounds of its staff guarantee an interdisciplinary approach to its research activities, The institute maintains regular contacts with governmental organisations and business associations at a national and international level (above all European), and it cooperates closely with research institutions in almost every country in Europe as well as with numerous international organisations.

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Technopolis Group Ltd

Technopolis carries out high quality, practical research and uses this work to provide knowledge-based advice and management support services to policy makers and those responsible for developing policy into practice. Technopolis specialises in policy in the science, technology and innovation fields. It has built on these foundations to develop a wider understanding of the ways in which such policies can be applied to create economic and social development. Technopolis supports the entire policy development and implementation cycle from initial concepts through policy development and programme design to management and evaluation. In this context, Technopolis also analyses and advises on issues related to the system of Intellectual Property Rights, including counterfeiting/piracy. The Technopolis Group is a European organisation with a staff of over 70, located in Amsterdam, Ankara, Brighton, Brussels, Paris, Stockholm, Tallinn and Vienna. Staffs often work in multi-country and multidisciplinary teams. Firms in the group have working experience of nearly forty countries. As a result, we bring an international perspective to our projects at the regional, national and international level.



U.S. Chamber of Commerce

The Chamber of Commerce of the United States of America (USCC) was founded in 1915 in Washington, D.C. USA. USCC is the world's largest business federation representing more than 3 million businesses of all sizes, sectors, and regions. It includes hundreds of associations, thousands of local chambers, and more than 104 American Chambers of Commerce in 91 countries. Its core mission is to fight for business and free enterprise before Congress, the White House, regulatory agencies, the courts, the court of public opinion, and governments around the world. From its headquarters near the White House, the Chamber maintains a professional staff of more than 300 of the nation's top policy experts, lobbyists, lawyers, and communicators. The Washington staff is supported by eight regional offices around the country; an office in Brussels; an on-the-ground presence in China; and a network of grassroots business activists. Members include businesses of all sizes and sectors-from large Fortune 500 companies to home-based, one person operations. In fact, 96% of the membership are companies with fewer than 100 employees.

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Executive Summary

A. Summary of results

Background and methodology

1. The study *IPR Transatlantic Collaboration – An explorative analysis of counterfeiting, piracy and IP enforcement with special emphasis on policy approaches in the EU and the U.S.*, sponsored by the European Commission, Directorate General for External Relations (DG RELEX), and developed by a consortium consisting of Austria Wirtschafts Service GesmbH, the U.S. Chamber of Commerce, the European Chambers of Commerce and Industry, ATConsult (all contributing to the study), the Austrian Institute for SME Research and Technopolis Group (main and coordinating authors of the study) attempts to provide a comprehensive and up-to-date overview on the issue of IPR infringement, focussing specifically on IP enforcement, counterfeiting and piracy. It gives policy makers in the public and private sector a document which supplies the basis for a thorough understanding of the subject and issues at stake both at the micro (company) and at the macro (economic policy) level. Special emphasis is placed on the transatlantic dimension, meaning that the study examines the institutional structures on both sides of the Atlantic and scrutinises areas where (and how) the EU and the U.S. can work more closely together to better combat counterfeiting and piracy. A second focus is placed on communication policies, i.e. ways of improving “public relations” activities in this field both by public authorities and by industry.
2. The analysis draws mainly on qualitative research methods, comprising desk and literature research; 35 open expert interviews with officials from agencies involved in the fight against counterfeiting and piracy, IP professionals, economists or providers of services and support programmes (e.g., for small and medium-sized enterprises) in the field of IPR; 12 in-depth case studies of companies affected by counterfeiting and piracy; the results of an SME roundtable in Brussels (with 19 SMEs); and a two-day conference with officials and experts from Europe, the U.S., and Asia held in Washington, D.C..

Overall assessment of the problem of counterfeiting and piracy

3. **A clear definition of the terms ‘counterfeiting’ and ‘piracy’ is necessary** as different forms of infringement of IP rights usually entail varying legal (criminal and civil) consequences and also affect the IP strategies pursued by companies which fall victim to unlawful copying. In the most strict and legally correct definition, ‘counterfeiting’ refers to the infringement of trademarks, while ‘piracy’ refers to the infringement of copyrights. Under this characterisation, the infringement of a patent is technically speaking neither counterfeiting nor piracy. Similarly, the relationship to other types of IPR (such as (registered) designs or geographical indications) remains often unclear. There is a tendency to use the terms ‘counterfeiting and piracy’ as a synonym for any types of activities that infringe IP rights, though such a decision seems to be in many studies not consciously made and/or explained. For the purpose of this study, the term ‘counterfeiting’ is extended to comprise all cases where the appearance of a product is subject to unlawful copying, whereas ‘piracy’ is used to describe cases where the actual content of a product (technical or artistic/literary) is the target of reproduction/duplication.
4. There is a **general consensus among the interviewed experts that counterfeiting and piracy is a growing problem for a large number of industries in the EU and the U.S.**, causing considerable economic damages for the affected companies, job losses and risks for the public with regard to health and safety. Also, experts note that the scope of counterfeiting and piracy activities has been broadening over time. Counterfeiting is no longer limited to luxury goods or music/video, but covers a wide range of products and services

such as car parts or toys. Along the same line, counterfeiters have become increasingly professional (which makes it harder than before to distinguish fakes from originals) and utilise modern distribution channels extensively. The increasing use of the internet for violating copyrights and as a distribution platform for counterfeits is a challenge that has to be, according to the experts, met. Finally, it is worth mentioning that there is at least anecdotal and case study evidence that links counterfeiting and piracy to organised crime and terrorism.

5. Despite the general qualitative observation that counterfeiting and piracy poses a big problem for the economies of the U.S. and the EU, the **situation regarding the availability of quantitative data that measures the extent of the problem can be only described as unsatisfactory**. In fact, the latest OECD reports state that the extent of counterfeiting and piracy may be “unknown and unknowable”. This position is foremost rooted in the illegality of counterfeiting and piracy activities which forces economists to make a larger number of (often deliberate) assumptions for their estimation models. The situation is further aggravated by the availability of a larger number of studies which do not – or only in an inadequate manner – disclose the methods and assumptions used for calculating figures. Such studies may have also other methodological shortcomings (e.g., they may lack correct citations of earlier investigations). Notwithstanding this general observation, the methods to estimate the extent of counterfeiting and piracy activities are constantly evolving. The most commonly cited figures are those researched by the OECD, which estimates that economic damages resulting from counterfeiting of physical goods may amount to as much as US\$ 200 billion (this figure covers only international trade and not the trade of counterfeits within countries).
6. **Businesses** usually learn about counterfeiting/piracy attempts of their products through their own market knowledge, trade fairs, customers and internal surveys of infringing sites. The **reaction to the counterfeiting attempts** differ from firm to firm and depend on a variety of factors such as the level of IP protection present, the awareness on how to successfully fight counterfeiting/piracy, resources available for IP enforcement (monetary and human, both areas of special concern for SMEs) or the market situation and structure. Companies interviewed in the scope of this study took a rather active approach: They built heavily on good customer relations, educated customers on the benefits of using the higher quality originals and how to differentiate fakes from the legitimate product. They tried to actively sue and threaten the rights-infringers, and once successful – only in parts through actual court procedures – they gained a reputation that deterred a large amount of anticipated future counterfeiting. However, many firms face difficulties enforcing their rights – particularly in 3rd countries, but also in the EU and the U.S. – and had to revert to ‘de facto’ strategies instead of applying IPR instruments. Companies usually learn the ‘do’s and don’ts’ the hard way, especially in foreign markets. Size-specific reactions to counterfeiting are also reported: Study findings suggest that SMEs react to counterfeiting by increasing their usage of informal/‘de facto’ strategies, while large companies react with an increase of filings of formal IP instruments such as patents, trademarks, designs or copyrights.

U.S. policies in the field of counterfeiting and piracy

7. Both EU and U.S. policies in the field of intellectual property are set against the belief that the IP system constitutes an important element of both economies. The **U.S., in particular, focuses its IP policies primarily on law enforcement issues and combating counterfeiting and piracy**. Domestically, five federal government agencies/bodies play key roles in IP enforcement: Customs and Border Protection (CBP) is primarily concerned with seizing products at border points; Immigration and Customs Enforcement (ICE), the Federal Bureau of Investigation (FBI), and the Food and Drug Administration ((FDA for pharmaceutical products) are tasked with investigative functions; the Department of Justice (DOJ) – with its Criminal Division and U.S. Attorneys’ Office – is responsible for prosecution. In addition, the Office of the United States

Trade Representative (USTR), the U.S. Patent and Trademark Office (USPTO), the U.S. State Department, the Department of Commerce and the U.S. Copyright office also contribute in various ways to the fight against counterfeiting and piracy. Responsibilities in the area of IP enforcement are thus split among a number of government bodies. Each agency gives different priorities to IP enforcement, and although most see IP enforcement as a high priority, all agencies face the challenge of integrating respective tasks into their operational environments. Different reviews of the performance of the various agencies in the field of IP enforcement have shown that progress can be observed (i.e., activity levels in IP enforcement have, overall, increased).

8. There were several attempts by Congress and the White House in the past to enhance coordination between the agencies involved in IP enforcement. Coordinating structures and mechanisms established include the National Intellectual Property Law Enforcement Coordination Council (NIPLECC) enacted by Congress in 1999 (it created the position of a U.S. Coordinator for IP enforcement), the STOP! Initiative which was launched in 2004 by the White House and was adopted as NIPLECC's strategy and the National Intellectual Property Rights Coordination Center (IPR Center). All these coordination-facilitating bodies brought some improvement, although they suffered from various shortcomings such as unclear roles and goals or being a strategy of a temporary nature (STOP!) which impaired their performance. The latest evolutionary step, the '**Prioritizing Resources and Organisation for Intellectual Property Act of 2008**', shortly termed the **PRO-IP Act**, was signed into law in October 2008. The PRO-IP Act created the position of an **Intellectual Property Enforcement Coordinator (IPEC)** within the Executive Office of the President who will chair an **inter-agency committee** to oversee anticounterfeiting and antipiracy efforts. The IPEC is responsible for making IP enforcement a priority for every arm of government. The new structure (IPEC plus inter-agency committee, which replaces NIPLECC) is expected to be more effective than past coordination mechanisms, due to its more central positioning within the Executive Office of the President, its permanent character and last but not least because the IPEC is accountable to Congress. In addition to the IPEC, the PRO-IP Act also addresses a range of other issues such as resources made available to key agencies for IP enforcement activities or the establishment of legal provisions which make enforcement of IP rights easier. According to experts, the PRO-IP act can be regarded as the first national IP enforcement strategy, with the potential of being expanded into a national IP strategy which extends beyond enforcement.

EU policies in the field of counterfeiting and piracy

9. One of the key differences between the ways the European Union pursues its IP policies as opposed to the United States is the fact that most of the field work (e.g., customs activities) as well as criminal and civil prosecution is the responsibility of each of the 27 Member States. Notwithstanding this structural difference, the **European Union has undertaken a number of initiatives** concerning IP enforcement, and plays – according to interviewed experts – a much more active role in this policy field than in the past. The EU's IP policy is rooted in the Lisbon strategy which was proclaimed after the meeting of the European Council in Lisbon in 2000. The strategy aims to make Europe one of the most competitive economies. One of the key developments anticipated in this process is the transition towards a knowledge-based economy which, according to the strategy, requires that the protection of intellectual assets (domestically and abroad) is given special attention. Later communications and directives developed by the EU and EC draw specifically on the strategy and specify the pan-European initiatives to be set in greater detail. Two of these directives/communications should be mentioned:
 - a. The **Directive on the Enforcement of Intellectual Property Rights (Directive 2004/48/EC, the 'Enforcement Directive')** demands that all member states of the European Union need to have

structures in place to permit appropriate action to be taken against those responsible for counterfeiting and piracy. The Enforcement Directive has also provisions in place which strengthen the protection that civil law offers, such as for improving the collection and preservation of evidence, for granting injunctions and for authorising precautionary seizures of the assets of alleged infringers.

- b. The communication adopted by the European Commission entitled ‘**An Industrial Property Rights Strategy for Europe**’ (COM (2008)465 final and 466final) of 2008 underlines the importance of implementing a unified Community Patent and court system. It promotes, as concerns IP enforcement, the facilitation of cooperation and information exchange among governmental bodies and agencies (especially with customs) involved in the fight against counterfeiting and piracy, collaboration of governmental bodies with industry, the implementation of a new customs action plan and other activities (also aimed at third countries). The Communication was welcomed by the European Council which adopted a resolution on a comprehensive **European Anti-Counterfeiting and Anti-Piracy Plan** in the autumn of 2008.
10. Like in the U.S., different government departments in the institutions of the European Union – the Directorates-General (DGs) – are involved in the various activities and tasks pertaining to the fight against counterfeiting and piracy. However, due to the work division between the European institutions and the member states, it is not possible to create a clear-cut distinction according to the three functions: seizing, investigating and prosecuting. IP enforcement activities on the supranational/EU-level are carried out by five DGs: 1) **DG Internal Market and Services (DG MARKET)** is responsible for the enforcement of industrial and intellectual property rights. It was the main driving force behind the Enforcement directive, oversees the Office of Harmonization for the Internal Market ((OHIM), which is tasked with registering trademarks and designs) and would also likely take a similar role vis-a-vis the European Patent Office (EPO), if a European-wide Community patent is established. 2) The **Directorate General for Trade (DG TRADE)** is tasked with negotiating with third country trading partners at bilateral, plurilateral and multilateral levels. It can be considered as the European counterpart to the USTR. 3) **DG Enterprise and Industry (DG ENTR)** can be characterised as the main implementing body of the policies crafted by DG Trade and DG Internal Market. The DG operates a number of pan-European support services and projects aimed at helping businesses (with SMEs as a special target group) cope with the challenges of counterfeiting and piracy. 4) **DG Taxation and Customs Union (DG TAXUD)** is the EU’s equivalent to the CBP, but the duties of the European authority are focussed on ensuring that the 27 national administrations of the member states provide similar levels of protection at the external border while maintaining an adequate level of facilitation for trade. It also has a facilitating role as it signposts IP right-holders to the relevant customs services of the Member States, where they can lodge an application for action. 5) **DG Health and Consumer Protection (DG SANCO)** is the counterpart to the U.S. FDA. Other important institutions which need to be mentioned and are at least partially involved with IP enforcement issues are **Europol** (which handles criminal intelligence) and **the Executive Agency for Competitiveness and Innovation (EACI)** which is tasked with implementing/operating some of the support programmes of DG ENTR.
11. Similar to the U.S., responsibilities concerning IP enforcement activities are spread among a number of DGs at the European level – and taking also the work division between the EU and the Member States into account –; challenges concerning the coordination of the different governmental bodies and avoiding competition are also observable in Europe. There is no equivalent to the IPEC or the earlier ‘Coordinator for IP enforcement’ under the NIPLECC. The ‘**Open Method of Coordination**’ has been developed for the purpose of facilitating coordination among Member States. Under this intergovernmental method, the Member States are evaluated in certain areas by one another (through exertion of

‘peer pressure’), while the European Commission’s role is limited to surveillance. However, this method does not tackle the issue of facilitating coordination among the different DGs and other European institutions. The interviewed experts noted specifically the challenges involved on the European side concerning better coordination. In contrast to the U.S. with its GAO (Government Accountability Office) reports, no independent and overall assessments regarding IP enforcement activities at the European level seem to be yet available.

The Transatlantic dimension

12. There exist several forums at the international/supranational levels, where the EU and U.S. can collaborate with each other: At the multilateral level, the World Trade Organisation (WTO), the World Customs Organisation (WCO), the World Health Organisation (WHO) and the World Intellectual Property Organisation (WIPO) are relevant institutions where IP-enforcement related issues may be discussed and negotiated. The on-going negotiations concerning an Anti Counterfeiting Trade Agreement (ACTA) constitute a plurilateral platform for cooperation. At the bilateral level one has to distinguish between direct contacts between the EU and the U.S. on domestic IP enforcement topics on the one hand, and negotiations of either the EU or the U.S. with third countries (where collaboration between the two economies may be also possible and feasible) on the other hand. Bilateral collaboration between the EU and the U.S. in the field of IP enforcement has been – at least partially – institutionalised through the **‘EU–U.S. Action Strategy for the Enforcement of Intellectual Property Rights’** in 2006. This strategy outlines areas of increased cooperation in fields such as improving the effectiveness of customs and border control in the EU and the U.S. (e.g., through information exchange, coordinated actions, joint training), technical assistance and capacity building involving key staff in relevant governmental organisations on both side of the Atlantic, collaboration with regard to joint activities in ‘relevant’ third countries and mechanisms to be used to involve also industry representatives in joint EU/U.S. activities. In addition, two other forums – the **Transatlantic Business Dialogue (TABD)** and the **Transatlantic Economic Council (TEC)** – are noteworthy. These two platforms offer the possibility to businesses and government officials from the EU and the U.S. to interact with each other on trade topics (and thus also on the topic of IPR and IP enforcement).
13. The evidence gathered indicates that the **U.S. and the EU by and large share common interests** in the field of IP enforcement. Both economies value the IP system, commit themselves to the fight against counterfeiting and piracy and want to raise respective enforcement standards domestically as well as in third countries. However, both the U.S. and the EU seem to face difficulties in pursuing their goals at the multilateral level. Specifically, some developing countries frequently oppose the drive for higher IP standards. They argue that higher IP standards hinder, for example, technology transfer and access to certain goods such as medicines. The U.S. has reacted to this development by pushing bilateral negotiations with third countries and making higher IP enforcement standards a dedicated and detailed topic in Free Trade Agreements (FTAs). The approach of the European Union is similar insofar as it also tries to invoke higher IP enforcement standards in its FTAs with third countries. However, the EU approach is considered by the interviewed experts as “less aggressive” – EU-led FTAs frequently have a more generalist approach where IP topics are mentioned in a broader context, and most of the time specific issues are not dealt with in greater detail. Some experts assert that the U.S. approach may be more successful in reaching IP enforcement related goals.
14. A **general verdict** concerning the effectiveness and performance of EU and U.S. collaboration in the field of counterfeiting and piracy is difficult to make. On the one hand, there is some documentary evidence which unanimously calls the joint EU-U.S. Action strategy a success. The success seems to be ascribed especially to joint EU-U.S. customs actions, such as ‘Operation Infrastructure’ in 2007 where more than 360,000 counterfeit integrated circuits were seized. Also, all experts

agreed that through institutionalising collaboration in the framework of the Action Strategy, significant advancements were made. Before, contacts were mainly established on an ad hoc basis. On the other hand, some experts noted that collaboration between both economies in matters related to counterfeiting and piracy could be improved. They a) pointed to presumed better performance of developing countries collaborating with each other on the topic, b) observed that documents used in bilateral negotiations with third countries could be better attuned between the U.S. and the EU and c) argued that many aspects tackled by the EU–U.S. Action Strategy are only described vaguely. An explanatory factor for the challenges encountered in collaboration might be the fact that both economies are actually competing with each other. Another factor worth considering could be issues where the U.S. and the EU directly disagree on IP topics. Such topics which could be considered as ‘trade irritants’ are, for example, the ‘Havana Club’ and ‘Irish music’ cases (two disputes between the EU and the U.S. on IP issues, settled by the WTO in favour of the Europeans, but with no reaction with regard to changes on the U.S. side so far) or the dissatisfaction expressed in the ‘Special 301 reports’ of the USTR concerning the level of IP enforcement in some European countries. However, one also needs to say that the evidence pertaining to a less favourable performance of EU/U.S. collaborative activities is only anecdotal in nature, as many knowledgeable experts in that area were reluctant to comment on the development and evolution of the collaborative endeavours.

Communication policies

15. An important pillar in the fight against counterfeiting and piracy is seen in activities that **educate the general public and increase awareness on the negative consequences and risks of using counterfeit/pirated goods**. To this end, a large number of campaigns were and are run by business associations, single companies and public authorities. A range of key success factors has been identified in the underlying analysis for such campaigns, such as thorough planning, identification of clearly defined target groups (target group segmentation), the taking into account the cultural context of the target groups, the education of multipliers/external stakeholders as well as the youth or the involvement of a broad cast of actors/stakeholders for running the campaign. In the context of the latter, some specific challenges exist with respect to finding common goals, as well as coordinating and distributing the work among the partners. But the gains in terms of using complementary know-how and resources as well as the increase in credibility due to the broad support base should be able to justify the respective efforts. A particularly promising approach is to get consumer associations to support such campaigns, as they enjoy a high level of credibility with the general public. Moreover, campaign operators should see their activities as a long-term endeavour and should develop indicators against which performance/success can be measured.

B. Recommendations

Against the backdrop of the before mentioned study results, the IPR Transatlantic team elaborated 25 recommendations. These recommendations are grouped together as sets of five recommendations each for 1) policy makers in the EU 2) policy makers in the U.S. 3) individual businesses/industry 4) those responsible for designing communications policies in the field in industry and government and 5) those elaborating on future EU–U.S. strategies in this topic field.

Top-5 recommendations for policy makers in the EU

1. Establish stronger coordination between the different directorates of the EC on the topic of IPR and IP enforcement.
2. Establish clear goals and effective performance measures for IPR policies and IP enforcement actions.
3. Continue efforts to establish a unified European patent and a European patent court.
4. Improve the overall effectiveness of IP support provided at member state level by facilitating the exchange of good practices.
5. Improve effectiveness of support provided to firms by increasing their visibility.

Top-5 recommendations for policy makers in the U.S.

1. Fully fund and implement the “PRO-IP Act” (PL 110-403).
2. Ensure the U.S. Intellectual Property Enforcement Coordinator (IPEC) has the authority and resources to improve coordination of IP enforcement among key agencies.
3. Improve border enforcement against counterfeiting and piracy.
4. Develop clear goals and mission statements and foster the collection of monitoring data on IP enforcement activities at agency and coordination structure level.
5. Work towards an overall national IP strategy not only focused on enforcement alone.

Top-5 considerations for firms

1. Establish a dedicated business-specific IP strategy which makes use of the full spectrum of formal IP rights as well as less formal protection mechanisms.
2. Set up a dedicated communications strategy for IP enforcement.
3. Focus anti-counterfeiting activities, especially in the light of scarce resources available.
4. Pay attention to common pitfalls and follow basic advice.
5. Stay innovative and offer good quality at reasonable prices.

Top-5 considerations for communicating anti-counterfeiting and anti-piracy policies to the public

1. Implement coherent and effective communications campaigns geared towards the general public.
2. Clearly define and research the target groups and tailor the communications strategy to the characteristics of these groups.
3. Demonstrate credibility and trustworthiness through inter-institutional collaboration and by sticking to facts.
4. Address other key stakeholder groups through dedicated actions.
5. Educate the youth.

The way forward – Top-5 recommendations for future EU-U.S. strategies

1. Focus political will and give IP enforcement priority.
2. Improve overall reliability of data on the scope of the problem of counterfeiting and piracy as well as on the effectiveness of policy actions taken in this field.
3. Tackle the challenge of the internet as a distribution channel for counterfeits and pirated goods.
4. Preserve an effective international IP legal framework that fosters and protects innovation.
5. Continue and expand collaboration between the EU and the U.S.

1. Introduction

The system of Intellectual Property Rights (IPR) is one of the oldest instruments to foster innovation. Predecessors of its most prominent tool, the patent, were introduced as far back as the 15th century. Patents are a good example to illustrate one of the main working principles of IPR: barter between society and the inventor/innovator. The inventor is granted exclusive rights for an invention (in order to honour the R&D expenses and the efforts put into developing the invention). In exchange, he/she has to disclose the blueprints in order to allow for follow up innovations by different parties. After some time (at most 20 years in the majority of the countries), the invention enters the public domain. In addition to the patent, a range of other IPR tools (copyrights, trademarks and registered designs to name the most important ones) have been established over the past centuries which protect different types and aspects of innovation activities.

One key prerequisite for all these tools to work as intended is that the respective rights need to be effectively enforceable. Once IPRs are being infringed regularly without proper means to stop such activities, the IPR system loses its value – innovators will refrain from using IPR or may even stop innovating, if they believe that they cannot get a return for resources spent on R&D or brand-building. Against this backdrop, the steady increase of counterfeiting and piracy activities observable and documented in a range of studies over the past years, as well as reported difficulties in enforcing the infringed rights, is alarming. It prompts at a need on the side of policy makers – both at the private industry and the public policy level – to carefully examine ways of how to deal with IPR infringers in general, and ways of how to improve the situation of lawful right holders so that they can effectively utilise the rights granted. The situation is further aggravated by the fact that all available evidence indicates that IPR infringement, counterfeiting and piracy has become a global phenomenon with world-wide networks of actors interacting in unlawful behaviour. Thus, the subject of IPR infringement poses also a challenge for collaboration in the international community; it is hence an issue which also applies to transatlantic cooperation patterns between the EU and the U.S.

The underlying study attempts to provide a comprehensive and up-to-date overview on the issue of IPR infringement, IP enforcement, counterfeiting and piracy. It gives policy makers in the public and private sector a document which supplies the basis for a thorough understanding of the subject and issues at stake both at the micro (firm) and at the macro (economic and policy) level. Furthermore, the study develops a set of generic recommendations targeted at firms and public policy makers on how to address counterfeiting and piracy in their daily work.

As the title suggests, special emphasis is placed on the transatlantic dimension, meaning that the study carefully examines the institutional structures on both sides of the Atlantic and scrutinises areas where (and how) the EU and the U.S. can work more closely together to better combat counterfeiting and piracy. Another focus is placed on communication policies, i.e. ways of improving “public relations” activities in this field – respective recommendations can be used by firms, business associations and government agencies when they communicate on counterfeiting, piracy and IPR infringement to the general public or to specific client groups.

Apart from the foci stated above, the study covers the subject of counterfeiting and piracy rather broadly. Among others, it addresses the following research questions:

- What distribution networks are used by parties engaging in counterfeiting and piracy?
- What can be done to increase the difficulty of producing and selling (but also buying and consuming) fake/counterfeited/pirated goods?
- What should public policy makers in the EU and the U.S. consider when they take action in the field of counterfeiting and piracy?

- What actions are the most promising to be taken by firms who have fallen victim to counterfeiting and piracy activities?
- What are promising ways to further develop the EU-US joint action strategy on enforcement?

Because of the fact that the topical coverage is rather broad, it seems necessary to say something about things the study will not deliver. Foremost, it will not engage in a discussion on the link between the IPR system and innovation. Secondly, because of the wealth of available information on data and extent of economic damages resulting from counterfeiting and piracy, e.g., the work of the OECD, the study also refrains from implementing a survey with companies to deliver yet another new figure on how hard, in monetary terms, firms and society are hit by this unlawful behaviour. The study focus is much more on the side of creating a clearer and comprehensive picture from different (fragmented) data sources, enriched with a number of expert interviews and company case studies.

After a brief presentation of the methodology used (chapter 2), the analysis starts off with a discussion on how to define the different forms of IPR infringement and terms such as counterfeiting or piracy (chapter 3.1). This is important as different forms of IPR infringement predominantly affect different markets and industries, often entail differences in the way they are treated in civil and criminal law (e.g., may affect the course of action to be taken when contemplating litigation) and may lead also to different forms of IP strategies being implemented at firm level.

The study next discusses the current state of play of activities of unlawful IPR infringers. Chapters 3.2 and 3.3 analyse the extent and scope of counterfeiting and piracy activities, shed light on who IP infringing parties typically are, where they are often located and how they distribute their fake goods. The results of these activities - economic and other damages - are also assessed by drawing on the plethora of studies made in this context.

Chapter 4 is devoted to the reaction of the private/firm sector to the “offensive” attacks of IP infringing parties. This chapter looks into the different strategies individual firms are employing when wrestling with unlawful copiers of their intellectual property. Issues discussed relate to the IPR and enforcement strategies in place, the litigation history and experiences with attempts to stop the sale and production of fake goods (chapter 4.1). A special emphasis will be placed on presenting a set of common pitfalls and basic advice for businesses (chapter 4.2).

By this stage, policy makers in government departments and agencies should have a comprehensive picture of the playing field - a necessary prerequisite for looking into possible options for state intervention. Chapter 5 examines how public policy reacts and intervenes in this playing field. Following a brief introduction (chapter 5.1), cornerstones of EU policy (chapter 5.2) and U.S. policy (chapter 5.3) in the area of counterfeiting and piracy are analysed. This section also discusses the main cast of actors at the multilateral level as well as a comparison between EU and U.S. policies both domestically and vis-a-vis third countries. Finally, the section concludes with a critical assessment of the EU-U.S. joint action strategy.

Chapter 6 discusses communication policies.

Chapter 7 outlines the top-5 most important recommendations for EU and U.S. policy makers and firms as well as how to pursue communication strategies. It also includes recommendations on how to further advance transatlantic cooperation in the fight against counterfeiting and piracy.

The study includes a number of annexes, whereby readers shall be especially referred to the company case studies (6 for the EU, 6 for the US, mostly SMEs) which are very helpful to thoroughly understand the way firms have to deal with IPR infringement by drawing on testimonials right from the frontline.

2. Methodology

The methodology applied is primarily qualitative in nature. In particular, the study team used of the following methodological instruments:

- **Literature review and desk research:** A variety of studies exist on the topic of counterfeiting and piracy. We thus analysed the available literature (scientific studies published in journals, EU and U.S. studies, policy and strategy documents, evaluations, booklets or relevant information on homepages) with the aim to create a comprehensive and to the point picture particularly useful for policy makers involved in transatlantic issues.
- **Qualitative interviews:** The literature review was complemented by a set of 35 open interviews with experts in the field of IP enforcement. Participating experts stemmed from a variety of organisations including international organisations involved with IP matters, lobbying groups, industry associations, IP experts such as patent attorneys, academia, businesses or IP service providers.
- **SME roundtable:** As SMEs are said to be faced with considerable difficulties putting the IPR system effectively to use (which includes also enforcement), a 1-day roundtable/workshop was organised in Brussels with U.S. and EU companies (mostly SMEs) to discuss common issues when enforcing IP rights. During that event, views were also gathered from key agencies on the topic of counterfeiting and piracy. The SME roundtable took place on June, 16/17 2008 in Brussels and involved 19 companies.
- **Company case studies:** Twelve in-depth studies were drafted to gain and provide a detailed understanding of how companies tackle the issue of counterfeiting and piracy in practice. Six of the studies focused on American companies, and six of the studies focused on European companies. They built on the foundations of the SME roundtable and aimed at increasing the level of detail of the information gathered in order to showcase the showcase companies' experiences defending against counterfeiters in real life.
- **Transatlantic IP conference:** On April, 27 to April, 28 2009 a conference was held on the topic of "IPR Transatlantic collaboration" in Washington, D.C. at the premises of the U.S. Chamber of Commerce to explore, with a variety of policy makers, academics, and industry experts the main themes of this study. Their presentations and comments on the themes are taken into account.

3. State of affairs: counterfeiting and piracy

3.1 Defining counterfeiting and piracy – the need for differentiated views

Counterfeiting and piracy, IP infringement and other terms are used frequently in the various literature sources on IP enforcement issues, but what these terms actually refer to is often not clearly defined and certainly not used in a standardised way across all studies (see, for example, Matthews 2009). As different forms of infringement of IP rights entail different legal (criminal and/or civil) consequences for the infringer – and certainly consequences for the IP strategy chosen by those firms which want to protect their intellectual property – it is necessary to define the terms in more detail. As a first step of the study, we start this discussion by looking at various forms of knowledge transfer and then examine how IP rights (and their infringement) relate to them.

3.1.1 Voluntary and non-voluntary knowledge transfer – where counterfeiting and piracy may set in

Figure 1 shows various forms of knowledge transfer that can occur between a business and a partner firm. The starting point is the intangible assets of a company. These shall be defined, according to Smith & Parr (2000) as those parts of the assets of a company which exist in addition to physical and monetary assets.¹ Usually, this type of assets comprises the value embedded in the know-how and experience of employees. If companies interact with the outside world, some of this knowhow can be transferred to third parties such as competing or collaborating firms.

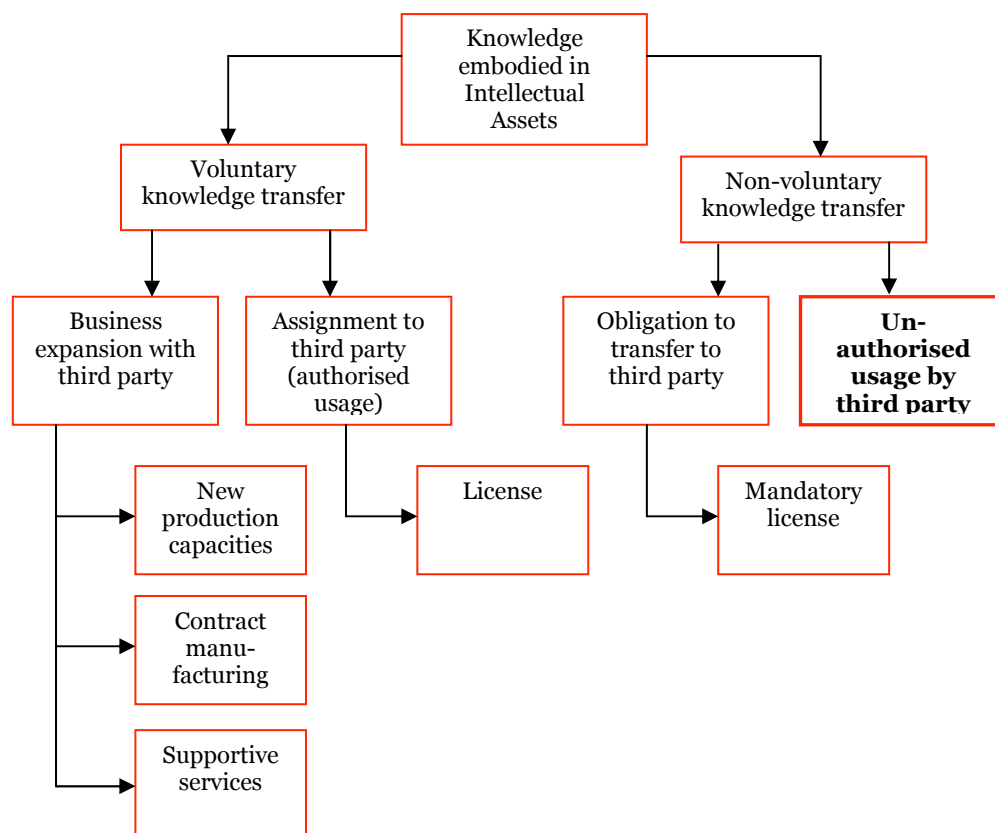
In this context, one can distinguish, from the point of view of the firm owning special know-how, between voluntary knowledge transfer (where the firm with a specific know-how allows the partner firm access to its know-how which may include different levels of usage), and non-voluntary knowledge transfer (where there is an unwanted flow of know from one company to the partner firm). Non-voluntary knowledge transfer is not synonymous for unlawful copying or counterfeiting/piracy; as will be shown, only a subset of involuntary knowledge transfer is relevant in this context (and there may be also cases where piracy/counterfeiting is occurring without any wanted/unwanted know-how transfer).

Voluntary knowledge transfer can take place when a **business expands its activities**. There are three general situations that can be distinguished with regard to business expansion activities which require the transfer of knowledge to new employees or business partners:

- **New production capacities:** If a company decides to set up new production capacities, in either the domestic or a foreign market, a typical flow of knowhow is required to expand the original business activities. This know how flow includes permission proceedings for production plants, basic and detailed engineering blue prints, relationships with suppliers, contractors and subcontractors, maintenance and operation of affiliates. The flow of knowhow can be naturally differentiated in more detail in terms of industry specification.

¹ There is not a general agreed upon definition of intellectual assets, especially pertaining to individual components of this type of assets. A discussion of this issue would extend beyond the scope of this study; readers shall be referred to the respective literature (e.g., Haller & Dietrich, 2001).

Figure 1 An exemplary model of knowledge transfer with special consideration of unwanted know-how transfer



Source: own model

- **Contract manufacturing:** Contract manufacturing applies to all forms of intellectual assets. Copyrighted books as well as patented technology can be, for example, outsourced in terms of reproduction. The typical know how flow includes provision of technical, operational and management know how to enable the production, the supply of production machines and control software, and technical consulting service for the implementation of process technology.
- **Support services for the delivery of products:** Once products have been sold to customers their complexity might require the ongoing assistance and support of the vendor or producer to operate and maintain. The knowhow transferred in this process usually allows the buyer to make correct use of the purchased product.

Knowledge assignment constitutes another form of voluntary know-how transfer, namely the contractual transfer of defined know-how from one proprietor to another. This is done through licensing. A license may be granted by a party ('licensor') to another party ('licensee') as an element of an agreement between those parties. A shorthand definition of a license is "*a promise (by the licensor) not to sue (the licensee).*" A license under intellectual property commonly has several component parts, including a term, territory, renewal, as well as other limitations deemed vital to the licensor.

Involuntary knowledge transfer can take various forms of which two generic types should be considered at this point: There might be instances where governmental authorities require that the firm discloses/transfers its know-how to competitors. This is the case in so-called '**mandatory (compulsory) licensing**'. In the field of medicines, the usage of mandatory licenses is frequently an issue in Free Trade Agreements (FTAs) between developing and developed countries where

arguments favouring a mandatory license for a drug developed in a developed economy (e.g., in order to give a larger amount of people access to cheap pharmaceuticals) have to be weighed against the counterarguments (such as economic damages for the drug-developing company, which cannot recuperate its R&D costs and suffers considerable economic damages) (see also section 5.5). Usually, compulsory licensing should be seen as a measure of last resort, though where drawing lines are to be set remains a controversial issue.

The second way unwanted knowhow is transferred brings us closer to the concept of counterfeiting and piracy. It covers all types of unauthorised use of intangible assets by third parties, excluding the instance of a state-enacted obligation to license/transfer.

3.1.2 The concept of counterfeiting and piracy

The IPR system was established as a safeguard against unauthorised know-how flows to and respective usage of knowledge by third parties. The rationale for the existence of this system is to protect innovators which have spent, for example, considerable amount of money on R&D for an investment or for creating brand value, against those who do not take the burden of developing/investing in such activities themselves. Thus, the incentives to engage in such activities are to be secured.

There are several IP instruments which protect different types of intellectual assets (and make them thus ‘Intellectual Property’), the most important² four are (Gowers 2006):

- **Patents** – perhaps the best known and oldest type of IPR instrument – protect technical inventions. These inventions have to be novel (i.e., specifications must have never been made public in any way), they have to exhibit an inventive step, have to be capable of industrial application and should, eventually, not fall under a category of a list of activities specifically marked as non patentable (e.g., scientific theories).
- **Trademarks** are badges of origin for goods or services, comprising words, names, logos, sounds and/or shapes. They are usually related to the organisation producing/offering goods and services, making this organisation easily recognisable.
- **Registered designs** – as opposed to trademarks – protect the physical appearance of the whole or part of an actual product including shapes, configurations and ornamentations.
- **Copyrights** safeguard concrete expressions of ideas (e.g. literary, music). In contrast to the other three IPR instruments, copyrights usually do not need to be specifically registered, but arise automatically once they are ‘fixed’ in some way (e.g., on paper, in electronic form, etc.)

If an unlawful copier utilises an IP right without authorisation, one usually talks about IP infringement. Counterfeiting and piracy are used often as synonyms for IP infringements (see Blind, Cuntz, Köhler & Radauer 2009), but if one takes the official WTO (TRIPS) and EU definitions as a basis, counterfeiting and piracy are quite clearly defined:

² Besides the discussed instruments there are also other forms of IPR such as geographical indications (which protect products that name their (famous) region of origin where they are produced) or topographies for Integrated Circuits. Furthermore, there are also a range of informal mechanisms not backed up by law which companies may pursue nonetheless in order to protect their know: These include management strategies such as relying on the complexity of the technical design, staying in the lead of the market by constantly innovating (lead time advantage strategy), using technological means to protect IP or keeping the know how secret (so-called trade secrets). The latter ‘informal’ method is of special interest, as it enjoys in some countries a limited degree of legal protection, if certain criteria are met.

- **Counterfeiting refers to infringement of trademarks.** This is evidenced, for example, in documents of the World Trade Organisation (WTO) and the EU. According to the WTO "...counterfeit trademark goods' shall mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation." (WTO TRIPS Agreement, Article 51, footnote 14) According to the EU "...counterfeit goods' are (i) goods, including packaging, bearing without authorization a trademark identical to the trademark validly registered in respect of the same type of goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the trademark-holder's rights under community law, as provided for by Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trademark (4) or the law of the Member State in which the application for action by the customs authorities is made; (ii) any trademark symbol (including a logo, label, sticker, brochure, instructions for use or guarantee document bearing such a symbol), even if presented separately, on the same conditions as the goods referred to in point (i); (iii) packaging materials bearing the trademarks of counterfeit goods, presented separately, on the same conditions as the goods referred to in point (i)." (EU Regulation 1383/2003)
- **Piracy refers primarily to the infringement of copyrights (WTO, EU) but may be also applicable to design rights (EU):** According to the WTO "...pirated copyright goods' shall mean any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation." (WTO TRIPS Agreement, Article 51, footnote 14). The EU definition states that "...pirated goods' are goods which are or contain copies made without the consent of the holder of a copyright or related right or design right, regardless of whether it is registered in national law, or of a person authorised by the right-holder in the country of production in cases where the making of those copies would constitute an infringement of that right under Council Regulation (EC) No 6/ 2002 of 12 December 2001 on Community designs (5) or the law of the Member State in which the application for customs action is made." (EU Regulation 1383/2003)

The relationship of the terms 'counterfeiting and piracy' to rights other than trademarks and copyrights is less clear. Matthews (2008) notes that "...patent infringement is generally not included in definitions of 'counterfeiting' and is clearly not included in the definition provided by the TRIPS Agreement". According to the EU, "...goods that infringe (i) a patent under that Member State's law; (ii) a supplementary protection certificate of the kind provided for in Council Regulation (EEC) No 1768/ 92 (1) or Regulation (EC) No 1610/96 of the European Parliament and of the Council (2); (iii) a national plant variety right under the law of that Member State or a Community plant variety right of the kind provided for in Council Regulation (EC) No 2100/94 (3); (iv) designations of origin or geographical indications under the law of that Member State or Council Regulations (EEC) No 2081/92 (4) and (EC) No 1493/1999 (5); (v) geographical designations of the kind provided for in Council Regulation (EEC) No 1576/89 (6)" are neither classified as 'pirated' nor 'counterfeited goods' according to the EU legislation, but infringing goods of different nature (EU Regulation 1383/2003).

Further problems regarding definitions may arise if one examines different variations of counterfeiting/piracy-like activities. Usually, counterfeiters attempt to deceive the consumer into thinking they are purchasing a legitimate item, or convince the consumer that they could deceive others with the imitation. But there are instances where this is not (or not entirely) the case : An item which doesn't attempt to deceive,

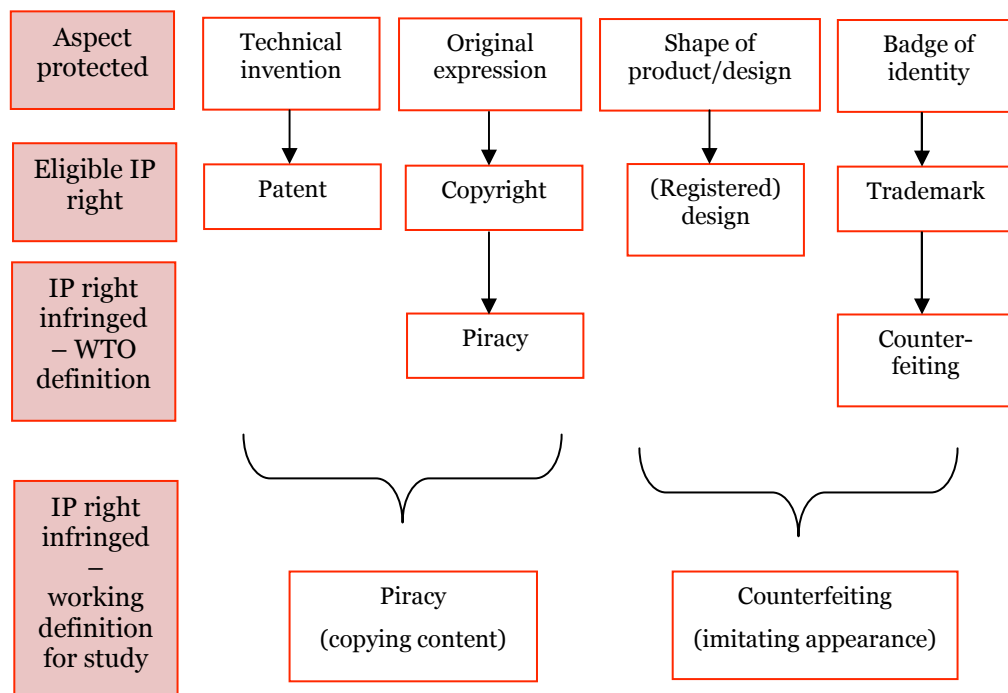
such as a copy of a DVD with missing or different cover art, is often called a ‘bootleg’ or a ‘pirated copy’ instead. Some counterfeits may even have been produced in the same factory that produces the original, authentic product, using the same materials. The factory owner, unbeknownst to the trademark owner (and perhaps also the manufacturing staff), simply orders an intentional ‘overrun’. Without the employment of anti-counterfeiting measures, identical manufacturing methods and materials make this type of counterfeit (and it is still a form of counterfeit, as its production and sale is unauthorized by the trademark owner) impossible to distinguish from the authentic article.

As concerns piracy, there are terms, too, which have been used in an analogous and/or scope-expanding manner (e.g., ‘full scale cloning’, ‘slavish copying’ or ‘reverse engineering’ (although the latter, for example, can be – under a different definition and if applied to a technology which is not protected by patents or utility models – perfectly legal (Gowers 2006)).

A broader definition for the purpose of this study

The fact that ‘counterfeiting’ and ‘piracy’ is in practice used so frequently as a synonym for any type of IP rights infringement has given rise to develop a new working definition of these terms for the purpose of the study, to be used in parallel to the established legal definitions. Most of the time when piracy is used to describe a more specific instance of IP infringements, it seems that the study authors refer to this term as an unauthorized use and/or reproduction of a good’s contents. By contrast, counterfeiting seems to refer to the exterior appearance and can therefore be applied to distinctive signs and shapes, including trademarks, geographical indications and industrial designs. It shall be, hence, concluded that a counterfeited product wants to look like the original, whereas a pirated product does not have this intention per se. It is characterizing for counterfeited goods that no involuntary knowledge transfer takes place, whereas pirated goods usually constitute non voluntary knowledge transfer. The following figure 2 illustrates this basic definition issue.

Figure 2 Working definition for study concerning counterfeiting and piracy



Source: IPR Transatlantic project

3.2 The extent of counterfeiting and piracy

3.2.1 The difficulties of measuring the economic impact of counterfeiting and piracy – methodological issues

The current situation concerning the available data on counterfeiting and piracy can be only described as unsatisfying (see, for example, Blind, Cuntz, Köhler & Radauer 2008; Weatherall, Webster and Bently, 2009). Weatherall, Webster and Bently (2009) argue that “...reliable information on these issues is generally lacking: there are few systematic records across the world of the occurrence of any forms of IP imitation and enforcement and, precisely, because infringement is illegal, it is difficult to get reliable data.” Along the same line, the OECD recently commented that the extent of counterfeiting and piracy remains “unknown and unknowable” (OECD 2008) and that even commonly used estimates of the proportion of world trade constituted by counterfeit goods may be often based on repeated statements of unsupported estimates.

The problems in measuring counterfeiting and piracy are due to a number of factors, which comprise – among others – the following:

- If data is available on counterfeiting, it is difficult to assess whether (and to what extent) it is representative of the experience of all innovators (Weatherall et al. 2009). To give an example, a commonly used source of data is that of seizures of IP infringing goods by customs authorities. However, it is not clear whether customs seizures represent 1 % or 99 % of all infringements. Similarly, it is also difficult to tell if certain products or locations are over-represented. Customs is only able to inspect a fraction (in the EU: 3 % to 5 %) of all cargo passing through the borders. Changes in the number of seizures might be due to changes in the level of activities of counterfeiters, but they might also result from more effective enforcement action or better communication of IP rights holders with the customs authorities. One should also not forget that seizures do not capture IP infringing products which are produced and consumed domestically – as shown in some of the case studies and underlined by interviewed experts, the aspect of domestic IP infringements is not to be underestimated as a problem.
- Another method to measure the extent of counterfeiting and piracy is through the means of surveys with consumers and/or affected businesses. Researchers need to cater for a potential bias of the responses (Blind et al. 2009) due to potentially subjective views of the interviewees. This problem is further aggravated if the studies in question lack an adequate description of the methodology applied (which seems to be, unfortunately, rather common). Weatherall et al. argue, for example, in this context that “...there is, after all, no incentive for industry players or peak bodies to underestimate rates of infringement.” However, expert interviews in the underlying study have shown that many companies may not want to admit that a large portion of their product line may be subject to counterfeits for fear of driving customers away. Furthermore, studies performed by outspoken anti-IP groups may also suffer from a bias under-estimating the problem due to, for example, ideological reasons. The challenges for study authors in this field and context are thus in any way considerable.
- Subjectivity may become also an issue in other methodological contexts. For example, the extent of counterfeiting can be calculated in terms of volume (e.g., the number of seizures) or in terms of value (e.g., the value of the seized goods) (CEBR 2002). If the latter approach is taken, the question arises as to how to value the seized counterfeits (e.g., whether production costs or sales prices of originals/fakes have to be considered; what exchange rates are to be applied, etc.). This gives leeway to additional subjective interpretations, a situation which can be further aggravated if different national and international institutions/authorities apply different standards and thus make regional comparisons or comparisons in time hardly possible.

- A commonly consulted statistic for measuring enforcement activity is the number of infringement cases filed with the courts. However, available evidence (see, for example, Kingston 2000) suggests that the majority of infringement cases are settled out of court. This would imply that “...litigation data captures only one extreme of the enforcement spectrum. Without other sources of information, it is difficult to know whether court proceedings are filed in 9 % or 90 % of all occasions of detected infringement – or the reasons behind decisions to file or not to file.” (Weatherall et al. 2009)

3.2.2 The scope and extent of counterfeiting and piracy activities

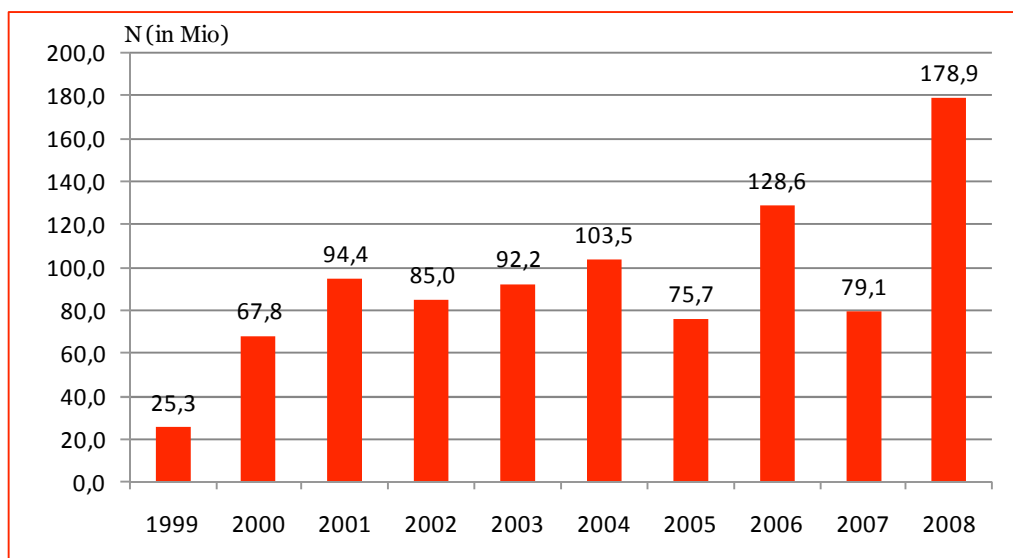
Notwithstanding the methodological issues described in the previous section, this section will describe some selected statistics and study results to give an account on commonly used data for estimating the magnitude of counterfeiting activities and its impacts on society and economy. These results are to be nonetheless valued against the general consensus observed among all interviewed experts who believe that counterfeiting and piracy activities are increasing, covering a wide (and wider than in the past) range of products (exemplary quote: “*Virtually everything is nowadays counterfeited and pirated*”, expert nr. 16), with an increasing level of sophistication as concerns production capabilities, quality aspects and distribution channels used. Counterfeiting/piracy activities are hereby said to produce considerable economic damages to the legitimate IP rights holders, leading to sales and job losses, and also pose increasing risks for the health and safety of consumers.

Number of Seizures

At first, we will look at some of the widely stated seizure data of the EU and the U.S. For the EU, the latest available data is for the year 2008 (TAXUD 2009) which shows the following picture: The number of registered cases of counterfeiting and piracy increased steadily from around 4,700 in 1999 to just over 49,000 in 2008, a more than ten-fold increase. The number of articles seized increased also in the same timeframe: From around 25 Mio. in 1999 to almost 180 Mio in 2008 (see figure 3). However, figure 3 reveals also that considerable variations exist as concerns the amount of articles seized each year. Keeping in mind the methodological restrictions when using seizure data as the sole indicator for counterfeiting and piracy activities, it is unsurprising that DG Taxation and Customs Union state themselves that “...although the overall amount of IPR infringing goods entering or leaving the EU cannot be ascertained from these figures, or whether the problem is growing, the figures do show that IPR enforcement continues to be a top priority for customs authorities in the EU.” (TAXUD 2009: 9).

Noteworthy in this context is the fact that cooperation between the private and the public sector has augmented considerably between 2000 and 2008, as evidenced by the number of applications submitted for action to customs. The respective figures peaked at 12,866 applications in 2008 (in 2000 there were only 981 such applications which means that the growth rate amounts to more than 1,200 %).

Figure 3 Number of articles detained at EU borders through customs on suspicion of IP infringement, absolute numbers in mio., 1999–2008



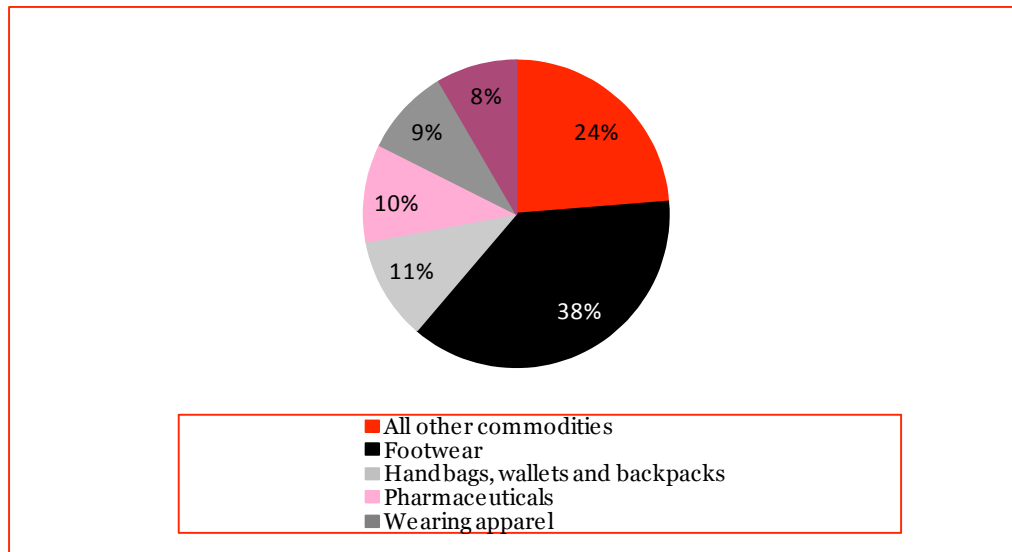
Source: European Commission, DG Taxation and Customs Union (TAXUD) 2009

U.S. figures on the amount of seizures draw a picture which is – in terms of the evolution of the numbers – similar to that of the EU. The latest report from U.S. Customs and Border Protection (CBP) and U.S. Immigration and Customs Enforcement (ICE) (CBP/ICE (2009)) states that the number of IPR seizures increased from 13,657 seizures in FY 2007 by 9.7 % to almost 15,000 seizures in FY 2008. As opposed to the European statistics, CBP/CIE also use value estimates in their statistics: CBP/ICE assess that the domestic value of IPR seizures increased to US\$ 272.2 Mio. in FY 2008 (value in 2007: US\$ 196.7 Mio.) – an increase of 38.6 %.

Types of commodities intercepted

Another interesting statistic is that of the type of commodities seized. CBP/ICE data indicates that in the U.S., the most commonly intercepted goods subject to counterfeiting activities are footwear (which accounts for 38 % of the total value of seized goods in FY 2008), handbags/wallets/backpacks (11 % of the total value) and – ranking third – pharmaceuticals which account for 10 % of the value of the intercepted goods (see figure 4). The statistic from the EU lists clothing & accessories, footwear and jewellery/watches as the top commodities (if the measure ‘number of cases’ is used); alternatively, if the articles detained are counted, CDs/DVDs and cigarettes are to be found at the top, with clothing ranking third. This is due to the fact that CDs, DVDs and cigarettes are often shipped in larger consignments.

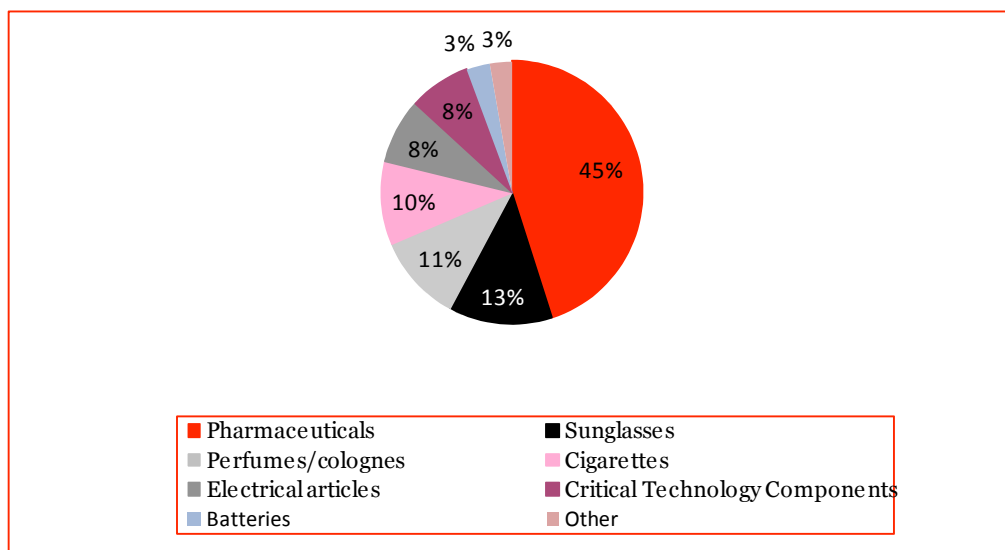
Figure 4 Top commodities seized in FY 2008 in the U.S. by CBP/ICE



Source: Customs and Border Protection and U.S. Immigration and Customs Enforcement 2009

The U.S. report also has computations dedicated specifically to seizure values of commodities with safety and security issues (see figure 5). The total value of such commodities amounted to US\$ 62.5 Mio. in FY 2008 which is an increase of around 124 % when compared to FY 2007. Pharmaceuticals accounted for 45 % of safety and security seizures by value, making medicines the most important safety/security commodity of concern.

Figure 5 Top safety and security commodities seized by CBP/ICE in the U.S., FY 2008, break-down by value of seized goods



Source: CBP/ICE 2009

Type of IPR infringed

The breakdown of the seizure figures by type of IPR infringed is also noteworthy. Table 1 shows the respective situation for the EU. Around 55 % of the goods were detained because they were suspected to infringe trademarks, 43 % were potentially breaking patents and 1.3 % possibly infringed copyrights or related rights (the scope of copyright infringing activities is certainly higher than stated in the seizure statistics, as most pirated goods can be nowadays easily distributed using, for example, peer-to-peer networks on the internet, and do not require the manufacturing and shipment of CDs and DVDs). However, the patent figures need to be interpreted with care, as in 2008 TAXUD subsumed in this category seizure of CDs and DVDs, based, according to TAXUD, on patent law. If the corresponding CD and DVD cases are taken out of the sample, the picture would look much more like that of 2006, where 91 % of all intercepted articles concerned trademark infringements and 7 % copyrights and related rights – patent-related issues accounted only for 1 % of the commodities. Of negligible/minor importance in the customs statistics are other types of IPR, such as – surprisingly – design rights, utility model rights or other types of IPR (e.g., geographical indications).

Table 1 Breakdown by type of infringed right per detained articles

	2006	2008
Trademark	91 %	55 % *)
Patent	1 %	43 % *)
Copyright and related right	7 %	1 % *)
Design and model right	1 %	1 %

*) The figures for 2008 have seizures of CDs and DVDs “under patent law” included as patent infringing seizures. According to TAXUD, if CDs/DVDs in 2008 were to be taken out of the picture, the shares of IP rights infringed would be similar to 2006

Source: TAXUD 2007 and 2009

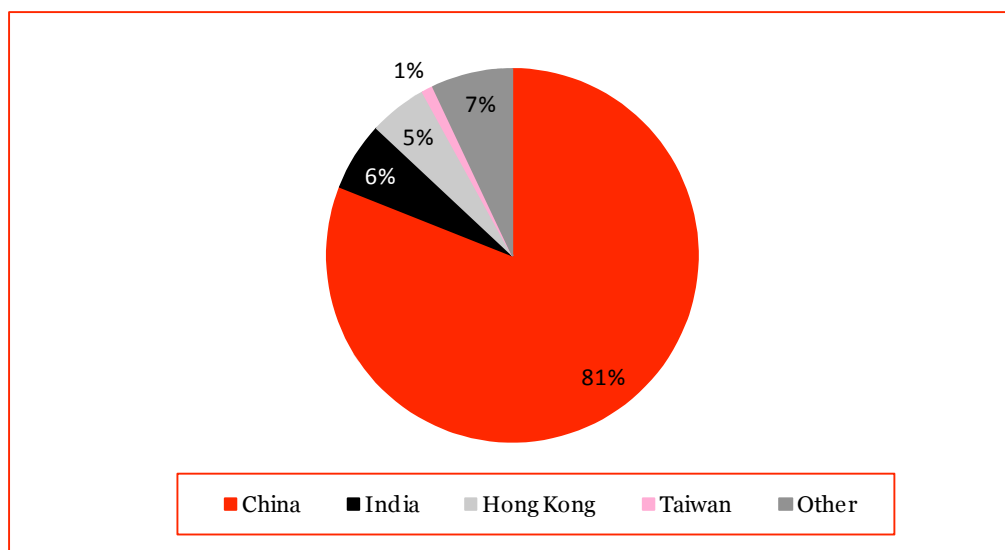
For policy makers this break-down seems especially important when channelling and focussing discussions on goals and actions to be taken against counterfeiting/piracy. While, for example, it is important to discuss the necessity of a unified Community Patent in Europe (or improvements of the patent system in general in order to make

the system more effective, also in terms of enforcement), this issue may not affect counterfeiting levels, as counterfeiting in its strictest definition applies only to trademark infringements. It is thus also clear that customs statistics are likely to stay unaffected by the evolution of the patent discussion, at least with regard to the type of seizures carried out today.

Origin of internationally traded counterfeit goods

Last but not least, with regard to customs statistics, it is also worth examining the origin of the seized goods. Both the U.S. and the EU provide data on this topic. For the U.S., the most important source country for counterfeit and pirated goods is China, which alone accounts for 81 % of the domestic value of all seized goods in FY 2008 (see figure 6). Ranking second is India (6 %), followed by Hong Kong (5 %) and Taiwan (1 %). All other countries each hold shares of less than 1% of the total domestic value of detained commodities.

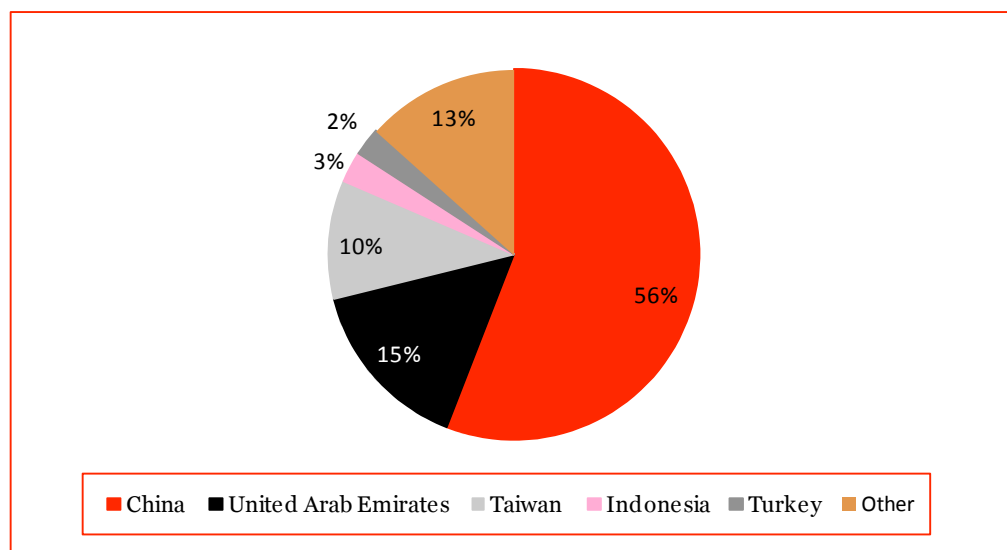
Figure 6 Top trading partners for counterfeit/pirated goods, based on value of seizures at U.S. border points, FY 2008



Source: CBP/ICE 2008

In Europe, the role of China is underlined, too, but not to the same extent as in the U.S. China is the provenance of almost 56 % of seized goods, followed by United Arab Emirates (15.2 %), Taiwan (10.3 %), Indonesia (2.7 %) and Turkey (2.5 %). The EU source noted that for some product categories the country ranking looks different (e.g., in the category ‘foodstuff and beverages’ Indonesia takes the lead, while the United Arab Emirates is the most important provenance for cigarettes and India the most significant provenance for ‘medicines’).

Figure 7 Provenance of goods seized by customs in Europe for reasons of suspected IP infringements, 2008, breakdown base = number of articles seized



Source: TAXUD 2009

It should be once again emphasised that seizure statistics have their limits displaying the extent and development of counterfeiting activities, and that they especially do not capture production, sale and use of counterfeits within the EU and the U.S.

Economic impact of counterfeiting and piracy

After having discussed some of the most frequently cited seizures statistics, we turn now briefly to some selected studies that attempt to estimate the impact of counterfeiting and piracy activity, i.e. the economic damages. Firm-specific costs/damages may comprise (see Weatherall et al. 2009) 1) loss of sales; 2) competitive disadvantage as compared to those enterprises which free-ride on the R&D and marketing expenses of legitimate enterprises; 3) the possibility of product liability or loss of reputation arising from defective imitation products; 4) loss of goodwill and prestige of a brand where counterfeits are freely available; and 5) the expense of monitoring the market and instituting legal proceedings. Besides these firm-specific issues, there are also other types of impacts that might be enquired into, such as health and safety issues arising from dangerous fakes.

- Probably one of the most cited studies on economic impacts of counterfeiting is that of the **OECD** (OECD 2008). The report states that international trade in counterfeit and pirated goods may have been, in 2005, as high as US\$ 200 billion. This amount would surpass the GDP of about 150 economies. The report covers only counterfeit goods (and not piracy), and only pertains to counterfeits traded internationally. Consequently, the study does not shed light upon the scope of counterfeiting taking place at the domestic level. As stated above, and also corroborated by the OECD (OECD Project on Counterfeiting and Piracy 2009), taking these items into account would result in much higher values measured for counterfeit trade. The OECD is in the process of completing its second larger study on counterfeiting and piracy, namely the work on 'Piracy of Digital Content'. A pre-publication version of a report on this topic is available for download as of June, 2009 (OECD 2009b). The report presents only an assessment of markets for pirated goods – and has in this context elaborated extensively on the specifics of such markets which make it distinctively different from that of counterfeit and pirated physical goods – but has made no attempt at quantifying the damaging effects.
- The **World Health Organisation (WHO)** has a factsheet available on counterfeit medicines (WHO 2006). According to the WHO, which bases its estimates partly on an analysis performed by the U.S. based Centre for Medicines

in the Public Interests, sales of counterfeit drugs are expected to amount to US\$ 75 billion globally in 2010, an increase of more than 90 % if compared to 2005. WHO estimates that 1 % (in the developed world) to over 10 % (in developing countries) of total drug sales may be attributed to fake medicines. The WHO also comments on the risks of counterfeit pharmaceuticals – such as therapeutic failure, drug resistance and death – and provides case study evidence where respective death cases have been already documented (in Niger, Haiti, Cambodia and Argentina).

- The **Business Software Alliance (BSA)** publishes each year a study on personal computer piracy. The 6th and latest study of 2008 (BSA 2009) shows that the world wide piracy rate measured went up from 38 % in 2007 to 41 % in 2008. In total, there were 110 countries surveyed. The monetary value of unlicensed software ('losses' to software vendors, according to the BSA) was estimated at US\$ 53 Bio., an increase of around 11 % compared to the previous year. The BSA further notes that while emerging economies account for 45 % of the global PC hardware market, they account only for less than 20 % of the respective software market. The BSA study is also interesting at the methodological level, as it imputes the piracy rates by comparing the number of sold PCs – which need software to run on it – with the number of software packages licensed/sold, the difference making up more or less the piracy rate. This methodology is deemed, with regard to volume estimates, as relatively reliable (CEBR 2002; Blind et al. 2009).
- The centre of **Economic and Business Research (CEBR)** estimated that EU GDP is reduced by € 8 Bio. per year due to counterfeiting activities, and that about 17,000 jobs are lost each year for the same reason (CEBR 1999; CEBR 2000). The study looked only at four distinctive sectors: Clothes and footwear, cosmetics and perfumes, toys and sporting goods, and pharmaceuticals. The methodology used is fairly complex. The study authors have developed a probability scoring model which compares, in a matrix for a certain product group, the countries analysed with the probability that this country is affected by counterfeiting/piracy. In order to build the matrix, CEBR enquires into a number of factors such as production cost motives (why would a counterfeiter primarily engage in production?), barriers for legal market entry (given for example through monopolies or cartels) or 'sunk costs' (e.g., investment costs for building production facilities).

Blind et al. (2009) reach, after having analysed a number of studies on the economic effects and impacts of counterfeiting and piracy, the conclusion that 1) studies which have an industry or product-specific approach (as opposed to broader global approaches) and/or 2) studies which succeed to integrate demand, supply and regulatory factors adequately in an estimation model seem to be particularly promising to yield stable/reliable numerical results.

3.3 Distribution networks

In the following section, we outline distribution networks commonly in place which connect the consumer of a counterfeit/pirated good with the manufacturer of fakes. The knowledge of the basic distribution structures is important as it allows fine-tuning policies and enforcement actions to better fit actual market realities.

An analysis of the distribution networks must be preceded by an examination of the market structure of fake goods. One of the first and most important observations is that there is neither a single homogeneous market nor distribution structure for all types of counterfeit/pirated goods. On the most general level, one should at least distinguish between ‘digital piracy’ markets and market for counterfeit/pirated ‘tangibles’ (see OECD 2009). Table 2 lists the main features of these markets.

Table 2 Market characteristics for ‘tangible markets’ and ‘digital piracy’ markets

‘Tangible counterfeit/pirated goods’ markets	‘Digital piracy’ markets
<i>Product-specific traits</i>	
Positive marginal cost of production	Virtually zero marginal cost of production
Need for manufacturing facilities, physical transportation and distribution networks	Digital (and virtually costless) delivery
Targeted markets	Broad (global) and diffuse markets
Products attacked are often mature and cover a wide range from common everyday items to luxury goods	Products attacked at point of creating intrinsic value
<i>Market-specific traits</i>	
Possibility to generate large profits	Involvement of ‘many millions’ of actors, acting both as suppliers and consumers, often with no interest in profits
Possibility to involve goods that have health/safety implications	Effects are purely IPR-related (no health/safety implications) *)
Attractive for organised crime (including infiltration of legitimate supply chains)	Not attractive for organised crime
Existence of opportunities to intercept products	Diffuse nature of activities, involving different legal jurisdictions, much more difficult to deal with through available remedies

*) Contrasting Scorpeccis’ view, interviewed experts noted safety concerns which arise, for example, through malware infections of computer systems which frequently occurs when digital content is illegally downloaded.

Source: Scorpecci 2009, adapted

Besides the product-focussed dimension (intangible vs. tangible goods) there is also a consumer awareness dimension to consider, especially with respect to tangible goods. In the latter context, the OECD distinguishes between a primary market (where consumers are unaware that they buy a fake, so the counterfeiting/pirating entity must make sure in its distribution chain that the consumer is successfully deceived) and a secondary market (where the buyers/users know that they purchase a fake).

Distribution networks for ‘tangible goods’

According to the OECD, a variety of distribution channels are used to sell counterfeited and pirated tangible goods (OECD 2008): 1) established retail shops 2) informal markets and trade fairs; and, increasingly, 3) through internet-driven virtual markets. However, the extent to which counterfeiters can access these three distinctive channels of distribution varies considerably.

- Established retail shops are the most difficult to penetrate, as these shops may risk declines in clientele and increased chances of legal action if such behaviour were revealed. The case studies in this analysis are in line with this finding of the OECD. For example, Dornbracht (case study nr. A12), a manufacturer of premium end fittings for bathrooms, clearly stated it did not have problems in the regular wholesale/retail market. Wholesalers would be very prudent not to jeopardise their good relations with the renowned manufacturers, and as the vast majority of products are being distributed to plumbers and end consumers via the traditional wholesale/retail distribution chain, there are only minor problems with counterfeits in this regard. However, the OECD also noted that there is some evidence that counterfeiters were able to increasingly penetrate also legitimate shops (e.g., in the U.S. shops for fashion clothing, designer bags and footwear; toys; pharmaceuticals; beverages; jewellery; perfumes; and tobacco).
- For counterfeiters, informal markets and trade fairs are more easily accessible. Informal markets include mobile vendors, bars, clubs, car boot sales or open street markets (OECD 2008). Products typically sold are CDs and DVDs, clothing and personal accessories. Usually, the sources are hard to track as sellers are frequently hired by counterfeiters on an ad hoc basis, and the parties behind the business remain out of sight.

Trade fairs are also easy to penetrate. What makes trade fairs appealing is the high concentration of industry participants (potentially also the concentrated presence of end customers, if the fair is also open to the public, though access to end customers may not be the primary goal for counterfeiters); the fact that exhibitors and organisers usually do not have the required know how (IPR knowledge, knowledge of rights and duties at fairs) to avoid infringements; lack of resources on the side of the exhibitors to seek legal/administrative advice at short notice (once they get to know that there are infringing companies at the fair); and also the brief duration is of help for the infringing firms. The OECD report states that infringement at fairs has been reported for electronics components in China, though the case study analysis indicates that counterfeiting activities can be observed at fairs in other industries and at fairs in Europe. A learning curve is also visible as some companies cooperate closely with customs and other executive agencies/bodies, and in some fairs – e.g. the fairs in Frankfurt, Germany – there are regular check-ups being made at the booths, where customs/executive bodies, fair organisers and legitimate right holders collaborate.

- The internet, as the third mentioned distribution channel by the OECD, has raised considerably in importance for counterfeit and pirated goods producers. It offers a set of genuine advantages such as 1) anonymity 2) flexibility (in terms of the time and efforts needed to set up a web shop, and also – if closed down – to re-open in another jurisdiction) 3) a large market (this aspect refers to the number of web shops in the internet which is so high that only a fraction can be actually investigated through executive bodies) 4) high market reach (virtually all internet users across the world could be considered potential customers) and 5) deception. The last point deserves special attention, as available software packages allow counterfeiters to create web-pages that look professional, and by mimicking some of the known web addresses of legitimate producers (with making only small changes to the spelling) users might be lured to these sites and made to believe that they order with the legitimate producer.

Logistics of counterfeiting of ‘tangible goods’

The following trends can be observed as concerns logistics of counterfeiting:

- According to several experts interviewed, the use of the internet allows counterfeiters to increasingly package their products in smaller consignments (making it harder for customs to intercept the shipments) and to have these smaller packages delivered to end-customers directly.
- Most tangible counterfeit/pirated goods are transported through legitimate commercial services (usually accompanied by appropriate documentation, such as bills of lading, letters of credit; goods are also often correctly described to make it more difficult to identify fakes) (Scorpecci 2009)
- Some counterfeiters take evasive action to avoid enforcement actions, such as exporting unfinished goods that are then labelled and packaged elsewhere (in this context, free trade zones play an especially significant role due to lower customs oversight) or ‘origin-laundering’ (i.e., the movement of goods through a number of ports to obscure the origin) (OECD 2008).

There are also differences across industries. For example, in the audiovisual sector small-scale production is made for local markets (e.g., street markets), while large-scale production involves factories of mass production run by well funded groups with extensive distribution networks. As concerns the tobacco industry, counterfeit items are reportedly made to order (see also OECD 2008: 85 for examples for other industries).

Distribution networks for ‘digital piracy’ goods

‘Digital piracy’ markets are defined, according to the OECD, as markets where the products exchanged do not involve the use of hard media (OECD 2009). As the OECD states, there is, however, no legal definition of ‘digital piracy’. This is reflected in the heterogeneity of the treatment of copyright infringement in different jurisdictions which may in some countries have provisions for fair/private/domestic use in place, while in others such provisions might be lacking. Consequently, “...*what is illegal or criminal in one jurisdiction might not always be illegal or criminal in another*” (OECD 2009).

The specific technology used in digital piracy – foremost the usage of peer-to-peer (P2P) networks such as Bittorrent – means that an entirely new distribution system is established, where consumers of pirated goods act also as suppliers, thus multiplying the number of piracy goods supplying sources by several factors (if compared to the distribution networks for tangible fakes). Furthermore, a specific situation emerges where there is no market profit present, and no sales are being made through distributing respective pirated files. Firms are thus faced not only with fakes that cost much less than the original; they actually cost nothing (due to the fact that the underlying computer technology allows for zero marginal costs of reproduction). For such companies, it is especially important to look at non-price factors (such as legality, availability and quality) in order to stay in a market as a supplier who charges money. The situation is further aggravated by the fact that many users of P2P networks do not deem their activity as illegal, as no profit is made on their side. Another peculiarity is the fact that digital piracy generally cannot be detected at national borders, and thus the “...*flow of pirated digital goods is more difficult to track than the flow of physical goods.*” (OECD 2009).

A particular challenge is observable with suppliers of internet services or technologies which can be used (and in some cases are predominantly used) for ‘digital piracy’, though the technology as such would allow also other uses. This applies (in the most general way) to Internet Service Providers (ISPs) as the access points for getting connected to the internet, but in particular to service providers such as ‘ThePiratebay’ where illegal files may potentially be listed or searched. Issues to be debated are the responsibilities and possibilities of such providers to detect and compromise ‘digital piracy’ activities.

The OECD concludes that “...in general, national laws do not distinguish between digital and non-digital uses of copyright material. As such, available legal remedies, be they civil proceedings or action under public law, are those for infringements of copyrights more generally. These remedies can sometimes not be appropriate.” Scorpecci recommends in this context that “specific provisions to deal with digital piracy’ are to be considered”, though “care is needed not to impact unreasonably on internet as a tool” (Scorpecci 2009).

Involvement of organised crime and links to terrorism

There is some evidence pointing to the involvement of organised crime – and also terrorism groups – in a portion of the observable counterfeiting and piracy activities of tangible goods. Trade in these commodities hold the promise of profits, and for terror organisations these profits might be used to fund assaults. According to the OECD (OECD 2008: 87), over a third of the respondents to the OECD economy survey at least suspected a link between counterfeiting/piracy activities and organised crime. The OECD documented specifically five proven cases where counterfeiting/piracy activities stemmed from organised crime groups, operating in different parts of the world. Another study recently performed by the RAND corporation specifically examined links between DVD/film piracy, organised crime and terrorism. More specifically, it examined 14 documented and documentable case studies of film piracy activities undertaken by organised crime groups and found evidence that in three instances the profits were also used to fund terrorist groups (Treverton et al. 2009). However, both the OECD and the RAND study authors agree that the evidence base is too weak to draw larger conclusions on the extent that organised crime is involved in counterfeiting/piracy activities.

4. Private sector response

4.1 Responses at firm level

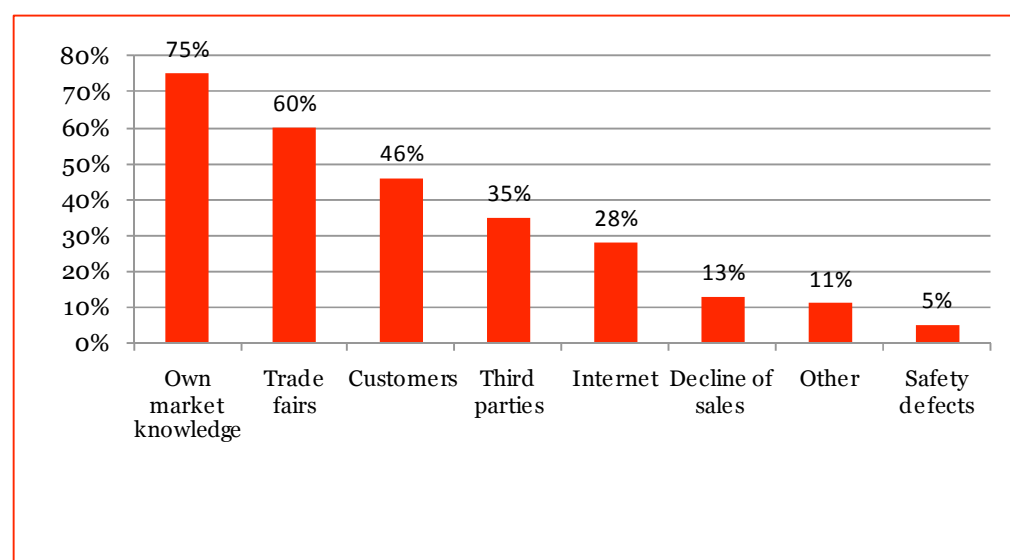
After having discussed the scope of counterfeiting, economic damages and distribution networks in place – i.e., outlined the activities and consequences of those producing counterfeits and/or pirated goods – attention shall now shift to the way businesses (whose rights are infringed) are actually reacting to the threat. The analysis will draw in large parts on the 12 case studies conducted, the results of the SME roundtable in Brussels (see section 2), the literature review and some of the expert statements.

Finding out about counterfeits

A reaction to counterfeiting and piracy is only possible when firms start to notice that their products are being copied. As finding out early about the occurrence of counterfeiting and piracy might increase the possibilities of reaction, it is interesting to examine how firms find out that they are being copied in the first place.

Figure 8 shows the results of a study conducted by the German Engineering Federation VDMA in 2008. The analysis surveyed 241 companies active in engineering and plant construction on their exposure to counterfeiting. One question dealt specifically with the way the companies got to know about being (unlawfully) copied: 75 % of those companies affected by counterfeiting stated that they knew of such activities because of ‘own market knowledge’, 60 % learned of such occurrences at trade fairs, 46 % used intelligence provided by customers and 39 % received tips from third parties/persons. Other channels of information (or indicators) were less significant carriers of information, such as declining sales (13 %), ‘other’ channels (11 %) or safety defects (5 %). The analysis was performed also in the years 2007 and 2006, and a comparison in time shows that ‘trade fairs’ have become significantly more important channels of information, in line with the qualitative observations made in chapter 3.3. The importance of the internet increased, too.

Figure 8 Information channels and indicators which made firms aware that their products had been unlawfully copied, German engineering and plant construction firms in %, base = all companies in sample affected by counterfeiting *)



*) multiple answers possible

Source: German Engineering Federation VDMA 2008, n = 164

A study carried out by Technopolis in 2007 (Rodwell et al. 2007) looked also into the way firms respond to counterfeiting. The sample in this EU-wide investigation consisted of 143 SMEs operating in 4 sectors (auto parts, mechanical engineering, Transatlantic IPR Collaboration

textiles and toys). Again, one of the most significant results was that most companies found about infringements from clients (and also from employees).

The results of the case study analysis are in large parts in line with those from the VDMA and the Technopolis investigation. Case studies nr. 12 (Dornbracht), nr. 4 (Gruner), nr. 10 (True Religion Brand Jeans) made specific references to the important role trade fairs play for identifying counterfeits (despite the fact that they operate in clearly distinctive industries). Some companies – seemingly small ones – learned from counterfeiting activities “...by viewing copies in the window displays of other companies (large competitors)” (case study nr. 5 FANI GIOELLI) or when suddenly IP infringing products, brought onto the market by larger well-established competitors, appeared “on the shelves” (case study nr. 1 HABERMAN Associates).

Larger companies also seem to use active scanning techniques, e.g. by conducting regular internet searches or by cooperating with private investigators (for the latter, see case study nr. 10). However, experts interviewed stressed that care must be taken when selecting such personnel especially in third markets such as China. If such private investigators are paid, e.g. in China, on a partial contingency basis (i.e., for the amount of fakes found/destroyed etc.), there may be a tendency to report grossly exaggerated ‘seizure’ figures (Theil 2009).

Virtually all companies stressed that customers are also an important information source on counterfeits and should be educated properly to distinguish fakes from originals (these firms see customer relations as an essential element of an IP enforcement/anti-counterfeiting strategy).

Place of infringement

As stated in section 3.2, an important element for consideration for establishing a reaction to counterfeiting activities is the geographical market where the infringement takes place. For some companies, the ‘hot spot’ is clearly China which is the provenance of most counterfeited/pirated goods (see section 3.2). However, there is – as also noted in section 3.2 – clear evidence that indicates that ‘home-grown’ counterfeiting and piracy is also of significance for firms operating in the U.S. and the EU. The study of Blind et al., for example, shows that the share of firms in the sample reporting patent infringements (‘frequently’ or ‘occasionally’) within the EU is almost the same as the share indicating at least occasional infringements outside of the EU. The case study analysis illustrates instances, where the companies had to litigate indigenous firms within the EU or the U.S. (see, for example, case studies nr. 1 or nr. 12).

At the roundtable in Brussels the conclusion was reached that an international IPR management strategy should always begin with the home market. Many companies noted that their home markets are the biggest problem markets as concerns counterfeits. EU companies felt particularly insecure which is reflected by concerns voiced over the lack of an EU patent or the need for a Europe-wide patent court.

Reacting to the infringement

After a company has found out that it has been a victim of counterfeiting, the next question would be how to react. The strategy employed depends, according to the evidence collected, on many factors, such as the resources available for IP enforcement, the firm’s usage of intellectual property rights to protect its invention, the firm’s business model or its standing in the relevant markets. There is thus no ‘one-size-fits-all’ approach when it comes to enforcing IP rights.

One of the first questions to answer is how and when to use the instrument of intellectual property rights. Much has been written on the usage (or the lack thereof) of formal IP instruments such as patents, trademarks, designs and copyrights (see, for example, WIPO 2003; Blind et al. 2009; Marchant et al. 2007). Most of these studies show that the system of IPR is underused – in particular by small and medium sized enterprises – due to reasons of costs, difficult enforceability or the lack of awareness on the functioning of the IPR system (for a discussion, see, for example, Radauer et al. 2007). Consequently, many companies are said to not be protected enough against (unlawful) copying

The Brussels SME roundtable results corroborated in general terms this type of conclusion, though there were certain provisions raised that need to be considered when implementing a successful IPR strategy. Together with the other evidence collected in the underlying analysis, there are indications that the formula *'the more IPRs registered, the better my intellectual assets are protected'* may be too simplistic.

- Considering IPR registration is an important first step:** One of the main results of the company roundtable in Brussels was that the companies agreed that the IPR tools available should be used intensively, otherwise effective protection may not be possible. One case study company confirmed this general approach by stating that having more IP rights *"saves arguments"* with an infringer, and that *"this would be a value in itself"* (case study nr. 1). It was, however, also noted by the participating firms that the validity of an IPR might be in the end only established when the IP right is infringed or enforced, causing a sense of legal uncertainty.
- Registering IPR alone is, however, considered insufficient:** While all companies agreed on the principal benefits of the established IPR system, every one of the firms participating at the workshop as well as those interviewed for the case studies stated that the mere registration of IP rights is not sufficient. The companies were of the opinion that a system should be set up by firms which allows quick reactions upon reported infringements. This would necessitate that firms monitor data on shipments, ports of entry, production sites, etc. One company said in this context *"that firms must be prepared if they receive a call from customs that certain goods were detained. If it takes too long till this message reaches the responsible person or till the firm acknowledges that its IP rights have been infringed, the opportunity to take some action (e.g., for destruction) may have past"*.
- The interviewed firms emphasise that the infringed company must be prepared to take legal action, despite the fact that actual litigation takes rarely place:** In an analysis conducted by Kingston (2000) on 600 patenting SMEs in Europe, it was asserted that about four out of five disputes concerning patent infringements (if they arose) were settled out of court. The reasons for this include high litigation costs and lengthy legal procedures. According to the interviewed firms and experts, these factors should nonetheless not deter firms from standing up against the infringers. Failing to do would ultimately result in more infringements taking place (also by other parties), while a 'zero tolerance' policy might be, if successful, a warning sign to infringers. Case studies nr. 1 (HABERMAN) and nr. 12 (DORNBACHT) illustrate how creating a 'zero tolerance' policy image contributes to increasing the difficulty for counterfeiting activities as a whole.
- Informal protection mechanisms are widely used alongside IPR, and sometimes – as 'de facto' strategies – replace IPR in circumstances where IP enforcement is nearly impossible:** Especially in emerging economies, foreign firms trying to protect their IP rights may be faced with rather poor enforcement possibilities (Keupp, Beckenbauer & Gassmann 2008). When effective enforcement is nearly impossible (this might happen also in the EU or the U.S., if a company, for example an SME, does not have the resources to successfully litigate against a large competitor), firms draw on 'de facto' strategies to protect their IP. Keupp et al. analysed such strategies in the scope of 13 case studies on wholly owned subsidiaries of foreign firms operating in China. They found a total of 5 strategies: 1) *Technological specialisation* refers to a strategy of making imitation impossible by increasing the complexity of the product or the process technology. In extreme cases, patents might not be necessary (or counterproductive, as they provide blueprints for unlawful copiers) 2) *De facto secrecy* denotes a strategy whereby important information is kept secret (e.g., from local employers) by simply not disclosing it and not documenting it in written form. 3) *Internal guanxi* is based on the Chinese guanxi principle which underlines the importance of social relations in Chinese society. In an internal context, companies applying this strategy either aim at making employers feel like

important parts of the firm's network (through monetary or nonmonetary incentives) or they use it negatively to exert pressure (e.g., by forcing employees which disclose IPR to competitors to threaten those competitors that the company will retaliate; such an action is said to isolate the 'traitor' from his or her Chinese personal network). 4) *External guanxi*: This strategy is the internal guanxi strategy applied to relations with official authorities and aims at maintaining good relations with them. 5) *Educate the customer*: The last strategy does not require any form of registered IPR or enforcement action. It relies on the fact that many counterfeit goods do not reach the same quality levels as the original. By educating customers on the benefits of using an original, customer loyalty and brand recognition is built. This strategy is said to work if the competitor is small and produces poor-quality counterfeits.

Even in more general terms (not only applied to third countries with weak enforcement), companies need to develop an IP strategy where formal IPR instruments and informal protection strategies are used side-by-side in situation and business-specific contexts. The example of Coca-Cola illustrates that – given that the recipe of its main beverage were patentable – pursuing a strong trade mark protection and maintaining a trade secret might be more beneficial than, for example, the filing of a patent (which would disclose the recipe for unlawful copiers and have a maximum protection term of 20 years). The selection of the right protection instruments – a task within IP management – draws thus on the full spectrum on available IPR instruments and de facto strategies, and has to take factor such as market standing, technology standing, enforceability etc. Into account (for a more thorough discussion, see Radauer et al. 2007).

Communications policy

An important pillar of a successful IP enforcement strategy is the implementation of a dedicated communications policy (see section 6). The views on firm-specific communications on counterfeiting/piracy are, across companies, divided. Several companies contacted in the course of the study and known to have problems with counterfeits refused to provide information or to participate in the analysis. As an example for the reasons stated, one company said that *"we have our ways how to deal with this issue and we rather not talk about that. It's a question of reputation as well as confidentiality"*. Consequently, firms which took part either at the roundtable and/or the case studies were predominantly those which pursue an active communications policy targeted at customers, retailers and/or the general public. These companies follow the 5th 'de-facto' strategy of educating the consumer described by Keupp et al. (with the additional aim to maintain the integrity of the supply chain, as the target group of the communications activities extend well beyond customers). Some of these strategies can be considered quite extensive, involving dedicated trainings programmes for customs officials, media work, the publishing of articles on the subject etc. Firms may also consider joining an industry-wide (e.g., run by a trade association) campaign, as part of their communications policy.

Usage of government funded services

Although it was expressed that governments provide all the necessary tools for IP enforcement, companies and experts interviewed suggested deficiencies regarding access to these tools. The main reason behind such difficulties is mainly the fact that many companies do not know about the existence of IP enforcement services (see, for example, Blind et al. 2009). Most companies questioned in the course of the case studies would welcome government support services, particularly in the field of information provision activities regarding 3rd countries.

SME-specific aspects

The question whether SMEs are affected differently than large enterprises by counterfeiting and piracy activities has been highly debated among the interviewed experts and firms. Some of the experts indicate that this is necessarily the case, as SMEs have fewer resources (human, financial) at their disposal to actually litigate (but also monitor the market), and especially small firms interviewed complained about the 'lack of a level playing field', particularly with regard to infringement cases

with large firms as counterparts. Others indicated that counterfeiting tends to affect large enterprises more, as their brands and trademarks are more widely used.

Empirical findings in the study by Blind et al. (2009) indicate that larger firms might be indeed more affected by counterfeiting and piracy activities. This trend correlates also with internationalisation levels (i.e., the more the business is active internationally, the more likely is it that it is going to be affected by counterfeiting) where SMEs as a whole lag behind large corporations. Furthermore, the evidence suggests that SMEs and large enterprises react differently to counterfeiting. While SMEs tend to increase their usage of informal protection mechanisms and 'de facto' strategies, large enterprises emphasise the utilisation of formal IP instruments such as patents, trademarks, designs and copyrights. While these findings would suggest less exposure of SMEs to counterfeiting and piracy (in more general terms), the study makes it also clear that if an SME is hit by counterfeiting, even a single infringement case can have dire consequences for the business. Notwithstanding the noted differences, experts and representatives of both large and small firms noted that regardless of size, actual litigation in enforcement cases is frequently seen as an action of last resort. Given the perceptions of the interviewed firms on the future significance of formal and informal rights for their businesses, the study draws the conclusion that this gap between SMEs and large enterprises is going to widen in the future.

4.2 Common pitfalls and basic advice

To conclude this section on business reactions, some typical pitfalls arising when doing business and not taking care of counterfeiting threats in third countries are highlighted. These pitfalls are based on the experiences of the Austrian funding agency aws (see project partners) and their operation of the support programme 'IPP (Innovation Protection Programme) which offers, amongst others, advice to SMEs in IP matters on-site in developing countries like China or India.

The following common pitfalls are noted:

- **Market environment screening:** Regularly screen intellectual property right databases, in particular patent and utility model databases, and B2B or B2C platforms for competitor's activities. While registration of intellectual property will be taken care of by government authorities in the respective countries, the proactive enforcement thereof is the responsibility of the company. Many companies still believe that their intellectual assets are safe through registration alone.
- **Utility models as trade barriers:** A rising amount of domestic utility models prevent and/or obstruct foreign businesses from competing on third markets under fair conditions. If justice is sought before the patent re-examination board or civil courts, especially for SMEs, the costs for legal representation are unaffordably high; proceedings consume much time and human resources that are not available. Market access is effectively inhibited.
- **Regional coverage of IPR:** Intellectual assets should be protected in three main regions: the home markets, the export markets and those where counterfeited and pirated products could be and are produced. If companies take their intellectual property strategy serious, they can't only register their IP in their home markets; enforcement efforts will almost certainly fail.
- **Underestimating IP enforcement actions:** Both, the registration and the enforcement of IP, are underestimated undertakings, which in particular for small companies with limited managerial capacities might turn into a burden. Companies have to be aware that managing IP is a long term undertaking which requires a strategy. They should ask themselves questions such as: What does the company want to protect? How can the firm best achieve this goal? Companies should not get involved in a time and money consuming procedure, if it is not necessary.
- **Costs assessment:** Before getting involving in a legal suit, firms should know what costs will be incurred. Some proceedings can last months or years and go

through several instances. Firms should obtain binding cost estimates from their legal representative, which include legal services, translation and public authority expenses. Several cost estimates from different law firms will make the decision for or against a legal representative easier.

- **Success attracts imitators:** Businesses should always assume that they are copied in emerging markets and third countries, but many believe that the standard of respecting somebody else's intellectual property in Western countries applies everywhere. Economic history has shown that emerging economies always imitate and copy established and leading economies until they have reached a similar or even more advanced level of industrialization and welfare. The periodic up-surge of counterfeiters and pirates could well be qualified as a part of the nature of a free market.
- **The critical nature of joint ventures:** Joint ventures with government entities are to be avoided at all cost unless there is no other choice. Joint ventures usually have the one and only goal of obtaining knowhow, capital and technology while maintaining control over the business activities.
- **The importance of relationships:** Relationships are at least as important as contracts, which might become null and void due to shifting political trends and policies. Building a long term network of relationships around a business in third countries is essential to guarantee informal support for your activities.
- **Preparedness for legal negotiations:** It is a *conditio sine qua non* to be legally prepared for negotiations, otherwise the firm's potential business partners are free to tell whatever they please – and as a matter of fact, some simply don't tell the truth and will cite laws and regulations which probably do not exist, if they don't have another modicum to make the firm do what they want. If a firm does not have enough time to prepare for the negotiations or some legal concerns were raised in the middle of a project to get new concessions, time should be taken to check on the legal documents, to which was referred to.
- **The 'lack of respect'/'being a colonial'-trick:** Firms should lower their 'bad' conscience threshold before establishing new business contacts. It is likely that the firm will encounter partners who will try to instil bad conscience by implying that the firm's expectations are "colonial" or simply "lack respect" of developing nations which are in urgent need of your product to increase the living standard of their populace.
- **Levels of powers assigned to managers in 3rd countries:** Never give too much power to individuals, in particular your partners or general managers in third countries. Install CRM software and other technology solutions to promote data control and transparency in order to remove power from individuals. Never put the firm's business into the hands of one person, because he or she claims to have, or in fact has, relationships which are essential for your business.
- **Protection of sensible data and information:** Information and communication technology enables a company to track employees and outsiders on what information they can access when. Still, several cases are reported where technical data was downloaded from a company's main server or blueprints were taken home "for private studies". If tracking seems to be too complicated or responsibilities are too fragmented, think of installing a chief surveillance officer.

5. Public policy response

5.1 Overview

In section 5, we will analyse the public policy response IP enforcement, counterfeiting and piracy. In particular, we attempt to answer the following research questions:

1. What are the key characteristics of anti-counterfeiting/piracy policies and the key political structures in place in Europe at the EU level? (section 5.2)
2. What are the corresponding policies pursued and structural characteristics in the U.S.? (section 5.3)
3. What are the principle forums available for the U.S. and the EU to interface with each other at the supranational/international level? (section 5.4)
4. In what ways do the EU and the U.S. collaborate on the subject of IP enforcement, and what can be said about the performance of collaboration? (section 5.5)

5.2 Cornerstones of EU policy in fighting counterfeiting and piracy

5.2.1 Overarching strategic development and considerations

EU policy in regard to intellectual property protection fundamentally rests on the **Lisbon Strategy** which was proclaimed after the meeting of the European Council in Lisbon (March 2000). The Heads of State or Government then launched a strategy aimed at making the EU the most competitive economy in the world and achieving full employment by 2010.

The strategy, developed at subsequent meetings of the European Council, rests on three pillars:

- First, an economic pillar, preparing the ground for the transition to a competitive, dynamic, knowledge-based economy. Emphasis is placed on the need to adapt constantly to changes in the information society and to boost research and development.
- Secondly, a social pillar designed to modernize the European social model by investing in human resources and combating social exclusion. The Member States are expected to invest in education and training, and to conduct an active policy for employment, making it easier to move to a knowledge economy.
- And, thirdly, an environmental pillar, which was added at the Göteborg European Council meeting in June 2001 that draws attention to the fact that economic growth must be decoupled from the use of natural resources (Lisbon 2000).

A knowledge based economy is said to need to pay special attention to the protection of its intellectual assets in its home market and abroad, henceforth all European political and legal measures since 2000 in this field shall be viewed in the light of this strategy.

An early indication of the approach taken was the **2005 Communication on Industrial Policy** (European Commission 2005). This Communication identified IPR as a critical issue in a knowledge-based economy and proposed an Intellectual Property Rights and Counterfeiting Initiative as one of seven new cross-sectoral policy initiatives to be undertaken in response to the challenges of a Lisbon Strategy re-launch in 2005.

Given that the policies in question fall almost exclusively within the sphere of competence of the Member States, an **open method of coordination (OMC)** entailing the development of national action plans was introduced. Besides the broad economic policy guidelines, the updated Lisbon Strategy provides for the adaptation and strengthening of existing coordination mechanisms: the Luxembourg process for employment, the Cardiff process for the functioning of markets (goods, services and

capital) and the Cologne process on macroeconomic dialogue. In 2005, a mid-term review report was prepared under the guidance of Wim Kok, former Prime Minister of the Netherlands, which showed that the indicators used in the OMC had caused the objectives to become muddled and that the results achieved had been unconvincing. It shall be pointed out that this lack of established coordination between the Member States and the European Union institutions can be observed on several occasions.

The Directive on the enforcement on intellectual property rights (Directive 2004/48/EC, European Parliament and the Council of the European Union 2004) (**“the Enforcement Directive”**) was agreed in 2004. This places a general obligation on Member States to set up measures and procedures to ensure the enforcement of intellectual property rights. Within this, States must have structures to permit appropriate action to be taken against those responsible for counterfeiting and piracy. The Directive also brought in a series of provisions relating to the improvement of procedures for gathering and preserving evidence, for granting injunctions to halt further infringements against rights holders and for authorising the precautionary seizure of the assets of alleged infringers. Through this the Enforcement Directive has strengthened the protection that civil law offers to persons whose intellectual property rights have been infringed within Europe.

Nevertheless, it has to be said that, according to experts, until recently the focus of IPR policy has been on encouraging firms to innovate and generate IPR rather than on managing intellectual property and enforcing rights. And, to the extent that the abuse of IPR was perceived to be a problem, the response tended to be an attempt to raise awareness of the issue among firms and consumers rather than to support direct action.

Concerning the enforcement of intellectual property the Member States competences are still prevailing and the involved institutions need to be differentiated according to its competence realm: supranational, i.e. direct effect and supremacy of European institutions’ over national legislation or intergovernmental, i.e. - broadly speaking – an agreement of the national Head of States is required to have legal effect in the EU Member States. For the purpose of this paper the focus shall be the competences and responsibilities of EU institutions as juxtaposed to their U.S. counterparts.

The Industrial Property Rights Strategy for Europe

In July 2008, the Commission adopted a Communication on ‘An Industrial Property Rights Strategy for Europe’ (European Commission 2008a and European Commission 2008b).³ This adds substantial detail to the developing IPR agenda. Starting from the point that *‘Europe requires strong industrial property rights to protect its innovations and remain competitive in the global knowledge-based economy’*, the Communication first reiterates that it is of utmost importance to achieve the creation of the Community Patent and an integrated EU-wide jurisdictional system, but then looks beyond to the creation and development of a sustainable strategic approach to industrial property rights. A series of proposals are made under headings such as *‘dispute resolution procedures’* and *‘Enforcement of Intellectual Property Rights – Combating Counterfeiting and Piracy’*. Attention is also given to the international dimension.

Member States are encouraged to

- provide sufficient support for SMEs to enforce their industrial property rights;
- raise awareness of intellectual asset management for all businesses and researchers;
- help national patent offices and technology/development agencies work together;

³ The debate on changes to copyright arrangements, especially with regard to digital developments, has been promoted by the Green Paper ‘Copyright in the Knowledge Economy’ (European Commission 2008b). Currently, enforcement issues do not figure prominently in this debate.

- enhance coordination and best practice exchange between key players - customs authorities, the police, trading standards officers, prosecutors, IP offices;
- facilitate cooperation with the customs authorities and exchange data that will enable customs to target suspect shipments successfully.

The Commission undertakes to

- promote further awareness-raising activity;
- work to improve cooperation between all players involved in the fight against counterfeiting and piracy within individual Member States;
- explore solutions for Europe-wide actions through an effective network for administrative cooperation between Member States;
- help the public and private sector work together;
- broker an inter-industry agreement to reduce internet piracy and selling of counterfeit goods.
- target high risk traffic of counterfeit goods by promoting the use of information-sharing;
- work with Member States to improve intelligence networks and study how information collection and documentation of illegal activity can be more effective;.
- develop a new customs action plan against counterfeiting and piracy;
- further help companies in third countries, in particular by building on and extending the IPR Helpdesk in China;
- develop a joint action plan against counterfeiting and piracy with the Chinese customs authorities.

Finally, Member States are invited, within the scope of the Lisbon Strategy, to ensure sufficient information and resources are available to enforcement authorities to work constructively with right holders in combating violations of intellectual property.

The Communication was very much welcomed by the Council, which adopted a Resolution on a Comprehensive **European Anti-Counterfeiting and Anti-Piracy Plan** on 25th September 2008 (Council Resolution 2008/C/253/01). This resolution also emphasized 'the need to mobilize all stakeholders to boost the effectiveness of the whole range of instruments for protecting intellectual property and combating counterfeiting and piracy on the internal market and internationally'.

The Small Business Act

An important restatement of Enterprise policy was made by the Commission in June 2008 in the form of the Small Business Act (European Commission 2008c), which begins with the statement that 'managing the transition towards a knowledge-based economy is the key challenge for the EU today' and goes on to explain the critical role of the growth and innovation potential of SMEs for the future prosperity of the EU. The aim of the Small Business Act is to achieve a breakthrough in EU SME policy and to promote SMEs' growth, in particular, by helping them tackle the remaining problems which hamper their development.

The Marchant Report

This report (Marchant et al. 2007) was presented to the Commission in June 2007 by the group of experts chaired by Ron Marchant, former Chief Executive of the UK Patent Office. It addressed the various IP strategies open to SMEs, including both the development of informal IP strategies and the acquisition of formal IP rights and also the possibilities for collaboration with larger companies. It also presented a review of the various forms of support available for SMEs on all IPR matters across EU Member States.

5.2.2 Directorates involved with IPR issues

Intellectual property enforcement on a supranational level is the responsibility of five main organizational structures: DG Internal Market and Services, DG Trade, DG Enterprise and Industry, DG Taxation and Customs Union, DG Health and Consumer Protection.

DG Internal Market and Services (or to be more precise: its directorate D) is responsible for the enforcement of industrial and intellectual property rights. It was the main driving force behind the Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights and is supervising authority of OHIM, the European Trademark and Design Office (Homepage of OHIM, as of June 20, 2009). It would also be supervising authority of the European Patent Office, once an agreement could be found to implement it into the European institutions.

- The Commission considers the **Community Patent** to be a key objective for Europe. It remains the solution which would be both the most affordable and legally secure answer to the challenges with which Europe is confronted in the field of patents and innovation. Recently, talks to make this a reality have taken place following the adoption of a Communication in April 2007 (European Commission 2007). This Communication also set out a possible way forward to an agreement on an EU Patent Court.
- The **European Observatory on Counterfeiting and Piracy** was launched in April 2009 to improve the quality of information and statistics related to counterfeiting and piracy on the Single Market; Identify and spread national best practice strategies and enforcement techniques from both the public as well as the private sector; help raise public awareness (Homepage of the European Observatory on Counterfeiting and Piracy, as of June 15).

The **Commission's Directorate General for Trade** is involved in a number of formal and informal, multi-lateral and bi-lateral discussions with the authorities of trading partners around the world in which intellectual property issues are raised. These discussions have, for instance, pushed for increased protection for European Geographical Indications and for designs and they have also involved working on rules and best practice to ensure effective IP protection and enforcement in Trade Fairs (for instance in co-operation with the U.S. and China).

- **IPR Enforcement:** DG Trade tries to implement the enforcement strategy in order to address right-holders' concerns about IPR violations in third countries (2008 Annual Activity Report). Generally speaking, DG Trade represents the EU's interests in regard to IPR enforcement in the international arena and thus specifically negotiates international IPR enforcement legislation (e.g., ACTA).
- **IPR Enforcement Survey:** DG Trade launched a new IPR Enforcement Survey in Spring 2008 in order to monitor the developments in the countries concerned, and to take them into consideration when defining policy in these countries. The list of priority countries will be updated accordingly and published in 2009.

The **Commission's Enterprise and Industry Directorate General** could be characterized as the main implementing force of policies which were crafted by DG Trade and DG Internal Market. A wide array of programmes proves this description. In terms of enforcement, the programs provide European companies at home and abroad with first hand support. Cooperation with U.S. authorities, although desirable, seems to be according to experts difficult, since all programmes are tailor made for EU businesses. Experts noted, however, that officials in the field engaged, on an ad hoc basis, rather frequently in information exchange.

- **Enterprise Europe Network:** Launched in 2008, the Enterprise Europe Network combines and builds on the former Euro Info Centres and Innovation Relay Centres, providing a "one-stop shop" for enterprises for information and advice on European matters (Enterprise Europe Network Homepage). At a local level, the network members are usually based in established providers of support to business, Chambers of Commerce, development agencies, innovation and research centres. A number have specialised knowledge of various aspects of IP management.
- **China IPR SME Helpdesk:** The China IPR SME Helpdesk provides free information, first-line advice and training support to European SMEs to help them protect and enforce their IPR in China (Homepage of the IPR Helpdesk China, as of June 10, 2009). It provides the knowledge and business tools required to develop the value of intellectual property rights and to manage related risks. A range of practical training tools available in web-based forms and through training workshops in Europe and China are being developed.
- **Best Practices project on IPR Enforcement support measures:** This project was carried out by a national IP expert group to generate policy recommendation on how to improve IPR enforcement for European SMEs (see also below) (Aguilera-Borresen et al. 2009).
- **IP EuropAware project (formerly IP Base project):** The project aims at improving SME access to IPR registration and enforcement. It is implemented in cooperation with 20 national patent and trademark offices (Homepage of Innovaccess, as of June 20 2009).
- **WHO Anti-Counterfeiting International Medicinal Task Force:** DG Enterprise and Industry participates in the IMPACT negotiations on principles of how to fight counterfeit medicines. (Homepage of WHO, as of June 25, 2009).

DG Taxation and Customs Union (TAXUD): Security and the fight against counterfeited are seen as a high priority area of the DG concerning with customs matters (see also section 3.2 on seizure statistics). Activities include the coordination of dedicated customs actions (seizures) and cooperation with a number of third countries in the area of taxation and customs – including the U.S. According to TAXUD, *"...DG TAXUD's daily workload was to a large extent connected with the management of the Customs Union. Efforts continued to ensure that the 27 national administrations provide similar levels of protection of the external border while maintaining an adequate level of facilitation for trade (e.g. by granting simplified procedures in accordance with harmonized rules17)." (2008 Annual Activity Report).* The main tool/service available for firms who need to fight counterfeiting and piracy are so-called 'Applications for Action':

- **Applications for Action:** The Commission's DG TAXUD helps right holders protect themselves from counterfeiting and piracy by facilitating direct contact with the relevant customs services of the Member States, where they can lodge an application for action. Details of contacts and the appropriate forms in a common format are available on the Commission's web site .

DG Health and Consumer Protection (Sanco): DG Sanco is the supreme European authority in terms of consumer protection and health issues. DG Sanco is responsible for all consumer affairs including product and service safety, safety of the food chain and enforcement thereof. In particular such counterfeited or pirated goods

which pose a danger to Europe's consumers such as poisonous medicines or unsafe and pirated high security machinery parts are monitored through the national authorities, which implement DG Sanco's European standards.

Other relevant EU institutions

Though formally not DGs, two other European institutions should be mentioned which are relevant in the fight against counterfeiting and piracy_

- The **Executive Agency for Competitiveness and Innovation (EACI)** was set up by Commission Decision 2007/372/EC of 31st May 2007. The Agency is responsible for the management of Community actions in the fields of energy, entrepreneurship and innovation (including eco-innovation), and sustainable freight transport. EACI is responsible for implementing the Entrepreneurship and Innovation Programme (EIP) 2007-2013. EEN (see above) is part of EIP.
- **Europol** is the European Union Law Enforcement Organisation that handles criminal intelligence. Its mission is to assist the law enforcement authorities of Member States in their fight against serious forms of organised crime which covers also counterfeiting.

5.2.3 Coordinating structures

Open Method of Coordination

"The open method of coordination (OMC), created as part of the employment policy and the Luxembourg process, has been defined as an instrument of the Lisbon strategy. The OMC provides a new framework for cooperation between the Member States, whose national policies can thus be directed towards certain common objectives. Under this intergovernmental method, the Member States are evaluated by one another (peer pressure), with the Commission's role being limited to surveillance. The European Parliament and the Court of Justice play virtually no part in the OMC process. The open method of coordination takes place in areas which fall within the competence of the Member States...It is based principally on: jointly identifying and defining objectives to be achieved (adopted by the Council); jointly established measuring instruments (statistics, indicators, guidelines); benchmarking, i.e. comparison of the Member States' performance and exchange of best practices (monitored by the Commission). Depending on the areas concerned, the OMC involves so-called "soft law" measures which are binding on the Member States in varying degrees but which never take the form of directives, regulations or decisions. Thus, in the context of the Lisbon strategy, the OMC requires the Member States to draw up national reform plans and to forward them to the Commission." (retrieved from Europe in Focus, June 5, 2009).⁴

IPR Expert Group

Apart from the above described OMC structure the EU lacks in particular on the supranational level coordinating institutions and key positions that can be compared to NIPLECC or IPEC. The temporary IPR Expert Group (November 2007 – March 2009), on whose findings (Aguilera-Borresen et al. 2009) was partly drawn for the purpose of this paper, can be classified as an attempt to bridge coordinating efforts between national and supranational institutions and was part of the response to a perceived gap in policy coverage. It consisted of 2 IP experts from each of the 27 Member States and representatives of DG Enterprise and Industry, and convened several times in order to draft a report on how to make IP work for SMEs with a particular focus on enforcement.

⁴ see <http://www.europeinfoocus.eu/glossary.asp?list=O>

5.3 Cornerstones for U.S. policy in combating counterfeiting and piracy

5.3.1 Overview and general institutional set-up

Overview

U.S. policy in the field of intellectual property is set against the fact that IP is an important element of the U.S. economy, with the United States being “... [a] *global leader in its creation*” (GAO 2008). The collected evidence indicates that U.S. policy actions in this field focus primarily on law enforcement issues and combating piracy and counterfeiting.

IP activities, and most notably IP enforcement tasks, are divided among a number of government agencies and entities. The past decade has seen a number of efforts to establish coordinating structures for the different tasks as well as ways to define effective agency-spanning IP enforcement strategies.

The National Intellectual Property Law Enforcement Coordination Council (NIPLECC) was established in 1999 by the U.S. Congress via Public Law No. 106-58, section 633, as part of its Treasury/Postal Appropriations Bill. (GAO 2006) NIPLECC is an interagency council responsible for coordinating domestic and international IP law enforcement activities among U.S. federal and foreign entities. This has included coordinating official training and technical assistance programs, reaching out to U.S. industry, increasing public awareness, and serving as a law enforcement liaison. (6th Annual NIPLECC Report to the Congress and President).

The NIPLECC statute was amended in 2004, when Congress created the presidentially appointed Coordinator for International Intellectual Property Enforcement (Coordinator), via Public Law 108-447. The Coordinator was headquartered within the U.S. Department of Commerce (DOC) to lead the international work of NIPLECC and supervise and coordinate international intellectual property protection plans among the various agencies.

In 2004, the Bush Administration launched the Strategy Targeting Organized Piracy (STOP!) initiative to bring together the NIPLECC agencies to develop a comprehensive strategy to fight global counterfeiting and piracy. In 2005, NIPLECC adopted STOP! as the strategic plan for its activities. In essence, STOP! was the ‘game plan’ implemented by NIPLECC.

The National Intellectual Property Rights Coordination Center (IPR Center) is another interagency mechanism for coordinating federal IP enforcement efforts. Unlike NIPLECC, which was established in law by Congress, the idea for creating the centre arose from the work of the National Security Council’s Special Coordination Group on Intellectual Property Rights and Trade Related Crime.

Efforts to further increase the effectiveness of IP enforcement in the U.S. received a major boost when the U.S. Congress passed the ‘Prioritizing Resources and Organization for Intellectual Property Act of 2008’ (PRO-IP Act). The bill was officially signed into law by the U.S. president on October 13, 2008. Most importantly – in terms of institutional changes – the bill introduces a new executive branch office run by an Intellectual Property Enforcement Coordinator (IPEC). Similar to the tasks of NIPLECC’s Coordinator, the IPEC would coordinate the efforts of the various agencies involved in IP enforcement and, by having the authority of an executive branch office placed in the White House, be potentially much more effective than under the NIPLECC structure.

At the time of writing of the report (June 2009), the position of the IPEC was still vacant due to the ongoing transition from the Bush to the Obama administration. Based on statements from experts, NIPLECC will continue to operate until the new IPEC is set up. STOP!, as an initiative of the Bush Administration, ended at the end of the Bush Administration.




Agencies and entities involved in IP matters and IP enforcement

In the field of enforcement of IP rights, five federal government agencies play key roles (GAO 2008; GAO 2006): (1) Customs and Border Protection (CBP); (2) Immigration and Customs Enforcement (ICE), (3) the Federal Bureau of Investigation (FBI), (4) the Food and Drug Administration, and (5) the Department of Justice (DOJ)⁵ These agencies focus their activities on the three different distinctive IP enforcement functions seizing, investigating and prosecuting (GAO 2008; see also figure 9):

- **CBPs** task is to seize goods, including IP-infringing goods, upon their arrival in the United States. In addition, CBP works to prevent the entry of goods into U.S. territory that are subject to exclusion orders. The agency also assesses penalties against IP infringers when warranted. IP enforcement is one of six explicitly defined priority issues in trade enforcement, with trade enforcement being a basic function CBP has inherited from the former U.S. customs service.
- **ICE** is responsible for the investigation of IP-related criminal activity which comprises also trademark and copyright infringements. The main task of this agency is to protect the U.S. homeland, and one of the main fields of action is combating commercial fraud. IP enforcement is defined as one of two top priorities within commercial fraud enforcement (the other top priority is violation of public health and safety).
- The **FBI's** overall principal mission is to investigate criminal activity and defend the security of the United States. The FBI has defined ten priority enforcement areas. Cybercrime is one of the 10 priority areas and IP enforcement is a subset of the cybercrime priorities. Within its IP enforcement activities trade secrecy thefts have the highest priority (2008 GAO Report, pg 14). Other priorities in descending relevance are copyright infringement, trademark infringement and signal theft. The FBI also places a general focus on IP investigations that affect public health and safety.
- **FDA's** IP-related actions are connected to illegal activity pertaining to food, drugs, medical devices and other products which impact public health. With protection of public health being the main mission of the agency, IP enforcement as such is not part of the primary tasks of FDA. However, FDA executes IP-related enforcement actions in fulfilling the goal to protect public health and safety; e.g., the investigation of criminals which traffic in counterfeit pharmaceuticals.
- **DOJ** takes over the prosecution of IP cases referred from ICE, FBI, FDA, from private sector representatives and other sources. According to the 2008 GAO report, DOJ officials and documents state that IP enforcement is one of the department's highest priorities. A special task force was enacted in 2004 in order to single out ways to strengthen IP enforcement efforts within the department. The task force drafted 31 recommendations for improvement. In 2006, the task force reported advances made along the lines laid out by the recommendations. In 2007, a special IP enforcement strategy was developed with six strategic objectives aimed at the ultimate goal of reducing IP theft. This strategy is for internal purposes only and not available to the general public.

⁵ DOJ's criminal division and the U.S. Attorney's Offices are not agencies, but they act in line with other agencies on this subject matter. For ease of reference, both entities are – like in GAO 2008 and 2006 – discussed as agencies.

Figure 9 Federal IP enforcement functions, the key agencies that execute them, and the structure of the agencies

Function	 Seizing	 Investigating			 Prosecuting
Agency	Customs and Border Protection ■	Immigration and Customs Enforcement ■	Federal Bureau of Investigation □	Food and Drug Administration ■	Department of Justice □
Structure	Office of International Trade and Office of Field Operations (325 ports of entry)	Office of Investigations (26 field offices)	Cyber Crime Division (56 field offices)	Office of Criminal Investigations (6 field offices)	Criminal Division and U.S. Attorney's Office (94 field offices)
□ Department of Justice ■ Department of Health and Human Services ■ Department of Homeland Security					

Source: GAO 2008

Further to the five agencies involved in enforcing IP rights, some other federal departments and agencies are important in formulating IP policies and fighting counterfeiting and piracy:

- The **Office of the United States Trade Representative (USTR)** addresses IP issues in international trade. It lists intellectual property as one of 16 major trade topics it is tackling (USTR 2009). A dedicated office within USTR, the Office of Intellectual Property and Innovation (IPN), has been established for this purpose. IPN utilizes an array of bilateral and multilateral trade tools to promote strong intellectual property laws and effective enforcement worldwide. Key areas of work comprise the negotiation, implementation and monitoring of intellectual property provisions of trade agreements; bilateral and regional engagement through instruments like the 'Special 301' review; IP dialogues with trading partners; and multilateral engagement on IP issues through the World Trade Organization (WTO), the World Health Organization (WHO) and other organizations.
- The **U.S. Patent and Trademark Office** – primarily concerned with the issuing of patents and trademarks – lists the improvement of intellectual property protection and enforcement domestically and abroad as one of its three strategic goals (USPTO Annual Report 2008). Several of the office's activities focus on providing support and guidance to other agencies (e.g., USTR on the IP chapter for free trade agreements) or entities (such as posting attachés at American embassies in key countries). The USPTO Global IP Academy (GIPA) delivers capacity building and technical assistance training to foreign judges, prosecutors and other types of IP professionals. The USPTO also operates a number of educational outreach initiatives promoting the value of IP protection (e.g., the USPTO Museum, the National Inventors Hall of Fame, and the 'Inspiring Invention' Advertising Council Campaign.) They also offer special support services for SME's as part of the STOP! Initiative. USPTO is a bureau of the U.S. Department of Commerce.
- The **U.S. State Department's** Bureau of Economic, Energy and Business Affairs and the Bureau of International Narcotics and Law Enforcement Affairs are both involved in the fight against counterfeits and piracy. The former bureau has established a dedicated office for IP enforcement, the Office of International Property Enforcement (IPE). Its aim is to "...promote American and global innovation by advocating for the effective protection and enforcement of IPR around the world." (U.S. Department of State 2009). IPE supports, among others, staff at American embassies, leads the U.S. government's innovation and IPR-related activities in the G8, the U.S.–China Strategic Economic Dialogue (SED) and engages in IPR negotiations in the world's international organizations. It also participates in inter-agency efforts to improve the effectiveness of the actions taken against counterfeiting and piracy (e.g., the Bush Administration's

STOP! initiative.) The Bureau of International Narcotics and Law Enforcement Affairs touches upon IP issues while pursuing its goal to reduce the entry of illegal drugs into the United States.

- The **Department of Commerce's** Office of Intellectual Property Rights (OIPR) in the Department of Commerce's Market Access and Compliance (MAC) division works with U.S. companies to protect and enforce their intellectual property rights in foreign markets. OIPR experts suggest strategies to evaluate IPR problems encountered abroad and works with U.S. embassies around the world to pursue a course of action for resolution of problems. OIPR works with the Trade Compliance Center (TCC) to ensure that countries' intellectual property-related trade agreement obligations are monitored and that compliance problems are addressed. Commerce established a special telephone and Web address designed specifically to deal with companies' international intellectual property concerns as part of the STOP! Initiative.
- The **U.S. copyright office** seems to play a less active role than the USPTO in the assembly of government agencies and entities fighting counterfeiting and piracy. In its 2008 to 2013 strategy, the copyright office underlines its function as an advisor to Congress and institutions of the federal government and aims to increase "...recognition of the Copyright Office as government's resource of choice for expert advice on copyright and related issues" (U.S. copyright office Strategic Plan 2008 – 2013). Noteworthy are also the strategic goals in the field of public education and out-reach activities (for promoting the importance of copyrights).

Coordinating structures

As can be seen, tasks for enforcing IP rights are widely spread among the described federal agencies. Each agency gives different priorities to IP enforcement, and although most see IP enforcement as a high priority action field, all agencies face the challenge of integrating respective tasks into their individual operating environments. Furthermore, issues such as divided responsibilities, overlap of work areas, and the possible existence of areas not addressed by any of the agencies in combating counterfeiting and piracy may arise.

Against this background, U.S. policy makers recognized the need for greater coordination among the various agencies and created organizational structures which could improve overall enforcement effectiveness. As noted in the overview section above, the main coordinating mechanisms developed in the past decade are NIPLECC (with STOP! as its strategy), ICE's IPR Center, and the new PRO-IP Act which replaces especially NIPLECC.

NIPLECC was established as a coordination council in 1999 by the U.S. Congress (GAO 2006). Its stated aim is to coordinate domestic and international IP law enforcement among U.S. federal and foreign entities.

One expert recalls:

"The situation in the U.S. before NIPLECC was disjointed...not well connected, not well established...that's why NIPLECC was established...to create a requirement for agencies to establish a national strategy for IP enforcement"
(expert nr. 11)

NIPLECC was headed by the U.S. Coordinator for International Intellectual Property Enforcement. It was comprised of the following Cabinet level agencies: 1) Department of Commerce (DOC); 2) Department of Homeland Security (DHS); 3) Department of Justice (DOJ); 4) Department of State (DOS); and 5) Office of the U.S. Trade Representative (USTR).

Within DOC, the two departments on the NIPLECC council were the International Trade Administration and the USPTO. Within DHS, the departments on the NIPLECC council were Customs and Border Protection (CBP) and Immigration and Customs Enforcement (ICE). DOJ was represented on the council by the Assistant Attorney General (Criminal Division). DOS was represented on the council by the

Undersecretary of State for Economics, Business and Agricultural Affairs, and USTR by the Deputy USTR. The U.S. Copyright Office and the FDA were advisors to the NIPLECC council. The USPTO's Under Secretary for IP and DOJ's Assistant Attorney General Criminal Division co-chaired the council.

The **STOP! Initiative** was launched in 2004 by the Bush Administration. STOP! was built on five key objectives: (6th Annual NIPLECC Report to the Congress and President): (1) Empower American innovators to better protect their rights at home and abroad; (2) Increase efforts to seize counterfeit goods at our borders; (3) Pursue criminal enterprises involved in piracy and counterfeiting; (4) work closely and creatively with U.S. industry; and (5) aggressively engage U.S. trading partners to join the STOP! efforts. Among other things, the STOP! Initiative created a hotline staffed by specialized attorneys at the USPTO and a dedicated website (www.stopfakes.gov) which includes resources for SME's such as one-on-one consultations for rights holders on how to register and protect their IP in markets around the world. The site also has a number of downloadable "IP Toolkits" to guide businesses through securing and enforcing their rights in key markets around the globe (e.g. China, Russia, India, Mexico, etc).

The **National Intellectual Property Rights Coordination Center** (IPR Center) has been a central point of contact for coordinating border enforcement efforts to stop the flow of counterfeit goods into the commerce of the United States since 2000. ICE, CBP, FDA, FBI, Computer Crime & Intellectual Property Section (CCIPS), DOC, and the U.S. Postal Inspection Service are all IPR Center partners.

While the IPR Center and NIPLECC were both created to improve coordination among law enforcement agencies, the concept for the IPR Center gave it a greater operational focus than NIPLECC. The executive branch intended that the IPR Center would act as a hub for the collection, analytical support, and dissemination to investigative agencies of IP-related complaints from the private sector, including copyright infringement, trademark infringement, and theft of trade secrets. It envisioned that the IPR Center would coordinate and direct the flow of criminal referral reports on IP violations to the participating agencies' investigative resources in headquarters and the field. In carrying out these roles, the IPR Center was expected to help integrate domestic and international law enforcement intelligence, consult regularly with the private sector, and generally act as a resource for IP complaints. (GAO 2008)

According to the ICE website, the IPR Center serves as a fusion point for intelligence on IPR violations from other government agencies, industry, transportation providers and others. The IPR Center employs a three-pronged strategy in the fight against intellectual property crime: Investigation; Interdiction; and Training and Outreach.

On October 13, 2008, the '**Prioritizing Resources and Organization for Intellectual Property Act of 2008**', shortly dubbed the **PRO-IP Act** was officially signed into law. Perhaps most importantly, the PRO-IP Act, creates an Intellectual Property Enforcement Coordinator (IPEC) within the Executive Office of the President who will chair an inter-agency committee to oversee anticounterfeiting and antipiracy efforts. The IPEC will be responsible for making IP enforcement a priority for every arm of government and ensuring that government works efficiently to combat counterfeiting and piracy. The IPEC and interagency committee will produce a Joint Strategic Plan to combat counterfeiting and piracy and will coordinate implementation of the Plan. The IPEC and interagency committee will replace the NIPLECC.

Table 3 outlines the key features of the PRO-IP Act.

Table 3 Key Features of the PRO-IP Act

Overall	Trademark	Copyright
Creates an Intellectual Property Enforcement Coordinator within the Executive Office of the President who will chair an inter-agency committee that will produce a Joint Strategic Plan to combat piracy and counterfeiting and which will identify duplicative or inefficient efforts.	U.S. criminal law explicitly prohibits the transshipment or exportation of counterfeit goods or services, deeming it a violation of section 42 of the Lanham Act.	Provides for the seizure and destruction of property used to accomplish intellectual property criminal violations, provided the government can prove a substantial connection between the property and the offense, as well as requiring that convicted offenders make their victims whole.
Establishes a grant program through the Department of Justice to state or local law enforcement entities for training, prevention, enforcement and prosecution of IP theft and infringement crimes.	Requires the court to award treble damages and reasonable attorneys' fees if a violation consists of providing the equipment or services necessary to commit a counterfeiting violation if the provider has the intent that the goods or services will be used to commit the IP violation.	Ensures that the new forfeiture, destruction, and restitution language applies to the unauthorized use of sounds and images from live musical performances and to the unauthorized copying of a motion picture or other audiovisual work from an exhibition facility.
Ensures that there are at least 10 additional trained agents of the FBI designated to work IP issues and authorizes \$20 million in additional funding to hire and train new FBI agents and new prosecutors to combat IP theft.	Improves and harmonizes the forfeiture laws governing IP rights violations and creates a new forfeiture section for both civil and criminal forfeiture.	Establishes comprehensive protection for copyrights by stating that importation or exportation of pirated works constitutes a violation of the Copyright Act.
Ensures that any Computer Hacking and IP Crime (CHIP) Unit at Justice is supported by at least one additional FBI agent and all CHIP units located at a US Attorney's office are assigned at least 2 Assistant US attorneys responsible for investigating and prosecuting computer hacking or IP crimes.	Increases statutory damages in counterfeiting cases to not less than \$1000 per mark or more than \$200,000 per mark. Prior law had a range of \$500 to \$100,000. For wilful violations, the statutory damages ceiling is increased from \$1 million to \$2 million.	Allocates an additional \$10 million annually (FY '09-'13) to each the Dept. of Justice and the FBI to investigate and prosecute intellectual property crimes involving computers, an especially important step considering the billions of dollars lost to Internet piracy each year.
Requires the Attorney General to develop a comprehensive plan to prosecute international organized crime syndicates engaging in	Increases the maximum statutory penalties for knowing or reckless counterfeit violations that endanger public health and safety.	

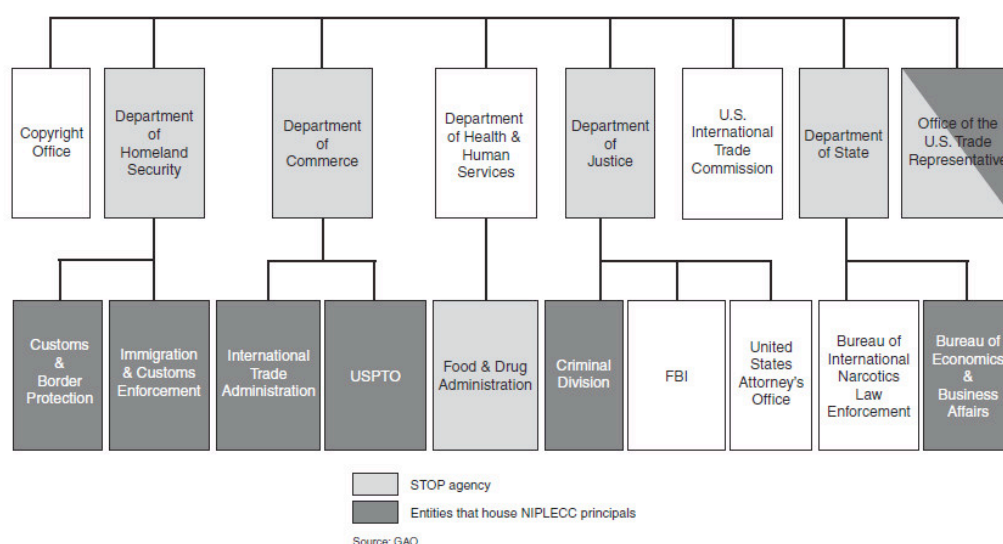
crimes relating to IP theft.		
Requires annual reports by the Attorney General and Director of the FBI on overall successes and failures of policies and efforts to prevent and investigate IP crimes and requires GAO studies on how the federal government can better protect IP by quantifying the impact of imported and domestic counterfeit goods.	Directs the GAO to conduct a study on the nature and scope of current statutory law and case law regarding the protection of trade dress.	

Source: Table developed from S. 3325 'Prioritizing Resources and Organization for Intellectual Property Act of 2008'

At the time of writing of the report (June 2009), the position of the IPEC was still vacant due to the ongoing transition from the Bush to the Obama administration. Similarly, it was not clear how exactly the various features of the PRO-IP Act will be implemented by the Obama Administration. However, the hope is *"...that with the new structures it will be possible to draft for the first time a national IP enforcement strategy with teeth, a strategy which could become once the core of a wider national IP strategy"* (interviewed expert nr. 11).

As a summary, figure 10 shows all public U.S. agencies and institutions involved in IP matters and in IP enforcement as of early 2008 and does not take the PRO-IP Act and IPEC into account. It also depicts the various degrees of involvement of these institutions in NIPLECC.

Figure 10 Primary U.S. Government Agencies and Entities Supporting U.S. Intellectual Property Rights



Source: GAO 2006

5.3.2 Views on activities pursued and performance/effectiveness

Several aspects of U.S. IP policy (most notably, in the area of IP enforcement) have been subject to assessments by the Government Accountability Office (GAO). The results of these reviews yield a rather ambiguous picture of the effectiveness of the policy actions undertaken.

In 2008, GAO was tasked (1) to examine key federal agencies' roles, priorities and resources devoted to IP enforcement, (2) to evaluate the performance, statistics and achievements and (3) to examine the status of NIPLECC (GAO 2008). The review spanned the period from 2001 to 2006 and focused on the activities of the five key agencies CBP, ICE, FBI, FDA and DOJ. GAO faced difficulties assessing the resources devoted to IP enforcement. This was due to the fact that – while all agencies give IP enforcement some priority, and where public health and safety may be at risk even top priority, few staff are usually dedicated to IP enforcement. Records indicating the amount of time spent on IP infringement cases are frequently lacking. In addition, the key agencies have not taken steps to assess their achievements in fighting counterfeiting and piracy. For example, most organizations did not systematically analyze statistics which could be used to inform management. Sometimes, no data at all was present to track the efforts fighting IP crimes. Target or performance measures were often missing.

On a general level, however, the GAO report found that federal enforcement has generally increased during the period under scrutiny. Against this backdrop, it placed an improved use of data, statistics and performance measures at the heart of its recommendations in order to boost the effectiveness of IP enforcement.

Regarding the performance of each of the key IP enforcement agencies, GAO reported the following findings (GAO 2008):

- **CBP** statistics show an increase of the number of seizures (see also section 3.2) in the period of time investigated. Notwithstanding this development, most of the seizures involved a larger number of small-volume cases made from air-based modes of transport. CBP officials interviewed believed that this trend reflects a shift in smuggling tactics toward the use of multiple small consignments rather than few big ones as well as the growing role of the internet in distributing fake goods. Once seized, CBP can issue monetary fines against the infringers/violators. However, less than 1 % of the total amount of fines is then actually collected. Three factors seem to be responsible for the low collection rate: (1) petitions for mitigation or dismissal by the violator (which relate to situations where DOJ attorneys, who take on the case based on the petition, feel that statutory fines imposed by CBP as too excessive and subsequently reduce them), (2) dismissal due to criminal prosecution (in this case, fines may be lowered in exchange for information or other evidence that supports the criminal case) and (3) the nature of the counterfeit importation (this aspect relates to the deceptive nature of counterfeits which makes it difficult for CBP to track violators and enforce penalties). Furthermore, GAO noted procedural weaknesses with regard to the enforcement of exclusion orders – an issue that seems to be a point of criticism in particular for private sector representatives. It is said that *“...companies spend millions of dollars in legal fees to win a U.S. International Trade Commission ruling for their products, but the effectiveness of the ruling is weakened by poor enforcement at CBP.”* Private sector representatives are also concerned by the fact that CBP does not notify companies of any exclusions that have occurred, the result being reduced transparency. By contrast, CBO notifies importers and IP rights owners every time goods are seized.
- Enforcement activities, as measured in terms of the number of arrests, indictments and convictions, have in general also increased for the **FBI**, the **ICE** and the **FDA** between 2001 and 2006. GAO noted, however, that the insufficient use of statistics and monitoring data mentioned above leads to a situation where the agencies have difficulties understanding the drivers of the observable increases. Break-downs of enforcement activity data by regions/field offices indicate that enforcement activities tend to cluster geographically/field-office wise. For example, 50 % of IP related cases were filed by around 10 % of U.S. Attorney's Offices during 2001 and 2006. For the CBP, similar types of distribution of seizure cases have been identified. The exact reason for this clustering seems to be unknown. GAO further found that while data is collected on IP enforcement broadly, a clear distinction between IP violations that relate to public health and safety and IP rights infringements where this is not the case, is

most of the time, with the available databases, not possible. Focusing IP enforcement on life or health threatening cases (as done in many agencies' strategic plans) may thus prove to be impossible to track. It is from this argument and the finding that most agencies gauge their progress in IP enforcement in terms of broad increases of activity levels that GAO calls for better data collection and clear targets/goals. At the same time, GAO also acknowledges the difficulties and dangers when setting targets in law enforcement.

The GAO 2008 report also drew on interviews with private sector representatives. Two key findings emerged from these interviews: First, an observed lack of dedicated resources for IP enforcement actions in many agencies. This results in companies frequently employing their own resources (e.g., private investigators). Secondly, a need to train agents in IP enforcing agencies which points to the need for increased collaboration between industry and government in this area.

5.4 The cast of actors at the international level– forums where the EU and the U.S. can collaborate jointly on IP issues

5.4.1 The general set-up

There are a variety of institutions which allow the EU and the U.S. to interface with each other and collaborate on issues related to IP enforcement. One can distinguish between forums and institutions situated at the multilateral level (involving many countries collaborating jointly on certain topics), the plurilateral level (discussions with more than two countries, but less than the number found in multilateral forums) and the bilateral level (involving only the U.S. and the EU). Figure 11 depicts the relevant various forums currently.

Figure 11 Relevant institutions and forums where EU and U.S. officials can work together on issues relating to counterfeiting and piracy



Source: Technopolis

In the following sections, this cast of 'institutional actors' is described in more detail.

5.4.2 The multilateral level

The following international institutions deal with IP enforcement issues and provide a forum for exchange and cooperation for the EU and the United States at the multilateral level:

- The **World Intellectual Property Organisation (WIPO)** was founded in 1967 and is a specialised agency of the United Nations. Its mission is to develop a "...balanced and accessible international intellectual property system which rewards creativity, stimulates innovation and contributes to economic development while safeguarding the public interest." (WIPO Homepage, as of June 25 2009). WIPO is also tasked with enforcement issues. In this field, WIPO is to assist Member States in "strengthening their systems and infrastructure for

effective enforcement of IP rights and to support and enhance an informed policy debate at the international level.” Activities carried out comprise, among others, the provision (upon request) of legal and technical assistance to Member States in relation to the development of effective IPR enforcement mechanisms, facilitating the exchange of information on this topic, collecting and offering information on good practices, conducting studies and or developing projects and information material for use in activities to enhance public awareness in the field of counterfeiting and piracy. More specifically, WIPO hosts a special committee, the **Advisory Committee on Enforcement (ACE)**. Established in 2002, ACE is mandated to provide technical assistance and coordination (with other organisations and the private sector), but it has – explicitly stated – no norm setting function. In the period of 2002 to 2008, ACE convened a total of four times.

- The mission of the **World Trade Organisation (WTO)** is “...to provide a forum for negotiating agreements aimed at reducing obstacles to international trade and ensuring a level playing field for all, thus contributing to economic growth and development.” (WTO Homepage, as of June, 25 2009). It defines itself as the organisation “...whose primary purpose is to open trade for the benefit of all”. The WTO also provides a legal and institutional framework for the implementation and monitoring of these agreements and also means to settle disputes arising from their interpretation and application. Its importance in the field of IPR is given through one of the 16 multilateral agreements to date reached in the WTO, the **Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement**. TRIPS was enacted in 1994 and sets minimum standards for different forms of intellectual property protection among WTO member states. It is arguably the most comprehensive international agreement on intellectual property to date and covers copyrights (and related rights), trademarks (including service marks), geographical indications, industrial designs, patents, layout-designs (topographies) of integrated circuits and undisclosed information, including trade secrets. Part 3 of the TRIPS agreement is concerned with enforcement and describes in some detail how enforcement should be handled, including rules for obtaining evidence, provisional measures, injunctions, damages and other penalties. It is important to underline that TRIPS sets only minimum standards that all signatories must adhere to, but it does not deter its members to agree bilaterally/plurilaterally on higher protection standards. Attempts to increase the level of protection in plurilateral and bilateral negotiations are, depending on the level of IP protection sought, often referred to as ‘TRIPS Plus’ or even ‘TRIPS Plus Plus’.
- The **World Customs Organisation (WCO)** is an intergovernmental organisation and the only one focused on Customs matters. It represents 174 customs administrations across the globe that collectively process approximately 98% of world trade (Homepage of WCO, as of June 25, 2009). Given the important role customs play in the fight against counterfeiting, it seems logical that the WCO has developed also a dedicated **WCO IPR Programme**. This programme comprises activities such as a customs/business partnership (with emphasis on information exchange), training (in the scope of a joint customs/business training programme) or activities to set customs enforcement standards, for which the G8 opened negotiations at WCO (see, for example, Sell 2008). An attempt to create such standards has been the **provisional Standards to be Employed by Customs for Uniform Rights Enforcement (SECURE)**. SECURE includes provisional standards, procedures and best practices that are expected to prove effective in a co-ordinated global effort to “...suppress all kind of intellectual property rights infringement” (Homepage of WCO, as of June 25, 2009). SECURE lifts some standards of IP enforcement to a level which some commentators believe to be ‘TRIPS Plus Plus’ (Sell 2008).
- **Interpol** is the largest police organisation of the world and counts 187 member countries. Its main mission is to facilitate police collaboration across borders and “...to support all organisations, authorities and services whose mission is to

combat international crime." (Homepage of Interpol, as of June, 25 2009). Interpol has increasingly been involved in IP enforcement on several levels (see Sell 2008): 1) It participates prominently each year in the Annual Global Congress Combating Counterfeiting and Piracy (it acts also as a co-sponsor of the event); 2) It introduced an IP crime training programme; 3) It dedicated one officer full-time to WHO's IMPACT programme (see also below); 4) It entered into a partnership with the U.S. Chamber of Commerce to develop a database on IP crime; and 5) It operates also a dedicated IP crime unit.

- The **World Health Organisation (WHO)** is "*...the directing and coordinating authority for health within the United Nations system.*" (Homepage of WHO, as of June, 28 2009). The agency explains its engagement in the fight against counterfeiting as a response "*...to the growing public health crisis of counterfeit drugs.*" (Homepage of IMPACT, as of June, 28 2009). The main pillar of WHO activities in the field of counterfeiting of drugs is the International Medical Products Anti-Counterfeiting Taskforce (IMPACT) which was established in February 2006. IMPACT is a partnership of all major anti-counterfeiting players including international organisations, NGOs, enforcement agencies, pharmaceutical manufacturers associations and drug regulatory authorities. IMPACT consists of five working groups which deal with the topics of legislative and regulatory infrastructure, regulatory implementation, enforcement, technology and communication. Activities set by IMPACT to date comprise, among others, the publication of guidelines for the development of measures to combat counterfeit medicines, a rapid alert system for counterfeit medicines and activities aimed at increasing public awareness.

5.4.3 The plurilateral level

On a plurilateral level, the EU and the United States are currently negotiating – together with Australia, Canada, Japan, Mexico, Morocco, New Zealand, the Republic of Korea, Singapore and Switzerland – the so-called **Anti-Counterfeiting Trade Agreement (ACTA)**. The objective of ACTA is "*...to bring together those countries, both developed and developing, that are interested in fighting counterfeiting and piracy, and to negotiate an agreement that enhances international co-operation and contains effective international effective standards for enforcing intellectual property rights*" (European Commission, DG Trade, 2009). Standards to be developed through ACTA are to be higher than those outlined in the TRIPS agreement. Initial talks on ACTA started as early as 2006 (at that time comprising only Canada, the European Commission, Japan, Switzerland and the United States)⁶, and formal negotiations commenced in June 2008. The negotiations are still on-going; as a result, "*...a comprehensive set of proposals for the text of the agreement does not yet exist*".

However, in June 2009, the participating countries released statements that give some insight into the issues under discussion and the likely structure of the final document. Apart from naming the discussion topics and the common objectives of the treaty, little specific information was presented as to the extent agreements and compromises have already been reached. According to these sources, the structure of the ACTA would distinguish six chapters:

1. **Chapter 1 – Initial provisions and definitions:** This chapter will define and clarify the terms used throughout the agreement. It will also elaborate on the scope and may deliver interpretative principles.
2. **Chapter 2 – Legal framework for enforcement of IPR:** This chapter is the one that the EU and the U.S. mostly elaborate on. The chapter will be comprised

⁶ Currently (as of June 2009) the United States, the European Community, Switzerland, Australia, the Republic of Korea, New Zealand, Mexico, Jordan, Morocco, Singapore, the United Arab Emirates, Canada and Germany negotiate ACTA.

of 4 sections, one dealing with civil enforcement, one with border measures, one with criminal enforcement and one with IPR in the Digital Environment

- a. The section on **civil enforcement** is to cover regulations that refer to providing courts and other authorities with specific means to order and/or take specific actions when IP rights are infringed. Besides stating the means, the section will also outline the circumstances when and how the stated authorities may use their powers. The issues currently discussed among the negotiating parties are the scope of the section (i.e., which type of IPR should be covered), the definition of the level of damages applicable, the extent to which authorities can order injunctions or remedies (such as the destruction of goods), the scope of provisional measures (for example seizures which could take place without necessarily hearing both parties) or the reimbursement of reasonable legal fees and costs.
 - b. The section on **border measures** is to cover actions which customs and other competent authorities would be authorised to take to prevent goods that infringe IP rights from crossing borders (again, the section will also define procedures accompanying these actions). Issues under consideration are the scope of IP rights to be covered, a de minimis regulation (which would allow travellers to bring in goods for personal use up to a certain maximum value), procedures for rights holders (i.e., under what circumstances right holders can request action from customs authorities), the authority of customs to initiative action on their own initiative (without a request form the rights holder) or the forfeiture and destruction of goods that have been determined to infringe IP rights.
 - c. The section on **criminal enforcement** will deal with cases for which criminal procedures and penalties are to be applied. Topics discussed under this heading comprise the definition on the scale of infringement necessary to qualify for criminal prosecution (limited to cases of trademark counterfeiting and copyright/related-rights piracy), the definition of the scope of the criminal penalties, the circumstances under which authorities can take action on their own initiative (without complaint by the rights holders) or the authority to order searches and/or seizure of goods suspected of infringing IPR.
 - d. The fourth section on **IPR enforcement in the digital economy** will address some of the special challenges that new technologies pose for IP enforcement. The discussion on this section seems to be, according to the statements, not as advanced as in the other section and still focuses on data collection.
3. **Chapter 3 – international cooperation:** This chapter is expected to address issues such as the recognition that international enforcement cooperation is vital to realize fully effective protection of IPR; cooperation among competent authorities “...consistent with existing international agreements”; sharing of relevant information (statistical data, information on best practices “...among the Signatories in accordance with international rules and related domestic laws to protect privacy and confidential information”; and, eventually, capacity building and technical assistance.
 4. **Chapter 4 – enforcement practices:** ACTA’s fourth chapter is to elaborate on the laws that should be in place to promote better enforcement of IP rights, and, more specifically, on the methods used by authorities to apply those laws. Topics that are to be covered in this section comprise data collection and exchange, international coordination among competent authorities concerned with enforcement of IP rights, measures to allow customs authorities to better identify and target shipments which are suspected to contain counterfeit and pirated goods and also promotion of public awareness of the detrimental effects of IP rights infringement.

5. **Chapter 5 – institutional arrangements:** The fifth chapter is supposed to comprise all necessary provisions for institutional set-ups, such as questions related to the implementation of the agreement, how and when to hold meetings of Parties and other administrative details.
6. **Chapter 6 – final provisions:** The last chapter is to “...include details on how the agreement will function” (e.g., how to become a party to the agreement, how to withdraw or how to amend the agreement in the future).

5.4.4 The bilateral level

At the bilateral level between the EU and the U.S., the most important forums are those enacted by the “EU-U.S. Action Strategy for the Enforcement of Intellectual Property Rights” (which has established a dedicated working group). Furthermore, the Transatlantic Business Dialogue (TABD) and the Transatlantic Economic Council (TEC) are two forums explicitly set up to allow for an exchange of information and discussion on trade issues between transatlantic industry representatives and officials from EU and U.S. governments. IPR features prominently on the agenda of both forums. The EU–U.S. Action strategy is focussed entirely on public policy collaboration in the field of IPR, and also has elements of consultation with industry.

The Transatlantic Business Dialogue (TABD) and the Transatlantic Economic Council (TEC)

The TABD was launched in 1995 following an initiative of former United States Secretary of Commerce Ron Brown. TABD constitutes a forum of cooperation between the transatlantic business community and the U.S. and EU governments. The mission is to boost transatlantic trade and investment and to remove barriers caused by regulatory differences. The fight against counterfeiting and piracy features as one of seven key issues of the TABD. The Transatlantic Economic Council (TEC) is a body operated by the United States and the European Union to direct economic co-operation between the two economies. It was established in 2007 to support economic partnership objectives and to harmonise regulations. The council is chaired by one EU and one U.S. official. The TEC convenes at least once a year. The TABD acts as advisory body to the TEC.

EU–U.S. Action Strategy for the Enforcement of Intellectual Property Rights.

On June 20, 2006, the U.S. and the EU adopted a joint strategy in the field of IP enforcement called “**EU–U.S. Action Strategy for the Enforcement of Intellectual Property Rights.**” The establishment of this strategy is the result of a principal agreement reached between the U.S. and the EU at the 2005 EU-U.S. Summit. At that summit, the U.S. and the EU mutually concluded that “...*growing global piracy and counterfeiting threatens the competitiveness of innovative industries, the livelihoods of creative artists and workers, and the health and safety of consumers in the European Union, the United States and beyond.*” (2005 EU-U.S. Economic initiative). Following the joint statement which underlined the commitment to combating counterfeiting and piracy, a working group was set up and tasked with identifying the areas and modalities of cooperation. The working group consists of officials representing key agencies and service providers involved in IP enforcement on both sides of the Atlantic. The group also consults also with industry.

The strategy outlined two main fields of collaboration: 1) Improving enforcement (including third country and customs cooperation) and 2) promoting public-private partnership.

In the area of improving enforcement, the following actions and goals were defined:

- **Improving the effectiveness of customs and border control:** This includes the exchange of IPR border enforcement practices and experiences (e.g., risk analysis and management, statistical seizure data), the exchange of operational staff (with the aim of jointly targeting and examining shipments to obtain additional insight into IPR enforcement practices) or the identification of

specific areas of cooperation (e.g., the development of common IP toolkits to assist customs officers or the issuance of joint guidelines to assist the private sector to take advantage of the border enforcement tools that are available to protect IP). In addition, customs are to engage in joint IP border enforcement actions. A special emphasis is placed on activities, where health and safety are at risk.

- **Goals set for bilateral activities:** Activities under this heading are meant to increase joint activities with the aim of enforcing IP rights in third countries. Again, information exchange plays a key role. In addition, the strategy foresees the establishment of bilateral IP networks in the embassies/delegations of the U.S. and EU countries in “...*capitals of relevant countries*”. The countries of Russia and China are specifically mentioned as locations where U.S. and EU collaborative efforts on IP enforcement are to be stepped up.
- **Goals set for multilateral activities:** On a multilateral level, the strategy calls for both the EU and the U.S. to support the OECD study on IP by providing assistance and data, to support the implementation of the G8 Leaders Statement on Reducing IPR Piracy and Counterfeiting through more effective enforcement, to enhance cooperation in relevant multinational venues, such as the WTO (TRIPS-Council), and to encourage and assist third countries in implementing the WTO TRIPS agreement.
- **Technical assistance:** ‘Increased levels of technical assistance’ seems to refer to better education of key staff involved in enforcement activities and to boosting public awareness. Cornerstones of activities falling in this category are the implementation of capacity building programmes and information exchange, whereby industry is to be involved. Specific reference is made to the websites of DG Trade and the USG Training coordination site.

The second main field of collaboration targets public private partnerships and highlights the importance of close collaboration with industry representatives. Activities and goals have been separately defined for the two target groups of public policy makers in the EU/U.S. and the private sector:

- **Strategic considerations for public policy makers in Public Private Partnership (PPP) models in the area of counterfeiting and piracy:** Public policy efforts targeted at industry comprise information exchange elements (i.e., the provision of information on IPR related meetings and activities in third countries, the launch of public-private roundtable discussions in third countries), service elements (the provision of assistance and IP-related services to SMEs in third countries, the exchange of information on experiences gathered with respective activities between the U.S. and the EU, and an active collaboration with SMEs) as well as public awareness raising elements (e.g., by raising awareness of the general public through joint activities at trade fairs).
- **Strategic considerations with regard to industry participation:** An integral part of the strategy is to reach out to industry and ask for support, mainly by asking for the provision of relevant information (e.g., on working models of IP industry coalition or reliable or timely information about the IP enforcement environment in key countries).

5.5 IPR and IP enforcement policies pursued by the EU and the U.S. – some comparative remarks

One of the key factors that affect the success of any type of collaborative endeavour is the extent to which the collaborating partners agree on common goals and approaches. In the field of IP enforcement, all evidence gathered indicates that by and large the European Union and the United States share common interests. Both economies currently place great importance on the IP system in general and on effective IP enforcement in particular. The significant role of IP seen for the development of the economy is widely visible in the policy actions and initiatives

taken, not the least through the provisions of the PRO-IP Act in the U.S. or the EU's Enforcement Strategy.

Notwithstanding this general observation, there are also areas within the field of IP where different stances are visible. Furthermore, the U.S. and the EU seem to take also slightly different approaches when negotiating with 3rd countries on IP matters. The following statements given by interview partners reflect these views:

"In 95 % of all topics discussed, there is a consensus between the EU and the U.S. on IP matters. But there are also, say, 5 % where there is disagreement and it seems hard to get past those if they are addressed directly...often, these 5 % get swept under the carpet and both sides continue on other issues" (expert nr. 33)

"The European Union and the United States definitely share the same concerns as regards the enforcement of IP and it seems thus natural that they work together...but some issues exist that need to be overcome to increase effectiveness" (expert nr. 15).

In the following section, we analyse the differences and commonalities in the ways the EU and the U.S. address the issue of IP enforcement vis-a-vis third countries as well as in bilateral relations between the two economies. The aim is to identify and discuss factors that may potentially influence 1) the success of transatlantic IPR collaborative endeavours and 2) the extent to which the goals of both economies – securing a high level of IP protection globally – can be reached.

5.5.1 EU and U.S. approaches in trade policies

Current trade policies in the field of IP pursued by the EU and the U.S. are both driven by the aim to increase the levels of IP protection beyond the minimum standards foreseen in the TRIPS agreement. According to the majority of the interviewed experts on this topic, respective initiatives taken by either the EU or the U.S. at the multilateral level in organisations such as the WTO or WIPO have proven, however, to be often ineffective in the past. In these forums, EU and the U.S. officials find it especially difficult to convince developing countries that stronger IP regimes and more effective enforcement (often denoted as 'TRIPS Plus' or even 'TRIPS plus plus') is for the economic benefit of the whole international community.⁷

Practically all authors researching IP policies in trade conclude that both the U.S. and the EU have been, especially since the early 2000s, reverting to bilateral negotiations with third countries and have made higher IP standards a topic in respective free trade agreements (FTAs) or regional trade agreements (RTAs) (see, for example, Sell 2008; Pugatch 2007; Mercurio 2006; El-Said 2005).⁸ Such an approach seems to be much more effective in lifting IP standards globally. The analysis of Mercurio indicates that even if a third country has reservations against 'TRIPS Plus', it might still benefit from signing FTAs with higher IP standards:

⁷ Opponents of higher IP standards usually claim a variety of reasons for their reluctance in supporting the EU and the U.S. positions, the arguments being for example that compulsory licensing of medicines may not be possible to a desirable extent any more (this would limit accessibility of the general public in developing countries to certain drugs), that technology transfer from the developed countries to developing world would be impaired or that the developing country would simply not have the technical capacities and resources to implement higher standards (Mercurio 2006; El-Said 2005). These arguments are to be contrasted against those of the proponents who point to the large extent economic damages assessed in various studies and which impair the ability to create new innovations or threats to health and safety of counterfeited/pirated goods.

⁸ In fact, FTAs are not the only instrument which could be used in bilateral negotiations to foster higher IP standards. Other types of usable instruments comprise bilateral investment treaties, development cooperation or partnership agreements, unilateral trade policies, bilateral IPR cooperation agreements, bilateral science and technology cooperation agreements and WTO accession agreements. Among these alternative tools, the potentially most far-reaching are the bilateral investment agreements (Grain 2005).

“It must be noted, however, that many developing countries do not hesitate to trade off IPRs in exchange for market access. This is why, despite protests from mainly Western NGOs purporting to represent the interests of the developing world, developing countries continue to negotiate FTAs. The reason for this is that bilateral agreements offer developing countries real gains instead of the mainly pyrrhic or symbolic victories of multilateralism (where the resulting gains may not flow to every country and must be divided among all competitors).”

Mercurio also comments that such IP ‘up-ratcheting’ FTAs with ‘TRIPS Plus’ elements are not confined to developing countries:

“It must be also noted that the practice of negotiating TRIPS-Plus provisions is not limited to FTAs with developing countries. For instance, the U.S.–Australia FTA imposes a strict IP regime, modelled on the U.S.–Chile and U.S.–Singapore FTAs, requiring Australia to amend several laws.” (Mercurio 2006: 222.)

Apart from the common trend that both the EU and the U.S. have increasingly taken the bilateral road, there are some differences in the way the EU and the U.S. implement their IP-related trade policies. Generally speaking, experts noted that *“one could safely say that the U.S. approach is more aggressive”* (expert nr. 34) than that of the EU. Many study authors assert that it is mainly the U.S. who pushes the ‘TRIPS Plus’ agenda (e.g., Oxfam 2006), but others pointed out that the EU is also actively seeking to implement ‘TRIPS Plus’ aspects in its free trade agreements (Pugatch 2007).

The report written by Pugatch (2007) is particularly interesting, as it compared the ways the EU and the U.S. have been dealing with the topic of IP in FTAs and RTAs. More specifically, he analysed common traits and differences in the attempts of both entities to implement ‘TRIPS Plus’ regulations in bilateral trade agreements. The author based his analysis on a theoretical framework which distinguished three dimensions of IP protection tackled through ‘TRIPS Plus’-like regulations: 1) the scope of IP protection (which relates to questions such as the wideness of market exclusivity given, or whether specific forms of IPR are more narrowly or broadly defined in different IP agreements) 2) the strength of the exclusivity/degree of monopoly (which also covers the question under what circumstances signatory countries can override the monopoly rights) and 3) the term of IP protection (e.g., the maximum life time of a patent).

On a general level, Pugatch finds that the U.S. takes a ‘hands on’ approach, specifically listing the issues of concern in the area of IP and reaching agreements with the signatories on these particular issues. The author calls this approach the ‘To-Do List approach’ or ‘Nanny Approach’. By contrast, the EU is said to take a more ‘generalist approach’: IP topics are mentioned in a broader context, and most of the time specific issues are not dealt with in greater detail. Instead, European FTAs often refer to international treaties (not the TRIPS agreement) and *“...specify the different agreements and the treaties the signatories should implement”*.

In particular, Pugatch finds the following points:

- The U.S. has several provisions regarding **enforcement** and **administration** covered in its FTAs/RTAs. Cases in point are, for example, the obligations of the signatories to have *“...final judicial decisions or administrative rulings of general applicability pertaining to the enforcement of intellectual property rights...in writing and shall state any relevant findings of fact and reasoning or the legal basis on which the decisions and rulings are based.”* (CAFTA-DR Agreement, cited in Pugatch 2007: 8) or *“...that special attention is given to the authority of the courts to order infringers to pay compensation to right holders on the basis of a coherent and transparent calculation that takes [the value of the infringed-upon good] into account”* (Pugatch 2007: 8). The EU does not have such provisions in its FTAs/RTAs.

- An important issue covered in U.S. FTAs/RTAs relates to **IPR in the pharmaceutical industries**. Two aspects are of special significance: 1) patent protection for medicines and 2) data exclusivity. The latter refers to the protection and safeguarding of pharmaceutical registration files (i.e., data the drug creating company has to submit in order to get approval for market use). In this context, the principle of ‘data exclusivity’ requests that that rival companies (usually generics companies) do not get access to the registration files (test and lab reports etc.) (responsibility of ‘non-disclosure’) and also that governments are not allowed to use the data submitted to them to compare the chemical and toxic properties of the original to a potential generic substitute (responsibility of ‘non-reliance’). ‘Data exclusivity’ is in this context seen as an expression of trade secret and independent of patents. Both the EU and the U.S. have rather firm stances on the issue of ‘data exclusivity’, but only the U.S. makes them explicitly a topic in its FTAs/RTAs (where they try to persuade the signatories to issue legislation favouring data exclusivity).
- With regard to **pharmaceutical patents**, the main issues under discussion are compulsory licensing, parallel trade and the life time/term of the patents. Pugatch notes that the developments at the multilateral and at the regional/bilateral level show opposing trends. At the multilateral level, the 2001 Doha Declaration on the TRIPS Agreement and Public Health has led to a weakening of the TRIPs patent regime and strengthened the rights of WTO members to use compulsory licensing and to deal with parallel importation of patented medicines. In stark contrast, U.S. led FTAs/RTAs tend to strengthen the patent regime in the pharmaceutical area by trying to 1) impose restrictions on patent laws permitting commercial experiments in pharmaceutical drugs as part of the process of obtaining marketing approval for a generic substitute, 2) allow pharmaceutical patent owners to extend the term of protection under certain circumstances and 3) in some FTAs, to restrict parallel trade in patented pharmaceutical products. Again, EU-led FTAs “...do not deal much” (Pugatch 2007: 17) with such issues.
- With respect to **copyrights**, U.S.-led FTAs/RTAs strengthen the ability of rights owners to prevent the reproduction of their works “*in any manner or form, permanent or temporary (including temporary storage in electronic form)*”. Furthermore, the term of copyright protection in FTAs is longer than in TRIPS (70 years instead of 50 years). There are also provisions in place that aim at restricting the circumvention of technological protection measures (TPMs) and digital rights management (DRM) employed by rights holders to block attempts of unlawful copying. By comparison, the EU adheres to the multilateral approach and requires signatories to “*to accede to and to ensure an adequate and effective implementation of the obligations arising from...multilateral conventions*”.
- Last but not least, **trademark protection** is also addressed in U.S.-led FTAs/RTAs. Actions specified to boost the protection level include the broadening of the types of identifying marks that are eligible for trademark protection (these would include also collective, certification and sound marks, and potentially also geographical indications and scent marks), fixing a requirement that trademarks shall not be unjustifiably encumbered by special requirements, such as use with another trademark or utilisation of the trademark in a special form and manner.⁹ The renewal period of trademark registration is set to a minimum time of 10 years (TRIPS: 7 years). With respect to trademarks, the EU takes again its generalist approach.

⁹ This requirement is especially important in the context of branded pharmaceutical products. Article 20 allows WTO members to demand that the trademarks of branded products which are produced locally be accompanied by the names of local producing companies. New regulations in FTAs set further restrictions in this regard and are aimed at ensuring that the effectiveness or use of the trademark in relation to such products is not impaired.

- **Geographical indications** are the only type of IPR, where the EU is much more specific and also surpasses the U.S. standards in FTAs. For example, the EU–Chile FTA calls for mutual/reciprocal recognition of geographical indications with respect to wines and spirits.

In his conclusions, Pugatch asserts that the U.S. approach is much more effective in achieving the goal of higher IP protection standards than the EU, due mainly to the level of detail inherent in U.S.–led FTAs that lead to concrete action. As evidence, he used different editions of the ‘Special 301’ report by USTR which proves that countries previously blacklisted in earlier issues of the report significantly improved their IP systems following the signing of FTAs/RTAs and were subsequently better evaluated or even delisted. As for the EU approach, the author referred to several EU documents and statements which indicate dissatisfaction on the part of the European Union with the progress made in some countries in implementing higher IP standards as demanded in some FTAs/RTAs. Pugatch recommends that 1) TRIPs plus negotiations should be carried out in a much more specific and accurate manner like in U.S.-led FTAs and that 2) the EU and the U.S. should work more closely together with regard to international regulation of IP agreements:

“Co-ordination and collaboration are important with regard to countries that have not yet concluded their IP negotiations either with the United States or the EU...they may also be effective for countries that do not have FTAs that address IP issues with the United States, on the one hand, and which seem to attach a “flexible” interpretation to the IP level provided by their FTAs with the EU, on the other hand”.
(Pugatch 2007: 21).

Table 4 summarises the main characteristics of the FTAs/RTAs negotiated by the EU and the U.S. in terms of ‘TRIPs Plus’ issues addressed.

Table 4 Level of IP protection in United States-led and EU-led regional and bilateral agreements as compared to protection under the TRIPs agreement

	U.S. led FTAs/RTAs	EU-led FTAs/RTAs
General approach to the protection of IPR	To-do list	Incorporating international treaties (<i>‘Generalist approach’</i>)
New “standard” agreement of IP protection	Chapter 15 of the Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) (2004); United States – Chile FTA (2003); United States – Singapore FTA (2003); United States – Morocco FTA (2004); United States – Bahrain FTA (2004); and, to some extent, United States – Jordan FTA (2000)	Association Agreements, such as the Euro-Mediterranean Association Agreements (2002); the EU–Chile FTA (2002); the EU–Ukraine Partnership and Co-operation Agreement (PCA (1998); EU – Russia agreement on the Common Economic Space (2005)
Enforcement provisions	Specifically tackled (agreement to higher standards)	No reference (exceptions: Russia and Ukraine)
Administrative provisions	Specifically tackled (agreement to higher standards)	No reference
Data exclusivity (pharmaceuticals)	Minimum duration of protection set to 5 years Stricter provisions regarding non-disclosure and non-reliance Threat of trade retaliation	Limited coverage
Patents (pharmaceuticals)	Restrictions on compulsory licenses Right of patent owner to extend	Limited coverage

	term of patent protection under specific circumstances Restrictions on parallel trade	
Copyrights	<p>Extension of term of copyright protection to 70 years (from time of death of author plus his/her lifetime(physical persons)/from time of first authorised publication (legal entities))</p> <p>Stricter rules to prevent reproduction of copyrighted works <i>“in any manner or form, permanent or temporary, including temporary storage in electronic form”</i></p> <p>Stricter rules against circumvention of technological protection measures (TPMs) and digital rights management (DRM)</p>	Reference to multilateral treaties (Requirement of signatories <i>“to accede to and to ensure an adequate and effective implementation of the obligations arising from...multilateral conventions”</i>)
Trademarks	<p>Expansion of types of identifying marks that are subject to trademark protection (e.g., collective, certification and sound marks, geographical indications and scent marks)</p> <p>Provisions that trademarks shall not be unjustifiably encumbered by special requirements</p> <p>Renewal period of trademark registration set to a minimum time of 10 years (TRIPS: 7 years)</p>	Reference to multilateral treaties
Geographical indications		Specific tackling through reciprocal protection of geographical indications

Source: Pugatch 2007, own compilation/adaptation

5.5.2 Domestic approaches of the EU and the U.S.

Aside from sometimes large differences with third countries on IP enforcement issues that both the EU and the U.S. need to address (either jointly or on their own), it is also important to highlight some of the remaining ‘5 %’ of issues concerning ‘domestic’ IP protection within the EU and the U.S. where different views are visible on each side of the Atlantic. Such issues constitute areas of discussion involving only the European Union and the United States.

Examples for diverging stances are the following:

- **General issues resulting from the different political and institutional structure of the European Union and the U.S.:** First, and on the most general level, one has to take into account that while the United States has only one legal framework for IP enforcement, the EU has 27 which are only partially harmonised. Most significantly, ‘field work’ in the area of IP enforcement is the responsibility of each of the member states. In this context, member states have different legislation regarding, for example, criminal sanctions.
- **The ‘Irish Music’ and ‘Havana Club’ cases:** Besides differences relating to the heterogeneous legislative frameworks in the different countries of the European Union, there are also issues involving the United States and the EU as a whole, e.g., the ‘Irish Music’ and ‘Havana Club’ cases (Businesswire.com, May 2008, cited June 28, 2009):

- The former case relates to a provision in the U.S. Copyright Act (Section 110(5) B), which allows a relevant portion of commercial premises in the U.S. (e.g., certain larger bars, restaurants, retail shops) to transmit broadcast music without paying any royalties to the copyright holders. That provision was enacted in the late 1990s to avoid a situation where royalties are paid twice: once by the transmitting radio station, and once by the commercial premises which actually allow their customers to listen to the music. The European Union sued the U.S. – after receiving complaints from an Irish collection society about foregone royalty payments – at the WTO. In 2000, the WTO ruled against the U.S. which responded not by changing the laws, but by paying compensation directly to collection societies in Europe. In 2004 these payments stopped, but the legal situation in the U.S. has not changed since.
- The ‘Havana Club’ case is set against the backdrop of long-standing U.S. efforts to impose sanctions on Cuba. Section 211 of the October 1998 Omnibus Appropriation Act reduced the rights of owners of U.S. trademarks which previously belonged to a Cuban national/company expropriated in the course of the Cuban revolution. Such trademarks may not be renewed or enforced in U.S. courts. The ‘Havana Club’ Rum trademark, which was used jointly by the European company Pernod Ricard and the Cuban company Cubaexport from 1993 on, was particularly hit by this legislation which seems to favour the competitor ‘Bacardi’. Again, the WTO was called upon by the EU and ruled in favour of the Europeans. The U.S. should have changed its law by 2005 but has not done so until now.

In this context, the head of the European Commission Delegation to the United States was quoted to have said:

“American delay on fixing the ‘Irish Music’ and ‘Havana Club’ cases diminish the arguments that both the U.S. and EU countries have against China and other countries that continue to tolerate widespread intellectual property infringement....we need to resolve the Irish Music and Havana Club cases and sweep away these long-standing trade irritants in an area that grows more important with each passing day.” (Businesswire.com, May 2008, cited June 28, 2009).

- **Intersection of antitrust and IP laws:** Another example of different views and approaches taken by the EU and the U.S. can be observed in cases, where antitrust law and IP law overlap (Czarpacka 2006). A case in point is mandatory licensing. The question arises whether a company can or should be forced to share its intellectual property if it has a dominant market position. The U.S. and the EU take different stances on that issue. In the U.S., antitrust enforcers see little leverage for antitrust policy to mitigate the consequences of imperfect IP policies. Consequently, antitrust enforcers will hardly intervene in what is perceived as IP policy matters (i.e., one could argue that ‘IP policies and laws rule over antitrust laws’ in the U.S. which means that U.S. antitrust enforcers will hardly force a company, based on antitrust considerations, into mandatory licensing). The EU, however, handles such cases the opposite way and sees a role of competition law to correct improvidently defined IPR (as evidenced in the Microsoft case). Czarpacka argues that such an approach seems logical from the point of view of the European Union, as competition policy is handled at the EU level, while most IP issues are handled at member state level. The difference in stances is severe enough to have commentators/study authors call the discussion a ‘transatlantic clash’.

5.6 The effectiveness of EU and U.S. collaboration in the policy field of IP enforcement

The effectiveness of the cooperation between the U.S. and the EU in the area of IP policy is difficult to assess from the outside. First, there are only few documents available that deal with the accomplishments and the problems both entities have

encountered when jointly discussing and acting on the issue of IP. Secondly, experts interviewed were often reluctant to comment on the development and evolution of the collaborative endeavours.

Still, some indications on the effectiveness were identified and they yield the following picture:

Documentary evidence suggests that the EU–U.S. Action Strategy can be seen as an **outright success**. The report of the Transatlantic Economic Council to the EU–U.S. summit in 2008 called the EU–U.S. cooperation on IP enforcement – previously defined as a priority issue in transatlantic relations and dubbed henceforth ‘lighthouse project’ – “...a success story” (TEC 2008). The head of the European Commission Delegation to the United States was quoted at another occasion as follows:

“Happily, our relatively few – but important – cases are to be seen in the larger transatlantic context where cooperation on intellectual property enforcement is working successfully to combat piracy and counterfeiting”. (Businesswire.com, May 2008, cited June 28, 2009)

By May 2008 six meetings of the IPR Enforcement Working Group, elaborating on the EU – U.S. Action Strategy, were held. The 6th meeting took place on May 16, 2008 in Berlin. Officials from the EU and the U.S. as well as private industry representatives gathered there to “...discuss the accomplishments of EU and U.S. cooperation since the last meetings of the Working Group...to report activities for the previous period, to assess the level of satisfaction with those results and to listen to the private sector proposals for future projects.” (EU–U.S. Action Strategy 2008). Later on, EU and U.S. officials met at the Representation of the European Commission in Berlin to elaborate on industry proposals, areas of third-country and multilateral cooperation, technical customs cooperation and public-private partnerships. The most recent meeting was held via video conference between U.S. government officials and the EU Commission on June 22, 2009.

Taking also the content of an earlier report of 2007 (EU–U.S. Action Strategy 2007) into account, the following joint achievements of the work performed under the Action Strategy can be reported:

Improvement of Enforcement

- In the area of **customs and border protection**, the EU and the U.S. reported on different collaborative activities between the Customs agencies on both sides of the Atlantic. This includes the exchange of know-how and best practices, which is to continue also in 2009. In addition, one joint operation was launched (‘Operation Infrastructure’¹⁰) and considered by all parties a success. The operation serves thus as a “...sound base for additional transatlantic customs actions”. Another important collaborative endeavour reported was the work performed for a project which aims to create a unified web-based toolkit for U.S. and EU customs officers. This toolkit should allow for easy authentication of incoming goods at ports of entry and is to be developed by industry. The project is carried out in three phases: 1) Agreement on the elements and parameters for the toolkit, 2) development and review of guidelines (and invitation of industry to then develop the respective single toolkit) and 3) demonstration of the proposed

¹⁰ ‘Operation Infrastructure’ was the first joint IPR enforcement operation undertaken by the U.S.’s Customs and Border Protection and the European Union (The United States Mission to the European Union 2008). Carried out in November and December 2007, the operation led to the seizure of over 360,000 counterfeit integrated circuits and computer network components. Over 40 different trade marks were infringed. The operation target semiconductors because “...the counterfeiting of networking hardware and Integrated Circuits (ICs) has critical infrastructure, national security, and health and safety implications.”

toolkit by industry representatives for review and commenting by EU and U.S. customs officials. The project was set to conclude in 2008.

- In the area of **collaboration in bilateral negotiations with third countries**, the following countries and regions were specifically mentioned: China, Russia, Ukraine, Turkey, ASEAN, Canada, Chile, Mexico, Brazil, Paraguay, Africa and – more generally – Free Trade Zones. Most of the activities are set to take place in the future and consist, according to the source (EU–U.S. Action Strategy 2008) primarily in “...*engaging with authorities...*” of the respective countries/regions “...*to improve enforcement against intellectual property infringements*” and/or in monitoring developments. For some countries/region, more specific activities are described.
 - With respect to **China**, cooperation on the ground “*via IP attaches to Beijing and other key cities*” is to continue. Furthermore, the U.S. and the EU will cooperate on on-going WTO Dispute Settlement proceedings and continue the regular dialogue between trade and economic agencies to secure consistency between the EU and the U.S. Issues jointly addressed early into the lifetime of the Action Strategy were the need to reduce criminal thresholds for piracy and counterfeiting or the need to improve enforcement around retail/wholesale markets and trade fairs (EU-U.S. Action Strategy for the Enforcement of Intellectual Property Rights 2007).
 - Regarding **ASEAN**, Vietnam (in the course of WTO accession), the Philippines, and Indonesia receive special attention (for all three countries, “*opportunities for heightened coordinated engagement on IPR enforcement concerns*” are to be monitored). The EU and the U.S. also plan to team up with Japan in a new trilateral IP enforcement cooperation vis-a-vis Thailand to jointly “*address common concerns*”.
 - The EU and the U.S. agreed also to monitor **Russia’s** WTO accession discussions “*for heightened and coordinated engagement*” on IPR enforcement matters. Furthermore, Russian officials are to be engaged – with the help of private sector organisations – to increase protection of IP rights.
 - In **South America**, the problem of transshipments in the tri-border region (Brazil), technical assistance programmes and improved IP legislation (Chile) and awareness raising initiatives (Paraguay) are mentioned as fields of joint EU/U.S. activities.
 - In **Africa**, the problem of fake pharmaceuticals is seen as an example of new threats which the EU and the U.S. want to address jointly. Both economies agreed to cooperate also within the G8 and within WCO on this issue.
 - Regarding **Free Trade Zones**, EU and U.S. officials acknowledged IP enforcement problems reported by industry and stated that they would support industry in identifying priority areas with the use of established instruments (i.e., U.S. 301 report, EU IP Survey and/or Trade Regulation proceedings).
- On a **multilateral** (and plurilateral) level, both the EU and the U.S. stated to engage in successful completion of a strong Anti-Counterfeiting Trade Agreement (ACTA) and its promotion in third countries as a model for international IP enforcement. Furthermore, cooperation is to be continued in the relevant fora of G8, the OECD, WTO, and WIPO.

Technical assistance

In the area of technical assistance, the EU and the U.S. committed “...*to seek opportunities to coordinate on technical assistance areas of focus*”. Future projects are foreseen in Russia and Paraguay. Eventually, both economies also continue to

document and catalogue joint and unilateral technical assistance programmes in third countries.

Promoting Public-Private Partnerships (PPP)

In the area of PPP activities, the EU and the U.S. exchange regular communication in four areas: 1) SME Helpdesks (information exchange and coordination in Beijing, Washington and Brussels, following the start of operations of the EU Beijing-based helpdesk in May, 2008) 2) trade fairs (and IP protection activities there) 3) outreach (increase sharing of outreach and stakeholder meeting resources) 4) public awareness (sharing of information, especially on the results of effectiveness studies conducted by the EU and 5) further coordination of regular bi-monthly conference calls “to address the articulated areas of cooperation one at a time”.

The TEC report (TEC 2008) stated that the U.S. and the EU have agreed on a roadmap to advance global patent harmonisation.

Evidence – most of which, however, is anecdotal in nature – gathered in some of the **expert interviews** painted a picture which is still positive on the advancements of transatlantic IPR collaboration, but not that enthusiastic. These experts remarked on observations that the EU and the U.S. had difficulties coordinating their actions and have performed as a team, especially at the multilateral level, not as well as groups of other countries with opposing views. The following statements illustrate the stances:

“The EU–U.S. Action strategy lifted cooperation to another level...before, both sides met only on an ad-hoc basis or on the basis of personal relationships. Now, there is an institutional structure behind it, and the group provides an effective forum for the exchange of information, and it involves a variety of agencies and authorities...but there are issues that need to be overcome” (expert nr. 34)

“The problem is that other countries play the game better than the U.S. and the EU. One such country launches an idea, which is adopted and advanced by another country and at the right time backed up by a third country. You cannot just see that happening with the EU, the U.S. and their allies, not to the same extent”. (expert nr. 27)

“I do believe that EU-U.S. cooperation is expandable and should be expanded. I see it also in documents, e.g. in Free Trade Agreements led by the EU and the U.S. with third countries. The wording used makes me believe that very little is being negotiated between the two economies in a coordinated manner. Also, the EU U.S. Action Strategy is also very general in its language, and mostly focussed on technical cooperation at customs level. It would be interesting to get more detail into such agreements, and establish a joint ‘memorandum of understanding’”. (expert nr. 35)

Reasons forwarded for identified areas of improvement concerning collaboration include the still prevalent feeling of competition between the two economies, difficulties in co-ordinating the activities (a factor which is said to correlate with the extent responsibilities on IP enforcement are split between different authorities and organisational entities) or simply that trying to persuade somebody of a cause is more difficult than to dismiss a proposal out right.

“I believe that the reason for less than optimal collaboration performance is to be seen in the fact that both economies are competitors, and they have their reservations regarding each other.” (expert nr. 29)

“Definitely, there are coordination problems, especially on the side of [one party].”

“Why some of the developing countries cooperate better at the multilateral level? The point is it is easy to be destructive, just to say ‘no’ to proposals, and it is much more difficult and cumbersome to develop ideas, to build something.” (expert nr. 34)

Asked about the future possibilities and challenges for U.S.-EU collaboration, the majority of the experts interviewed stated that they believe that

transatlantic cooperation is necessary and that in many aspects things are moving in the right direction. However, there were also voices that warned that at some point in time, the U.S. and the EU must tackle those issues on IP enforcement that need to be solved between them in order to secure sustained advancements and credibility vis-a-vis third countries.

6. Communications strategies and public awareness campaigns

6.1 Overview

There is a wide-spread consensus that educating and informing the general public on the dangers of consuming or buying fake goods is a necessity to effectively combat counterfeiting and piracy (see, for example, OECD 2007; ABAC 2007). The rationale for the importance given to an active communications policy is seen in the fact that “...often, a lack of understanding about the value of protecting IP contributes to the prevalence of fakes in society” (ABAC 2007: 4). The overall view is that the combination of outreach activities with enforcement actions achieves overall higher impacts than either enforcement or education alone.

Against this backdrop, many organisations – businesses, industry associations, dedicated anti-counterfeiting and anti-piracy groups as well as public authorities (such as patent offices or customs authorities) – have launched a number of public awareness raising campaigns over the past years. The IP-Outreach Website of WIPO currently lists 257 outreach activities in the field of ‘IP crime’ across the world, of which 147 target explicitly either the U.S. and/or European countries (EU-27 countries plus Switzerland and Norway) (WIPO IP-Outreach in practice database, as of June 16, 2009). The actual number of campaigns is likely to be much higher, as many of the initiatives listed are actually ‘umbrella’ campaigns which consist of several different sub-campaigns that have been organised over several years or with different target groups in mind. The campaigns also differ in terms of regional coverage – many initiatives are international in nature and operate in several regions at the same time.

Some examples should be presented to showcase typical operational elements of anti-counterfeiting campaigns:

- The French campaign “**Counterfeiting: No thanks!**” (or.: “contrefaçon: non merci”) was launched on April 3, 2006 as a joint undertaking of the French Ministry for Economy, Finance and Industry, the national patent office INPI and the National Anti-Counterfeiting Committee CNAC. It addressed the general public on a variety of topics related to counterfeiting and piracy and had 5 advertisements, each lasting for 15 seconds, running on national television. The 3 most efficient of these – e.g., those with fake car parts – were rerun in March 2007. A dedicated website was also established (www.non-merci.com which now directs to www.contrefacon-danger.com, the homepage of the CNAC) where interested parties can inform themselves on the issue of counterfeiting and piracy. The most recent activity is the launch of a campaign by French customs in May 2009. The customs authority plans to distribute 10,000 leaflets at French airports which aim to increase awareness through the use of “shock” slogans.
- The Swiss campaign “**STOP PIRACY**” has defined itself as the Swiss platform against counterfeiting and piracy. Enacted and run primarily by the Swiss Institute of Intellectual Property (IPI) and the Swiss branch of the International Chamber of Commerce, the platform brings a variety of actors at the public and private level together in the fight against counterfeiting and piracy. Outreach activities carried out include the establishment of a dedicated webpage (www.stop-piracy.ch), the publication of folders or various other information dissemination activities (speeches at events, articles/advertisements in newspapers). One particularly interesting activity was the organisation of a dedicated nation-wide STOP PIRACY day on Oct, 25 2008. On this day, a variety of coordinated actions were carried out: Pharmacies were offering the possibility to have drugs/medications – which consumers had previously bought over the internet – checked for authenticity. No fees were charged and consumers did not need to fear penalties of any kind. At the same time, select retail stores offered original software at special prices. Competitions with ‘super prizes’ were also held.

- The U.S. website **stopfakes.gov** is a comprehensive portal for all parties interested in information and assistance on counterfeiting and piracy issues, but focuses in large parts – as part of the small business education campaign – on the needs of SMEs (Pinkos 2006). The website is operated by the U.S. Patent and Trademark Office. The website contains a range of country specific toolkits on IP that have been created by U.S. embassies overseas. A subpage of stopfakes.gov has been designed specifically for SMEs in order to answer frequently asked questions in the field of IP. Outreach activities include also the operation of a dedicated toll-free telephone hotline (1-866-999-HALT) for SMEs which is operated by 37 IP attorneys at the USPTO (figure of 2006, as stated in Pinkos 2006). Furthermore, the USPTO organises conferences for SMEs and the general public in major cities of the country, again with the aim to educate these target groups.
- The Harper's Bazaar Anticounterfeiting Alliance runs the campaign **"Fakes are never in Fashion"**TM. The main and principal operator of the campaign is the U.S. fashion magazine "Harper's Bazaar". The objective of the on-going campaign is to expose the criminal activities connected to the sale of counterfeit luxury goods (e.g., child labour, drug trafficking and even terrorism). For this purpose, the alliance operates, amongst others, a dedicated website (www.fakesareneverinfashion.com). On its website, the campaign operators give readers the opportunity to send in fake goods, to provide testimony why they have chosen to do so and to report on any other experiences with counterfeits. Other activities comprise the organisation of a yearly summit (Harper's Bazaar Anti-Counterfeiting Summit), the publication of a yearly report (called 'Luxury Report'), the organisation of competitions (e.g., "Fake to Fabulous", "Fakes are Never in Fashion" T-shirt design contest) or the placement of advertisements in other print media.

6.2 Success factors for anti-counterfeiting outreach campaigns

The effectiveness of outreach and awareness raising campaigns in the field of counterfeiting and piracy depends on a range of factors. WIPO has published a guide on how to plan and implement IP outreach campaigns which explicitly includes campaigns that address counterfeiting and piracy (WIPO 2007). Similarly, the APEC Business Advisory Council (ABAC 2007) has created a publication which highlights success factors for anti-counterfeiting and anti-piracy campaigns as seen from the perspective of the private sector. Also, the Swiss IPI established a range of success factors for the operation of its anti-counterfeiting campaign which it elaborated on in the course of an expert interview.

Table 5 summarises the attributes necessary to achieve a successful public awareness raising campaign, as perceived by the IPI and ABAC (the WIPO guide, being more of a step-by-step manual for campaign designers, does not explicitly present such key success factors but discusses several of the aspects throughout the text at suitable places).

Table 5 Identified sets of success factors for anti-counterfeiting and anti-piracy campaigns

Nr. 1	Success factors as seen by ABAC	Success factors as seen by the Swiss IPI
1	Drawing a line in sand with enforcement	Integration and collaboration with as many actors/stakeholders as possible
2	Working with the government	Fair distribution of work load between the actors involved
3	Tailoring the message to the local culture	Elaboration of common goals and views among the involved actors prior to taking action
4	Maximise existing skills through partnerships	Thorough coordination of activities
5	Educating right holders	Defining relevant target groups based on measurable criteria before action is taken
6	Empowering young people	Subject slogans to reality tests
7	Targeting your audience	Ensuring adequate funding
8	Exposing attitudes and practices	Integrated communication (using several information channels at the same time)
9	Starting the education process early	Communicating and educating external stakeholders
10	Utilising the media	Measuring impacts and effectiveness
11	Making the message consistent	Long-term commitment

Source: ABAC 2007, IPI.

As can be easily seen, several of the factors stated by IPI and the in the ABAC report overlap. In the following, we thus discuss key aspects which are seen as important by the interviewed experts and the cited sources – as will be shown there is a general consensus regarding some of the aspects while with others different opinions on the best course of action to be taken are prevalent.

1. Thorough planning of the campaign before any action is taken

All literature sources as well as interviewed experts see careful planning prior to taking action as a necessary requirement for a successful anti-counterfeiting and piracy campaign. WIPO, for example, recommends developing a strategy beforehand by applying a multi-stage approach (WIPO 2007): First, the current outreach situation needs to be assessed. Campaign operators should enquire into outreach activities already performed and research the success factors and/or those aspects that led to failure. Based on the research, a sound goal system should be developed. Derived from this, long-term and short-term objectives are to be defined. Research is seen as an essential element throughout the planning process, e.g. on the behaviour and size of the target group (see points 2 and 3) or on the composition of the institutions supporting the campaign (see point 4).

2. Clear identification of the primary target group

There is general consensus among all interviewed experts that campaigns should be tailored to specific target groups. The WIPO guide mentions that “...different target groups have different wants and needs, so they have to be approached in different ways. Target audience segmentation...is crucial to making sure that the right message will be sent to the right audience”. (WIPO 2007: 4). The ABAC 2007 report notes that “...the success of any education campaign is its ability to reach the right audience....to connect with the consumer, the campaign needs to make consumers understand the message intellectually and have their own behaviour – for example, buying fake purses – identified.” (ABAC 2007: 6).

Viable target groups frequently found are portions of the general public, businesses (in particular SMEs), distributors, retailers as well as stakeholders dealing with IP issues (see also point 3). Target group segmentation can be performed according to certain demographic criteria (e.g., certain age groups such as 15 to 35 year old males), by type of consumer (e.g., internet users), type of pirated/counterfeited good or geographically (e.g., targeting travellers at border points such as airports). Target segmentation is also likely to affect the choice of the appropriate media instrument used (e.g., brochures, websites, radio/TV advertisements, etc.).

A special emphasis in the literature when defining target groups is placed on the **local cultural context** the campaign is operating in. In a study developed by Gallup (Gallup 2006) which analysed awareness of consumers on the topic of counterfeiting and piracy as well as attitudes and behavioural aspects, the conclusion is drawn that *“...every market is different and requires a tailored communication strategy”*. However, despite the general agreement of the experts on that topic, it seems that some of the currently run campaigns do not meet this criterion sufficiently.

3. Education of multipliers/external stakeholders and the youth

While the principal target group in an anti-counterfeiting and piracy public outreach campaign is frequently a relevant portion of the general public, there is also a need to educate those who are to convey the message in the field. **Multipliers** such as pharmacists in a campaign on fake drugs, sales persons in electronics shops in campaigns on pirated software or customs officials (or other staff in government agencies involved in IP enforcement as external stakeholders) are examples of the types of persons who should receive thorough training and education. Several experts corroborated the importance that the ‘sales network’ of an anti-counterfeiting campaign should not only receive training, but also ideally intrinsically support the cause.

Another important target group which deserves special attention is that of the **youth**. The ABAC report calls, for example, specifically for the empowerment of young people and argues *“...[that] raising a generation of young people who are more attuned to the value of protecting intellectual property will have a profound and positive impact on society...many groups that target youths in their IP education campaigns have started with children 10 years of age or older. At this age, it is expected that children will begin to understand the concept of protecting innovation. However, as children become exposed to computers and consumer activity at an increasingly younger age, so must our educational outreach begin earlier.”* (ABAC 2007). The ABAC report recommends starting first educational measures at ages of 5 to 6 years.

4. Involvement of relevant stakeholders and partner organisations in the campaign

Literature sources and interviewed experts alike underline the importance of *“...placing the campaign on multiple shoulders”* (interviewed expert nr. 13). There are several explanatory factors for the significance of partnering with institutions:

- Partnering may help to **capitalise on the unique strengths and resources of each involved stakeholder** (ABAC 2007), hereby reducing overall costs and increasing the impact of the campaign (WIPO 2007). In particular, the fact that different organisations have different established networks of outreach can be used in order to maximise access to certain target groups. Different technical expertise and know-how as well as access to monetary funds can be also mentioned as fields of potential synergy in this context. Partnering institutions teaming up in anti-counterfeiting campaigns and outreach activities may involve national IP offices, NGOs, multinational corporations, museums, foundations, academic institutions, associations (industry or dedicated anti-counterfeiting/piracy ones) or media. ABAC. The ABAC report highlights the importance of governments in fighting counterfeiting and piracy, as governments have *“...the last word over many aspects of IP protection and enforcement”* and put *“...their resources and energy behind the fight against fakes”*. It is therefore

suggested that the private sector shares relevant information with officials to shape the government's agenda with regard to IP education.

- Another important reason for partnering in anti-counterfeiting and piracy campaign is seen in an **increase of credibility**. The Swiss IPI campaign operators were, according to respective feedback, able to improve the overall trustworthiness and acceptance of the campaign in the general public by collaborating with institutions which are usually thought to be rather sceptical of the IP system (e.g., consumer associations). Taking consumer associations on board is considered by many interviewed experts as a helpful step to counter the perception of many in the targeted audience that anti-counterfeiting campaigns serve only the monetary interests of large multinational corporations:

"Many anti-counterfeiting campaigns suffer from the fact that they may be perceived as the big guys playing it out on the innocent poor small guys" (expert nr. 19)

"My biggest point is that you have to get rid of that image that these campaigns only support the rich and large companies...it is counterproductive and wrong....you also need to take, above all, consumer protection associations on board, to underline the broader goals and display credibility" (expert nr. 22)

However, several experts noted on the **difficulties in putting the suggested broad partnering approach into practice** in general, and to involve consumer associations in particular:

- As regards **consumer associations**, interviewed experts see a number of factors that may be able to explain the reluctance of such organisations to participate in anti-counterfeiting campaigns. First, they note on a lack of awareness on the side of the associations regarding certain aspects of IP enforcement. Secondly, consumer protection organisations might be, according to an interviewed consumer association, *"...offended by the approach in some campaigns to criminalise consumers who engage in counterfeiting and piracy activities on a small/non-commercial scale"* (expert interview with representative of a consumer association participating in an anti-counterfeiting campaign). Thirdly, consumer protection associations may not want to participate as they regard their independence from government and from producers as one of their main assets when reaching out to consumers – an asset which allows them to voice their stances *"...clearly and much more firmly than if that would not be the case"* (expert nr. 31). In this context, it is also noteworthy that some consumer associations do support anti-counterfeiting campaigns. The following statement given in an interview provides clues to the conditions, under which consumer associations might be persuaded to support educational anti-counterfeiting measures:

"After being contacted by the campaign operators, we entered into negotiations with them...they were able to convince us of several aspects of IP enforcement issues which we deem as important enough to back the campaign. First, consumers are frequently unaware of the background and consequences of buying fake goods. When they go on a holiday, for example, they may not know that in certain countries buying counterfeits will result in criminal penalties and substantial fining. As a consumer association which is tasked to inform consumers of their rights, we find it also necessary to provide such information to our target group. Consumers must not run blindly into a trap. Secondly, the fact that counterfeiting increasingly finances criminal activities is something that consumers need to know. Thirdly, public health and safety issues need to be communicated to consumers. In this context, we also need to educate consumers in how to distinguish fakes from originals (e.g. in terms of characteristic traits of original, packaging etc....generally speaking, it is not in the interest of consumer

to not be informed” (expert interview with representative of a consumer association participating in an anti-counterfeiting campaign).

However, while backing up and participating in the anti-counterfeiting campaign, the interviewed consumer association representative also wants to have the limits of its commitment underlined:

“We do believe that it is necessary to act against counterfeiters purposefully, but at the same time we need to highlight things which we strongly oppose: First, we are against criminalisation of consumers. We believe, for example, that copying for private purposes should still be possible. In addition, with all enforcement actions taken, we must make sure that industry does its homework: They are to monitor the markets, they should file for the respective IP rights and they should take an active role in informing the general public. Such tasks cannot be placed on the shoulders of consumers.” (expert interview with representative of a consumer association participating in an anti-counterfeiting campaign).

- A difficulty encountered by some interviewed campaign operators (and presumably also by others) in more general terms is the **convincing some industry associations and individual firms that sharing information, coordinating actions and working together serves a greater purpose** and increases overall effectiveness and utility of anti-counterfeiting and piracy campaigns. An explanatory factor for this behaviour may be a lack of understanding that all alliance members share a common problem (which goes hand in hand with opportunistic behaviour). This leads to a situation where the *“...the wheel is constantly re-invented”* (expert nr. 27). The following statements reflect the respective arguments:

“You know, after so much time working in this field initial enthusiasm starts to be replaced by resignation...in [my country], we would need to have a coordinated large long-term activity; in practice, several industry actors prefer to act on their own and start short-term initiatives and campaigns...we end up with a situation where we have some things pop up here, some others a little later over there, and I really doubt that this is effective” (expert nr. 13)

“We see industry associations who want to share information, but at the same time tell us that this information should not be used by or made available to a certain other association. Even worse: Individual companies state that they would support the campaign, but only if the competitor – equally hit by piracy and/or counterfeiting – is not aboard. So piracy seems to be a good thing if it hits the competitor. There is hardly any sense of unity observable.” (expert nr. 27)

- The firm stance of the representative of the consumer association on certain issues also points to the general problems when different stakeholders with different institutional interests collaborate in organising an anti-counterfeiting campaign. For smooth operation of a campaign, it seems important to have **all actors involved reflect on common views and reach a common understanding of the problem and the goals beforehand**. In that way, the alliance partners can identify synergy areas but also areas where collaboration may not be possible. A real-life example given in the expert interviews for a case, where such common goals and synergies could be found was that of the pharmaceutical industry and the video/music industry working together in a specific campaign. Representatives from both industries learned from each other that they are – in Western countries – mostly faced by the threat of counterfeit and pirated goods distributed over the internet. The identified commonalities led the video industry to produce video clips for the pharmaceutical industry for free and have them shown in theatres. Likewise, pharmaceutical companies allowed the music industry to place advertisements in medical journals and newspapers at

no costs. This approach also increased implicitly the budget for the overall campaign, as both industries engaged in barter.

- Another noteworthy challenge when collaborating with multiple stakeholders seems to rest in **coordinating the activities** among the different alliance partners. This issue may be easily under-estimated until problems arise, as one of the experts notes: *“You just need to have the case where a representative of a certain industry may not be accidentally informed in time, and you will certainly get an ‘appropriate’ reaction”* (expert nr. 27). A possibility to tackle this issue is to establish an independent and dedicated secretariat to technically support and help coordinate the activities of the alliance members. Similarly, it is also necessary that **all partners share the burdens and get actively involved**. Again, this can prove to be a difficult task. A campaign operator could revert to a ‘carrot and stick’ policy, applied in bilateral negotiations, in order to address this issue. As a stick, campaign operators may, for example, threaten to expel the respective inactive organisation from the campaign (or have the organisation not mentioned/considered in some of the out-reach activities); as a carrot the operator might want to look into possible returns for participation it could forward in exchange for increased collaboration levels.

5. Designing clear messages and slogans

Implementing clear and understandable messages for the target audience is seen as one of the most important tasks for campaign operators (ABAC 2007: 6). Several aspects need to be considered in this context:

- Concerning the **tonality of messages** delivered, two distinct approaches are visible. The ‘traditional’ approach in anti-counterfeiting campaigns is to link counterfeiting and piracy to crime (see also figure 12 for examples). In such campaigns, consumers are made aware that once they buy and/or use counterfeited or pirated goods they would commit and/or support a crime with potential dire consequences. Tarpey (2009) – as well as some of the interviewed experts – take a rather critical stance towards such an approach and doubt its effectiveness. First, because the messages delivered are often perceived by the general public as unbelievable or irrelevant. Secondly, because instilling fear may be counterproductive (or is simply filtered out). Thirdly, while the focus on negative emotions may help raise awareness about a problem, it seems also less effective in achieving actual behavioural change. As a result, several campaign operators take a new, softer, approach.

Figure 12 Example of 'hard tonality' approaches in anti-counterfeiting campaigns



Source: Tarpey 2009

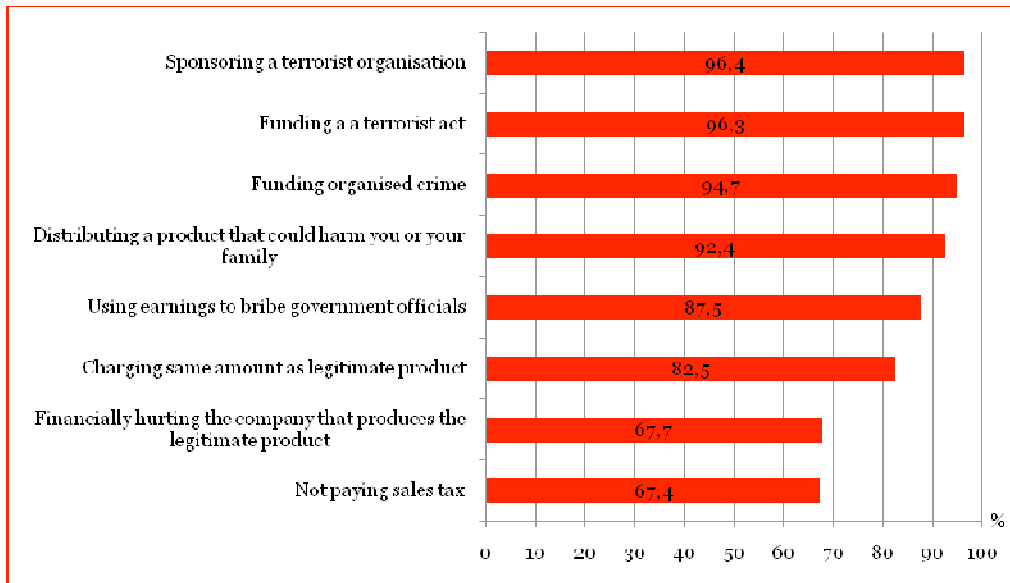
However, some of the interviewed experts also stated that the 'hard tonality' approach would nonetheless be a feasible option, depending on the cultural context. Against this backdrop the results of Eisenend & Schuchert-Güler (2006) seem noteworthy: In their study they analysed the case of non-deceptive counterfeiting where the buyer recognises that the product is not authentic according to specific information cues like price, purchase location, or materials used. The authors performed a comprehensive literature review – investigating more than 30 studies on that subject – and additional qualitative research with university students from a German university. One particularly strong finding was that consumers who are aware that they buy fake goods usually try to legitimise and justify their behaviour. This finding can be explained by the theory of cognitive dissonance.¹¹ The authors hence strongly recommend increasing awareness raising efforts to point out the illegality and harmful consequences of buying fake goods. This would likely decrease the number of counterfeits sold where cognitive dissonance can prevent consumers from buying counterfeit products.

- There are indications that the general public is more **susceptible to certain types of messages concerning counterfeiting and piracy** than to others. In 2005 and 2006, Gallup interviewed 64,579 consumers in 51 countries, making it the largest survey to date to understand attitudes and behaviors of consumers on counterfeiting and piracy. An analysis of the U.S. responses of 2006 shows that the most important reasons why consumers would refrain from buying counterfeits are the knowledge that the fake was funding terrorist organizations, funding terrorist acts, financing organized crime or if the product used could harm the interviewed person or his/her family (see figure 13). The Gallup authors noted, however, that the distribution of deterring factors varied across countries. Financing terrorism played globally less of a role, while risks to public health and safety resonated strongly with the interviewed consumers in all countries. The

¹¹ The theory of cognitive dissonance deals with situations where a person is confronted with two conflicting ideas simultaneously. The "ideas" or "cognitions" in question may include attitudes and beliefs, and also the awareness of one's behavior. In the context of non-deceptive counterfeiting, the buyers know about the fake nature of the product but still buy it. The theory of cognitive dissonance proposes that people have a motivational drive to reduce dissonance by changing their attitudes, beliefs, and behaviors, or by justifying or rationalizing their attitudes, beliefs, and behaviors.

study authors consequently recommended that “...*health and safety should be the bedrock of any communications effort.*” In practice, one can observe a strong increase of campaigns which build on the health and safety issue by using rather drastic and graphic advertisements and messages (e.g., the most recent campaigns by the German Association against Counterfeiting and Piracy APM).

Figure 13 Purchase deterrent trends in the U.S. (asked among those who had purchased counterfeit goods) *)



*) Answers to the question: “Would you have purchased the imitation you previously mentioned you bought if you knew the seller was...?” asked among those who had purchased counterfeit goods

Source: GALLUP 2006, n = 139

- One well known aspect in marketing is to **subject slogans used to transport messages to reality tests** in order to make sure that the message delivered is understood correctly. This is also true for anti-counterfeiting and piracy campaigns, as one interesting example forwarded by an interviewed expert illustrates: A slogan such as “*Fake cigarettes can harm your health*” might easily lead to a public response of the form “*and original ones don’t?*”

6. Long-term commitment

All interviewed experts agreed that anti-counterfeiting and piracy campaigns should be considered long-term endeavours where success sets in only incrementally. “*Making the message consistent*” is in this context one of the recommendations of the authors of the ABAC report who note that “*...it is essential to any IP awareness raising program that messages are consistent and delivered regularly over several years. A society does not change its behaviour and perceptions through brief exposure to information. A campaign requires many voices to reinforce that certain behaviour is unacceptable.*” (ABAC 2007: 6).

Against this backdrop, it is interesting to note that some of the interviewed operators report challenges obtaining a long-term commitment by industry representatives: “*One thing we had to acknowledge was that many firms and industry associations expect results in the short run and lose interest if this does not happen...this is the ‘time is money’ factor wrongly applied...we did not anticipate such attitudes*” (expert nr. 27)

7. The issue of measuring impacts

All experts questioned on this issue underlined the need to develop robust indicators that would be able to measure the success of a campaign, and monitor these variables regularly. The development of tailor-made indicators depends on the type of

communications action taken but usually comprises variables such as web site hits, calls received by a telephone hotline, press reactions/media clippings to campaign actions taken or the execution of opinion polls.

Publicly available data on the effectiveness of anti-counterfeiting and piracy campaigns seems to be rather scarce. Only little evidence on the achieved impacts was found which could form a starting point for a further and more thorough public discussion on the effectiveness of these campaigns:

- Following the launch of the anti-counterfeiting campaign 'Non-Merci' in France, a sample of the target group was surveyed by a market research company in 2006. 63% of the persons who watched the TV-advertisements (1,700 TV-spots) stated to be less inclined to buy counterfeit products and 55% stated to tend to mistrust them more. But still 34% of the French people still think that *"it is not a problem to buy counterfeit products"* (post-test done by TNS Sofres on the 7th and 9th June 2006).
- In Switzerland, the IPI registered an increase of almost 250 % of the number of web hits of its STOP PIRACY webpage around the time of the STOP PIRACY Day in 2008. Furthermore, it is also reported that *"...there is a greater sense of right or wrong now visible"* in the software industry. The number of uses of pirated software reported to public authorities has increased, though no actual figures have been published by the IPI to this end. According to the IPI, it was also possible to obtain valuable insights on the amount and type of fake drugs in circulation in Switzerland.
- In the United States, the hotline 1-866-999-HALT obtained around 1,000 calls a year in the years 2005 and 2006 (955 calls in 2005, 1,048 calls in 2006). In 2005, six months after the small business education campaign was launched, a survey was conducted to measure the effects of the awareness actions taken. Among others, it was recorded that the awareness of the best time to apply for IP protection (i.e., before the product is brought to market) has increased from 19 % (before the campaign started) to 85 % (after the campaign).
- However, a 1999 study performed by Schlegelmilch & Stöttinger who surveyed 230 U.S. students (potential buyers of counterfeits) on attitudes towards piracy reported that anti-counterfeiting and piracy campaigns had no significant impact on the intention of the surveyed persons to buy fakes.

8. Integrated communication – using several channels of communication at the same time

This last success criterion refers to the fact that a whole range of communication channels should be used to reach a certain target group and deliver a message in a defined (and constant) thematic context: press work, advertisements, information on display at customs, radio broadcasts, events, homepages. Limiting the number of used information channels to only one may reduce effectiveness considerably.

7. Conclusions and recommendations – the Top-5s

7.1 Top-5 recommendations for policy makers in the EU

1. **Establish stronger coordination between the different directorates of the EC on the topic of IPR and IP enforcement:** Like in the U.S. (or even more so), responsibilities between different directorates of the European Commission on the topic of IPR are divided. The danger of resulting redundancies and loss of overall effectiveness and efficiency is therefore also prevalent in Europe (and aggravated by the fact, that actual enforcement is the responsibility of each member state). However, a coordinating institution/structure such as IPEC, or formerly the NIPLECC, does not exist on the European side. It seems therefore advisable to contemplate possibilities on how to establish such a coordination structure at the EC level (and perhaps even at each member state level, too). An important advantage – in addition to increased effectiveness/efficiency – would be that it would also facilitate transatlantic collaboration on this topic, as counterparts in negotiations will be more clearly and institutionally defined. Activities such as the newly started IP enforcement observatory could be integrated into a coordinating institution.
2. **Establish clear goals and effective performance measures for IPR policies and IP enforcement actions:** Like in the U.S., there is a lack of proper performance measures present (based on clearly defined goals) which allow gauging the success of the policy actions taken. Such measures should be established and, where possible, also harmonized and used at member state level. Evaluations should be then carried out which (1) assess the effectiveness of the actions and (2) which also take the overall IPR service/enforcement system into account (e.g., by pointing to redundancies or at blind spots). When and if a coordination structure is established (see recommendation above), it also seems advisable to define the authority power, funding levels, scope and goals of these institutions quite rigorously in advance and learn from the prior U.S. experience.
3. **Continue efforts to establish a unified European patent and a European patent court:** A frequent demand in the past shall also be reiterated in this set of recommendations. A single European patent (and a European patent court system) would improve greatly on one of the main barriers to the usage of IPR in Europe, the cost barrier. Enforceability would also likely benefit. Advances in the past (such as EPLA) should be advanced further.
4. **Improve the overall effectiveness of IP support provided at member state level by facilitating the exchange of good practices:** The E.C., as well as individual member states, have established a range of different support services targeted especially at SMEs in the field of IPR, some of which have proven to be quite promising in helping firms deal with the subject of IPR better. However, one can also observe a larger variation across countries with some countries having a quite sophisticated support service system in place, while others have relatively little support to offer to SMEs. The E.C. should thus continue to facilitate the exchange of good practices between member states. At the EU level, the EC has also implemented support projects such as the IPR Helpdesk in China, which are complemented also by member state approaches. As these services seem to enjoy quite a high reputation, the EC should be encouraged to continue and expand the respective activities.
5. **Improve effectiveness of support provided to firms by increasing their visibility:** One particular issue that stands out in the context of IP support services is that of visibility. Despite the fact that quite a number of support services exist, only few firms seem to know about their existence and possibilities. This may be due to several factors: Institutional set-ups (e.g., support services being offered by institutions such as patent offices which are commonly not associated by many with business support), lack of sustained activities or lack of clear support structures due to poor coordination among service-offering

institutions. As a result, the business community (in particular SMEs) widely feels forgotten when it comes to the enforcement of its IP. Therefore, strengthening pro-active communication to the business community seems to be one of the top priorities.

7.2 Top-5 recommendations for policy makers in the U.S.

1. **Fully fund and implement the “PRO-IP Act”:** The efforts of the past decade to improve the effectiveness of enforcement of existing IP rights culminated in the U.S. Congress approving the PRO-IP Act by a broad bipartisan vote in 2008. The evidence considered in the study indicates that the increased resources for IP-enforcement, improved inter-agency coordination, and additional legal tools provided by the PRO-IP Act will likely help reduce IP theft. One of the key characteristics of the PRO-IP Act is its comprehensive approach to IP protection by providing government at the national, state, and local levels with appropriate resources. Given the importance of innovation and IP and thus the anticipated economic benefits for the U.S. economy, Congress should make it a top priority to fully fund the authorizations contained in the law and provide adequate oversight of the administration’s implementation and enforcement of this law.
2. **Ensure the U.S. Intellectual Property Enforcement Coordinator (IPEC) has the authority and resources to improve coordination of IP enforcement among key agencies:** The Pro-IP Act created, among other things, an inter-agency intellectual property enforcement advisory committee. This committee is to be chaired by the new IPEC. As the study has shown, effective coordination of the efforts of the different agencies is a critical success factor for IP enforcement. In the absence of sensible coordination, synergy potentials (e.g., through information sharing and collaboration) may not be realized, work overlaps may occur and a situation created where private industry is confused on who is responsible for what. The study also highlighted the deficiencies of earlier attempts to create such coordination structures, such as lack of resources, authority or clear objectives. Congress has addressed many of these shortcomings in the PRO-IP Act. The IPEC therefore has the potential to improve the effectiveness and efficiency of the U.S. Administration’s efforts to protect American intellectual property, but only if placed in an appropriate position of authority within the Executive Office of the President and given adequate funding to fulfil the Congressionally mandated objectives.
3. **Improve border enforcement against counterfeiting and piracy:** The work of the Department of Homeland Security through its Customs and Border Protection (CBP) and Immigration and Customs Enforcement (ICE) agencies is of vital importance for effective IP enforcement. Yet, the analysis has highlighted the existence of weaknesses that hamper operations in the field of IP enforcement. In particular, Congress should consider using the authorization process to bolster IP enforcement resources and tools for CBP and ICE. Likewise, Congress should consider improving coordination of the federal government’s IP enforcement resources by raising anti-counterfeiting and piracy responsibilities to senior levels at these agencies. Also, having CBP and ICE deploy dedicated IPR enforcement agents might prove beneficial.
4. **Develop clear goals and mission statements and foster the collection of monitoring data on IP enforcement activities at agency and coordination structure level:** The collected evidence shows that the U.S. efforts to combat counterfeiting suffers from the lack of clearly defined performance measurement systems which gauge and monitor the effectiveness of the actions taken in the relevant agencies and government institutions. In line with the recommendations from GAO, it seems advisable to tackle this issue and develop adequate criteria and indicators for each agency by which progress in the fight against counterfeiting and piracy can be assessed.
5. **Work towards an overall national IP strategy not only focused on enforcement alone:** Current U.S. policy in the field of IPR seems to be highly focused on enforcement issues. By contrast, the analysis shows that the E.C.

tackles IPR in its policy approaches more broadly, for example by giving the needs of small and medium sized enterprises in dealing with IP in general and the development and provision of support services much more attention. Congress and the U.S. agencies and governmental bodies could contemplate moving into the same direction. Such a move seems also advisable, as it can be expected that 3rd countries now stigmatized as large sources of counterfeits spend considerable resources on becoming strong IP rights owners of their own in the future. Currently, quite a range of studies show that overall awareness of companies on IP issues or even the principal functioning of the IPR system in the EU and the U.S. is far from wide-spread. This may place the U.S. economy (and the EU economy) in the long run at a disadvantage. According to interviewed experts, the PRO-IP Act could be considered as a good start for an over-arching U.S. strategy on IP tackling issues extending beyond enforcement, counterfeiting and piracy.

7.3 Top-5 considerations for firms

1. **Establish a dedicated business-specific IP strategy which makes use of the full spectrum of formal IP rights as well as less formal protection mechanisms:** The evidence collected in the course of the analysis shows that companies reasonably successful in the fight against counterfeiting and piracy actively employ a full range of instruments, tools and strategies. To simply file IP rights is not sufficient – companies need to, for example, also take responsibility for combating infringement of their intellectual property. They should be prepared to actively enforce their rights and at least demonstrate a willingness to bring the case to court. Failure to do so may lead to more infringers appearing resulting in a loss of credibility in the market and a loss of value of the company brand. Secondly, companies should use the IP instruments available to them selectively in their business-specific contexts. Formal IP instruments such as patents, trademarks and designs are powerful tools which provide considerable leverage against infringers. However, there are also instances where using, for example, patents is not the best approach and other instruments (or less formal strategies, such as trade secrets) should be used instead. Therefore, companies must be aware of the functions and pros and cons of each of the various methods which may be used to protect intellectual property. In many cases it may be wise to use an integrated approach, involving the use of formal IP rights and ‘informal’ strategies. There is no ‘one-size-fits all’ approach.
2. **Set up a dedicated communications strategy for IP enforcement:** The study results also highlight the importance of establishing a clearly defined and active communications policy as part of the enforcement strategy. Virtually all case study companies are, for example, in regular contact with customers and inform them on existing counterfeiting activities, dangers of the fake goods and how to identify them. Similarly, regular contacts are also maintained with distributors/sales networks or customs officials. The general public is also addressed by many companies. Larger companies go as far as implementing dedicated training programs for the diverse target groups (especially customs and distributors). The benefit of pursuing such an active communications policy is at the least two-fold: First, it demonstrates the company’s commitment to the enforcement of its rights which may deter infringers from producing counterfeits in the first place (or at least make them think about it). Secondly, it creates a trustful partnership between the company and its customers and distributors, whereby customers and distributors also frequently support the company, e.g. by signalling the appearance of fakes (e.g., at trade shows) early on. If companies decide, despite the advantages stated above, to deal with counterfeiting in a rather confidential way they should do so based on a conscious decision weighing the pros and cons of an active strategy.
3. **Focus anti-counterfeiting activities, especially in the light of scarce resources available:** One of the main findings of this study and other analyses is that enforcing IP is costly. Especially for SMEs, the cost burden for court trials can be easily seen as a deterrent for enforcing rights. However, as stated before, not enforcing IP rights may prove to be even costlier due to the loss of credibility

and the ensuing devaluation of company reputation and brand value. As a consequence – and following a thorough risk assessment – there may be a need to focus enforcement activities. While placing emphasis on certain infringement cases is certainly a highly firm-specific issue, still some general/generic guiding principles on where to place foci of anti-counterfeiting activities emerged from the study: (1) if the company owns a well established and valuable brand, maintaining brand integrity should be a top priority. (2) If counterfeited goods are sold by several importers it seems most feasible to try to reach out to the source (e.g., a producer in China). Focusing on the individual importers is not as promising, because once one importer backs down, new ones may take over. Against this backdrop, firms should also consider filing IP rights in countries of origin of the fake goods, even if these are markets not served by the firm. (3) Some emphasis should be placed, according to some firms, on high-visibility cases as they have a leverage effect for customers (informing function) and other counterfeiters (deterrence and signalling function).

4. **Pay attention to common pitfalls and follow basic advice:** IP laws, especially for IP enforcement, while harmonized to a certain degree, differ greatly across countries. This is true particularly in the main countries of origin of counterfeited goods. In addition, different cultural attitudes of the indigenous companies and the local population on the legitimacy of counterfeiting have to be taken into account. Given these factors, firms seem to learn the hard way what works and what does not. A practical example of a possible strategy is to aim for structured long terms deals which cover in detail technology transfer issues and also comprise local manufacturing agreements. Companies are advised to do their homework and consult with local supporting structures (such as the European IPR Helpdesk or U.S. government IP attachés or country-specific toolkits) when pursuing business in main countries of origin of counterfeited goods.
5. **Stay innovative and offer good quality at reasonable prices:** One of the informal and also promising means to fight counterfeiting is to stay ahead of the counterfeiters by constantly innovating (i.e., follow a so-called ‘lead time advantage strategy’). By shortening the time between new product generations, counterfeiters will face difficulties copying the original in due time. If they succeed, there is already a new product on the market. Along the same line, maintaining and improving quality can be viewed as an effective tool. In combination with a well-established brand name, customers will get the feeling that by buying the original a certain level of quality and safety is guaranteed. In the end, this feeling of security may be of more value to many customers than a low price.

7.4 Top-5 considerations for communicating anti-counterfeiting and anti-piracy policies to the public

1. **Implement coherent and effective communications campaigns geared towards the general public:** There is a common consensus among the interviewed experts and companies – backed up also by other evidence – that implementing an active communications strategy targeted at customers and/or the general public is a crucial element of any overarching IP enforcement strategy both for industry and public authorities. Frequently, misunderstandings concerning the value of protecting IP contributes to the prevalence of fakes in society and fosters a culture where using counterfeited/pirated goods is often seen as a trivial offense. However, there are certain factors that need to be considered before-hand when setting up such campaigns in order to allow them to succeed. The most important of them are described below.
2. **Clearly define and research the target groups and tailor the communications strategy to the characteristics of these groups:** Many campaigns addressing the issue of counterfeiting and piracy seem to suffer from the fact that they address the problem too broadly. All evidence indicates that campaigns that focus on distinctive, well researched, target groups fare better. Such research may lead to the conclusion that a good campaign may consist of

several sub-campaigns, each addressing a different specified topic. Also, it seems advisable to use different channels of communication/media at the same time. Depending on the culture or age group, the tone of the language used in the campaign may be important. For example, one can use a rather aggressive/menacing approach which many target groups perceive as a move of ‘the big ones playing it out on the small guys’ while others use ‘softer’ strategies which tend to invoke more positive emotions and aim at opening a dialogue.

3. **Demonstrate credibility and trustworthiness through inter-institutional collaboration and by sticking to facts:** Closely related to the 2nd point is also the observation that credibility is an essential success factor for an anti-counterfeiting campaign. The ‘Robin Hood’ effect described above – where the target group believes that the anticounterfeiting and antipiracy campaigns only fosters rich multi-national companies at the expense of poor consumers – needs to be overcome. One particularly promising approach is to try to place the campaign on a broader institutional stand involving public authorities and various stakeholders from the private sector. In particular, it is also beneficial to have organizations involved which are usually thought to have a rather reserved view on IP enforcement, especially consumer protection organizations. Getting them on board may prove difficult, but experts repeatedly noted that in many instances the reluctance to support IP enforcement is often based on a lack of awareness on IP enforcement issues. In addition, it is important to get the facts straight. Over-exaggerations (e.g., by using unverifiable statistics or by threatening legal consequences that in reality are rarely pursued) may prove counterproductive. In this context, one should also consider that running an anti-counterfeiting campaign is a long-term endeavour – hence, it is essential that the messages are consistent and delivered regularly over the years. Collaboration also means that there is no need to “re-invent the wheel” as various groups can capitalize on one another’s strengths and experiences.
4. **Address other key stakeholder groups through dedicated actions:** Notwithstanding the need to tailor campaigns to specific target/consumer groups, campaign operators must ensure that surrounding stakeholder groups are also addressed through dedicated communication activities. This applies, for example, to right holders (most notably SMEs) who are often not aware of IP and IP enforcement issues and run into IP-related problems once it is often too late. Furthermore, those who are responsible for delivering the message as well as those responsible for enforcing IP (customs authorities) should receive proper training, too. Their thorough understanding of the problem and support of the cause is a pre-requisite for reaching out to the general public effectively.
5. **Educate the youth:** In the long term, success in fighting counterfeiting and piracy is contingent on the cultural acceptance of the illegitimacy of producing, using and buying fakes. In this context, it seems feasible to invest in the educational system and design teaching materials which can be used in schools. Communications campaigns should also target students as a separate group with a distinct message.

7.5 The way forward – Top-5 recommendations for future EU-U.S. strategies

1. **Focus political will and give IP enforcement priority:** IP systems can only work if proper enforcement is possible. EU and U.S. policymakers should demonstrate their stated commitment to the protection of intellectual property making it a key policy priority. For example, the EU and U.S. should continue negotiations for a substantive Anti-Counterfeiting Trade Agreement (ACTA) that leads to enhanced enforcement. ACTA should build on the TRIPS agreement and existing Free Trade Agreements (e.g., U.S. - Korea FTA) to produce a measurable improvement in the prevailing legal framework for the protection and enforcement of IP rights in the physical and online environments. ACTA negotiations should be as transparent as possible. In addition, the EU and U.S. should remember that, while counterfeiting and piracy is a serious problem in

third countries, challenges can also be found domestically both on enforcement and the increasing costs for companies to meaningfully utilize the IP systems.

2. **Improve overall reliability of data on the scope of the problem of counterfeiting and piracy as well as on the effectiveness of policy actions taken in this field:** The problem of measuring the extent of counterfeiting and piracy is – despite of ground-breaking work performed by the OECD – still not solved satisfactorily. The additional presence of various studies which put forward conflicting and/or poorly supported figures on economic damages due to counterfeiting and piracy activities proves to be a big problem, both in terms of attaining credibility when communicating to the general public and also with respect to the way policy actions should be designed to tackle this issue in the most effective manner. We therefore recommend that both the EU and the U.S. increase their efforts to build a reliable data set for quantifying damages resulting from counterfeiting and piracy.
3. **Tackle the challenge of the internet as a distribution channel for counterfeits and pirated goods:** The Internet is increasingly becoming a powerful distribution mechanism for both counterfeit goods and as a means to violate copyright protections. This a complicated issue where standard border protection measures may not be sufficient. Therefore, it seems advisable that policymakers think creatively and cooperatively to meet this challenge. The U.S. and the EU could form, for example, a digital piracy task force, including private industry advisors, to produce a plan to reduce Internet traffic in pirated/counterfeit products.
4. **Preserve an effective international IP legal framework that fosters and protects innovation:** It seems vital that EU and U.S. policy makers address broader threats to transatlantic jobs, consumer safety, and innovation by improving and defending the current system of international IP laws and norms. Transatlantic policy makers can be instrumental in these efforts by approving trade agreements with adequate global IP protections; opposing international efforts to unduly weaken IP rights in rule-setting institutions or to impose or expand inappropriate and unwarranted exceptions to patent protections.
5. **Continue and expand collaboration between the EU and the U.S.:** The study analysis has shown a wide consensus that the U.S. and the EU share, by and large, common interests in the field of IP policies, and that a strong transatlantic coalition is needed to pursue the common goals. Despite indications that the EU and the U.S. cooperate quite effectively, there were also opinions voiced in some interviews (backed up by some anecdotal evidence) that other countries (e.g., Brazil, India, China) better coordinate their positions in various IP fora. A recommendation would therefore be to continue, and expand where possible, the scope of collaboration between the E.U. and U.S. on IP enforcement and policy matters and enhance consultation and feedback with other key stakeholders. An institutionalized counterpart to the IPEC at the European side would probably also benefit the cause.

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Appendix A - Company case studies

A.1. Case study: Haberman Associates (UK)

A.1.1. Company overview

Haberman Associates (formerly Haberman Feeders) is a sole proprietors firm, located in Hertfordshire, United Kingdom. The company, owned by Mrs. Mandy Haberman, is active in the nursery sector. It employs a business model that is heavily based on the use of Intellectual Property Rights (IPR), most notably patents and trademarks. The income of the firm currently stems entirely from royalties paid by licensees for utilising the inventions and the associated IPR developed by Haberman. On average, yearly royalty turnover amounts to £500,000. Of this, £ 100,000 - £ 250,000 is spent on research and development each year. The most important licensees, in terms of providing royalty income, are situated in the U.S. and the U.K. These licensees (and also smaller ones) export to other markets (e.g., in continental Europe). Haberman products are effectively sold worldwide.

The history of the company dates back to the early 1980s. In 1980, Mrs. Haberman's third child Emily was born with a congenital condition that led to sucking difficulty. To Mrs. Haberman's surprise, no suitable feeding bottles were available. In practice, this meant that babies, who were unable to breast or bottle feed successfully, usually had to be fed by naso-gastric tubes. In her research, Mrs. Haberman noticed that there are differences in the way children feed. The "Haberman® feeder", which was under development from 1982 onwards, allowed children to obtain their feeds by applying tongue and gum pressure, thereby mimicking the mechanics of breast feeding.

Because the Haberman feeder was perceived as a niche product with limited commercial potential, initial response from potential producers and licensees was not promising. Therefore, Mrs. Haberman decided to bring it to market herself. She set-up a small mail order company from home in 1987 and subcontracted the manufacturing of the product. The success that ensued quickly made it clear that this business model had its limits: either the company had to grow to fulfil the global demand (and also to keep up with issues such as quality control), or another business model had to be developed. *"At that time, I did not see myself as an international business tycoon, not the least because I had to care for three small children",* says Mrs. Haberman. *"Furthermore, taking on employees would have meant a lot of responsibility, and I was not keen to do that. One should also not forget that at that time the general attitude towards inventing and setting up a business was different to what it is now. Government support for start-up companies was limited, and private inventors were regarded with derision – being an inventor lacked credibility as a 'real' job."* By licensing her IPR, much of the commercial burden could be offloaded, and Mrs. Haberman was able to focus her efforts on developing new products for the nursery markets. The use of IPR thus allowed for a deliberate business decision to stay small and focus mainly on R&D activities.

After having successfully introduced the Haberman feeder, the company turned its attention to another issue that bothered many parents whose young children were using 'sippy/trainer' cups. In 1990, Haberman developed the "Anywayup®" cup to remedy this problem. In the years 1992 to 1994, Haberman approached a number of potential producers and licensees with the new invention. The reaction was similar to that which had occurred with the Haberman feeder some years earlier. This time, the companies approached were, in principle, very interested, but either they would not commit to an appropriate minimum sales requirement; or, after initial enthusiasm, they failed to respond. In the end, Haberman teamed up with two marketing entrepreneurs, who could see the product's potential, and again brought the product to market herself. With a number of advanced orders, the company was able to obtain

a bank loan to start production and to supply small independent retailers. Larger supermarket retail chains were reluctant to buy from a company that supplied only one product. To convince them, Haberman resorted to an exceptional strategy: She had one of the cups filled with blackcurrant juice and sent it through the post, in a cardboard box unprotected by waterproof wrapping, to the Head of Purchasing for the nursery sector, together with an accompanying letter. *“The letter basically said that if the package arrived on her desk as a soggy mess, then we (Haberman Associates) are out of luck. But if the cup has arrived without spilling a drop, then he should call us”*, Mrs. Haberman recounts. The message was clear; the cup arrived without spilling and the phone calls followed. By 1996, 500,000 cups had been sold in the U.K. Haberman then contacted Conran, a well-known product designer, to create a full range of Anywayup cups and, to give the cups a visual identity that stood out from the crowd (*“Anywayup range”*). Success came fast, and by 1998 the market share of the cups increased to 40 % (U.K.) and 75 % (Germany).

A finalist in Veuve–Clicquot’s Business Woman of the Year Award (2004), Haberman in 2006 decided to consolidate and rationalize her new ideas with a view to launching a full range of innovative products under the Anywayup brand. She formed Anywayup LLP, putting together a team of experts in design, engineering and business strategy. The launch of the new range is planned for late 2009.

Haberman products have received numerous awards, such as the Design in Business Association’s “Design Effectiveness Awards (2000)” winner of Innovation category award (sponsored by 3M), the Horners Award for Innovative Use of Plastics, (highly commended) from the British Plastics Federation UK (2000) or the Tommy Award for the Most Parent Friendly Innovative Product (1999 & 2000). Questioned on the success factors for her company, Mandy Haberman replies: *“It stems from the marriage of IP protected, innovative technology and world-class design. The combination enables you to achieve substantial market share at maximum speed. It gives your competition little time to retaliate”*.

A.1.2. IPR strategy and dealing with counterfeiting/piracy

In the beginning, when the Haberman feeder was developed, Mrs. Haberman applied for one U.K. patent and one U.K. trademark, which means that initially no protection was obtained for outside the U.K. The very first license – issued to a Swiss manufacturer who then exported worldwide (with the exception of the U.K. where Haberman controlled distribution). – was not even backed by the patent but, was based on knowledge only. Haberman later took out a strategic U.S. trademark and licensed it to Medela’s U.S. sister company.

With the development of the “Anywayup” cup, the company sought more international protection and chose the PCT route to apply for patents in the U.S., Europe and Japan. Due to cost considerations, full world-wide protection was not sought; instead, Haberman filed patents only in key markets. In addition, Haberman also sought trademark protection and owns the trademarks to *Haberman, Anyware, Anywayup* and a number of 3D shape trademarks.

Over the years, Mrs. Haberman came to the conclusion that it is better to have more intellectual assets registered with strong Intellectual Property than less. This stance can be illustrated by the change of attitude towards registered designs: *“I wish I had also registered the design of the classic Anywayup cup. The reason I did not do it was that I was not fully aware of the potential of this IPR instrument; I considered design rights to be an inferior protection method and thought that patent protection would suffice.”* In reality, it could happen that a purposely infringing competitor does not copy the technology or the company insignia, but still and rightfully produces products that resemble the looks of the original product. *“The benefit of owning comprehensive IPR is that it strengthens your position and reduces the scope for arguments. That is definitely something worthwhile”*, says Mrs. Haberman. Questioned on the usage of trade secrets, Mrs. Haberman contemplated that the closest she came to it was the very first license agreement for the Haberman feeder (see above). The disadvantage of using knowledge based licenses is that once the trade secret is revealed in the licensing agreement there is usually little incentive to renew

the agreement on the part of the licensees. But there are workarounds. If the licensor owns the trademark and the name is well established with a high reputation, it can be worthwhile for the licensee to renew the agreement with the inventor, to maintain use of the name. Under such a strategic trademark license the licensee's sales can benefit significantly from the good will and reputation attached to the mark.

The fact that Haberman registered many types of IPR paid off when the company was confronted with infringements of its patent rights. These happened once the success of the products became visible. Among others, Haberman had to deal with the following instances of patent infringements:

- In August 1998, a British company which Haberman had previously approached as potential licensee for the Anywayup cup (and which turned the offer down), released a product which clearly used the technology developed by Haberman, thus infringing the respective patents. As the competitor was a well known brand in the nursery sector, it was able to rapidly gain market share, displacing the original Haberman product from the shelves of the retail chains. Realizing that unless a precedent was set, other companies would also infringe, Haberman decided to litigate and enforce her rights. At first, Mrs. Haberman was confident in taking legal action, not the least because she had taken out insurance which would cover patent litigation costs up to £ 100,000. *"As it turned out, however, this covered little more than two meetings with my lawyer and a cup of tea. The actual cost risk turned out to be ten times higher. The insurance broker who had advised me had had no experience with such court proceedings, simply because most of the cases are settled out of court"*, Mrs. Haberman remembers. But having worked on this project for five years and being convinced of its commercial potential, she was not prepared to have the idea simply taken away from her without putting up a fight. Thus she proceeded and took the case to the High Courts. Her request for an interlocutory injunction was denied, but instead the judge promised a speedy trial. By January 1999 (within 12 months) a verdict was reached which confirmed Haberman's stance. The infringing party appealed, but later settled out of court and removed its infringing product from sale. The case is now reportedly taught at law schools throughout the UK.
- Just as the British court procedures were to come to an end, Haberman learned that products unlawfully employing her patented technologies were being sold by a number of small distributors in mainland Europe. The distributors were all supplied by a Thai company. Haberman decided to go after the source, the Thai producer, and at the same time to file the action in the Netherlands' court by making her claim against one of the Dutch distributors and a Dutch retailer. In the Netherlands, a special legal procedure was used. It proved to be fast and relatively low-cost, and led to an injunction against the producer in Thailand, banning it from selling and exporting the product not just to the Netherlands but also to the other European countries where Haberman had patent protection. According to Haberman, this approach was efficient. *"I had no patent in Thailand and, just suing the small distributors would not have worked as, for each one I stopped, a new one would pop up."*
- The U.K. litigation had ongoing consequences for Haberman. In the course of the action, the defendant questioned the accuracy of the filing process of Haberman's related European PCT patent and threatened to initiate an opposition procedure in the EPO, if Haberman did not drop the case against them. Haberman was not deterred and despite the fact that, as part of the eventual settlement agreement, the defendant dropped the opposition, a large U.S. company, *Playtex*, picked it up and ran with it. Playtex had purchased samples of Haberman's patented cup in 1996 but had not taken a license. They later began to sell their own products in the U.S. Haberman's U.S. patents were not granted until 2000.
- The EPO opposition procedure took eight years before it was finally decided that the Haberman patent was valid. For most of that time, Playtex had continued to sell their non-spill cups. Playtex together with competitor, Gerber (selling a similar product), had gained approximately 60 % market share in the U.S. By

contrast, the market share of Haberman's U.S. licensee failed to achieve more than 6 %. Thus Haberman's royalty revenue had been significantly impaired. Haberman's U.S. licensee was reluctant to take legal action and, because of strategic reasons, (ownership structures, contractual obligations etc), Haberman was unable to enforce her rights until 2005. It had not been an easy decision to take. In essence, the question was whether a small U.K. company could take on mighty U.S. adversaries, given the fact that U.S. litigation costs are about four to five times higher than in Britain (which is in turn already considered to have high litigation costs if compared to continental Europe). The decision to sue Playtex and Gerber in the U.S. were based on the facts that (a) a renowned American law firm was willing to take the case on a partial contingency basis, (which it would only do if it saw a strong chance of success), thereby sharing a significant level of the financial burdens/risks and (b) that potential losses would be relatively small if the American patents were revoked, as the existing U.S. licensing income was already limited.

The ensuing court procedures are described in detail in *'Riding the American Rocket', Haberman (2008)*. To summarise, Playtex settled out of court, whilst the case against Gerber proceeded to court (which is also unusual for the U.S.). In the first instance, the jury voted against Haberman, however, the judge overruled parts of the jury verdict and the case went to appeal, where Haberman's patent was found to be valid but not infringed. Because neither party was interested in taking the matter further, they settled commercial issues out of court in a manner that Haberman deems satisfactory. The overall positive outcome of Haberman's U.S. experience has been aided by the fact that once the validity of her patents was published, other companies contacted Haberman requesting license agreements.

Haberman Associates pursues an active communication strategy concerning its IPR and enforcement strategy. This has included the write-up of articles on the experiences of dealing with counterfeiting, participation in dedicated events/conferences and the operation of a discussion forum on that topic on the Haberman website.

A.1.3. Conclusions and lessons learned

The following conclusions and lessons learned can be derived from the experiences of Haberman:

- IP rights can be successfully defended by small European firms in the U.S. despite of high litigation costs. For a small company, it is possible to use the IPR system effectively and enforce rights. According to Haberman, it is imperative to demonstrate enforcement of IPR, as not doing so will eventually lead to a situation where the company is not taken seriously by other market players, and there will be a substantial number of competitors infringing the IPR. However, the pros and cons have to be weighed against each other carefully. Success factors are the involvement of renowned IP lawyers who work on a partial contingency basis and strong IPR. The system works "surprisingly well", not the least because of the possibility that the judge can examine the evidence and has the right to express his own opinion and allow appeal.
- Despite enforceability of IP rights, it needs to be underlined that high litigation costs many times are the main barrier for using the IP system effectively. This is so, because – according to Haberman – it provokes an attitude, where large corporations will risk infringing a small firm's IPR, because their expectation is that the smaller firm will not have the resources to litigate. In practice, this leads to a situation where SMEs are *"...certainly affected by IP infringement in a different way than large corporations, and SMEs need to cater accordingly for such circumstances in their IP and business strategy"* (Interview Mandy Haberman).

It is interesting to note that infringers were primarily not companies situated in Asia, but larger firms in the U.K. and the U.S. Mrs. Haberman points again to the high litigation costs and homework to be done especially in Europe, concerning the lack of a central European patent court.

A.2. Case study: EUROKEYTON (Spain)

A.2.1. Company overview

In 1989, the founder and chairman of KEYTON was looking for an unconventional armchair. Not being able to find it, he decided creating one by himself, starting his own company, *Keyton*, aimed at manufacturing massage chairs. The first Keyton massage chairs were manufactured in Japan, subsequently expanding their production throughout Europe. Thus, Keyton became the first European producer of massage chairs. In 1993, Keyton patented the first ergonomic massaging robot, which provided a robotized Shiatsu massage capable of automatically adapting the massage to each person's back. Later, Keyton started to expand throughout Europe. In 2004, Keyton patented a new and revolutionary technology called Sensor Scan, which scans each back's state and personalizes the massage to the needs of each person. In 2006, Keyton invented and patented a 3D leg massage system.

Currently, Keyton does business in more than 84 countries. At the end of 2008 it had 43 employees (after a reduction of more than 50% due to the impact of the world economic situation which resulted in a massive decrease of product orders). The company's turnover was EUR 6 million in 2008 (an increase from EUR 3.5 million in 2003). Approximately 50% of Keyton's profits are reinvested in R&D. Keyton's main markets are the EU (80%) and to a much smaller extent North America, Asia, a few countries of Africa as well as Australia. The products are manufactured in Alicante, Spain, only, and are sold from the factory to country agents, who then distribute the products to their retailers in the above mentioned markets. In some countries like Australia, Keyton works directly with retailers because they have a big network of stores in their country.

A.2.2. IPR strategy and dealing with counterfeiting/piracy

There is no direct competition for Keyton in Europe, but there are a number of smaller manufacturers in China offering cheaper products as well as multinational companies from Japan. Currently, Asian manufacturers do not sell in Europe. Keyton mentions these as reasons that IPR are registered only in Europe, despite the fact that counterfeiting and piracy issues are more likely not to appear there, but in Asia.

Keyton has all its product models registered through either OAMI or WIPO, and some directly in countries like China. The reason for using IPR is to increase the protection of Keyton's products. They have approximately 40 patents, 50 designs and 3 trademarks registered.

Only formal protection of intellectual assets is sought after and there is no IPR strategy applied. Keyton mainly focuses on the surveillance of infringing designs, for which Keyton systematically searches competitor's websites and e-commerce platforms. If Keyton discovers a case of infringement, Keyton instantly reacts with its Valencia-based lawyer.

Until now, three cases of design infringement have been discovered. All three infringers were located in China and all were dealt with in the same manner: Keyton's lawyer wrote a cease and desist letter to the companies who, in turn, acknowledged the infringement and stopped production. Keyton believes that the design infringements were unintentional, and the Chinese companies stopped production because they were made aware the consequences (i.e. high penalties). Although the infringers stopped immediately the sale of infringing products, Keyton's lawyer recommended not taking the case to court to claim damage restitution, because the involved litigation risk seemed to be higher than the actual pay off. It was considered too time and money consuming to go into the Chinese jurisdiction, translate all documents, hire a Chinese lawyer, etc. Keyton made large investments to develop its models and then protect them, so that every copied piece a competitor sells is due to Keyton's efforts. It is hard to estimate, but Keyton believes that one of the Chinese counterfeiters might have sold up to 1,000 pieces of the infringed model. The European retail price was approximately EUR 4,000, the Chinese roughly only EUR 1,000.

Keyton did not and does not use government support and is not aware that there is government support, neither in Spain nor from the EU. Not even the IPR Helpdesk (mentioned by the interviewer), which is located in Alicante, is known. When the infringing cases in China were noticed first, Keyton inquired with the local Chamber of Commerce, but disappointingly no support was provided and it seemed that no know-how was available.

A.2.3. Conclusions and lessons learned

- Distrust in Government: no one is going to help an entrepreneur. He has to react against piracy on his own. Keyton does not trust any government action, therefore a certain level of trust in governments has to be reinstalled.
- Ignorance of Government Support: Government support programs are little known. If these are supposed to really support entrepreneurs, consultants would have to seek the companies and not the other way around.
- Piracy has to be fought against at the places of origin, but SMEs lack the resources to go after an infringer in countries like China.
- SMEs need stronger international IP laws and ideally an international court of justice for such cases.

A.3. Case study: VICTORINOX SWISS Army, Inc. (Switzerland and U.S.)

A.3.1. Company overview

Victorinox Swiss Army, Inc. (U.S.) is a wholly owned subsidiary of Victorinox AG (Ibach, Switzerland) with 265 employees (2008), including employees in Canada and the Caribbean Area. The parent company Victorinox AG was founded in Switzerland in 1884, the predecessor of the North American company was founded in the 1930's.

The North American subsidiary sells and distributes consumer products, including the Original "Swiss Army Knife®", timepieces, cutlery, apparel and fragrances and licenses the use of its trademarks on travel gear. One of the main products of Victorinox AG, the "Swiss Army Knife" is 125 years old. This pocket multi-tool was legally registered on June 12, 1897. Originally the North American company sold only Swiss Army Knives and cutlery. The product mix was expanded to include timepieces and later expanded again to include fragrances, apparel and travel gear. In addition to these products the Corporate Markets Department sells a variety of products used by large corporations as awards, incentives and for promotional purposes. Furthermore, Victorinox is constantly adding new sub-product lines such as pocket tools, SwissCards (a product in the configuration of a business card combining a scissor, a knife and other implements), and mostly recently, a presentation device combining memory, Blue Tooth technology and encryption.

The North American company is essentially a marketing, sales and distribution organization; research and development is done principally by the parent corporation in Switzerland. Nevertheless there is some production in North America including imprinting products to be used by large corporations as advertisements or incentives, and assembling and the packaging of other products. As the company is the North American arm of a worldwide organization, the main markets are the United States, Canada and the Caribbean region. All of the product lines are sold in a highly competitive atmosphere and the company believes that the reputation for quality and reliability associated with the original Swiss Army Knife affords a unique advantage against competitors.

A.3.2. IPR strategy and dealing with counterfeiting/piracy

IPR are vital to the company's business. The trademarks SWISS ARMY and VICTORINOX are protected vigorously as part of Victorinox AG's worldwide IP system. Most issues are based on trademarks and design. In addition, the North American subsidiary and the parent company hold and enforce some important patents and some designs and utility models; there has been less activity in the enforcement of trade secrets. In addition to the long standing practice of prosecuting trademark and patent infringement, the IPR enforcement priorities of the North American subsidiary are combating counterfeiting and decoded products (decoded products: products shipped into the U.S. from various parts of the world and sold with batch codes and track and trace mechanisms having been removed or destroyed).

In the past, infringements have been mainly to the trademark rights but there were also infringements of patent rights. The instances of infringements concerning counterfeiting and decoding of products have increased of late. As the products, especially fragrances and apparel become better known, infringement and counterfeiting increases. Because attention is focused on the U.S. and Canada, the company is most aware of infringements in those countries, but the problem exists world wide.

Employees/distributors often notify the U.S. company of apparent infringements or counterfeited products and these are promptly investigated. In addition, the European parent company is very diligent in Europe and elsewhere and employs a consultant who is a specialist in tracing counterfeits and collecting information in individual markets and who utilizes the latest scientific analytical devices and techniques to detect infringing products. Furthermore, the company utilizes the services of the U.S. Customs and Border Protection Agency whenever possible. The company faces a certain amount of trademark infringement by large and respectable companies. This is often inadvertent and terminates on notice. Recently Victorinox

(U.S. subsidiary) has faced increasingly violations by small and unknown operators who deliberately attempt to sell copies of the products.

In one case, the North American subsidiary received information that several particular retailers in the New York area were selling decoded products. The company sent an investigator who purchased the products. The products really were decoded, so Victorinox sent a warning letter and demands. Because satisfactory answers were not received, a legal action against three defendants was started. Demands were met and judgment was signed prohibiting further infringements. Victorinox succeeded also in causing the seizure and probable destruction by U.S. Customs and Border Protection of more than 40,000 units of counterfeit goods.

Victorinox (U.S.) uses a lot of devices against infringers including court action, the listing of products with U.S. Customs and Border Protection, cooperation with police in staging raids, the use of outside counsel and, where appropriate, investigators. For the company an action is successful when it has secured a judgement or a consent judgement against the infringer and obtained damages. In addition, the company tries to make it a condition of dismissing the action that the infringer provides information as to the source of the infringing goods. Victorinox does not negotiate the release of counterfeited or decoded goods. Where ordinary infringement is involved negotiation is through counsel. If no action was taken, infringements could have resulted in the cheapening of the brand and reputation and difficulty in taking enforcement action at a later date. Sometimes the company receives warranty claims and requests for repair of products that turn out to be counterfeits.

Therefore, the company is adopting an increasingly aggressive enforcement policy against counterfeiters, infringers and sellers of decoded products with an emphasis on the enforcement of trademarks. Victorinox believes that vigorous enforcement of trademark rights increases the value of the marks. A central function of the company's trademarks is to assure the consumer of continuing uniformly high quality. Infringing goods are often of poor quality and when infringement actions are brought quality is sometimes a factor. Patent suits are launched occasionally - patents are hard to develop but equally important.

Victorinox has used the U.S. Customs and Border Protection as an excellent government-funded support service over the past years with considerable success. But Customs and Border Protection has many other responsibilities, including those relating to counter terrorism and so there is a limit to the resources that it can devote to protecting intellectual property. The company would like to see more criminal enforcement from government agencies.

Concerning communication strategies, Victorinox is in the process of adopting several strategies for each type of case, i.e. articles in the printed media, internet publishing, customer notices. The company has received printed material from agencies of the U.S. Federal government offering assistance concerning counterfeit and has had very good experience with the New York City Police. Victorinox does not believe that pronouncements alone will have much success against criminal elements; rather news reports of raids and specific actions against counterfeiters can be successful.

The U.S. subsidiary has not had a great deal of experience working with EU authorities. It would seem that cooperation with EU enforcement agencies could be extremely helpful, especially when goods originate in one jurisdiction and are shipped into other. Preferable support could include the following:

- A common, industry specific list of counterfeiting and pirating companies
- An alert system in regard to trading routes (database)
- Currency fluctuation since it has a big influence on the grey-market.

A.3.3. Conclusions and lessons learned

The following conclusions and lessons learned can be derived from the experiences of Victorinox:

- The usage of formal IP instruments is effective but they are not totally efficient.
- If a firm has a strong and traditional trademark, the enforcement of the trademark is a priority.
- It is important to remain vigilant as to counterfeiting, the sale of decoded products and infringements. Resources, always limited, should be directed at situations liable to produce the maximum effect, rather than be scattered on impulse.
- Government can be most helpful by furnishing intelligence information when that is available and by prosecuting high visibility cases criminally.
- There exists a lack of cooperation between small and medium U.S. firms and EU enforcement agencies.
- There is an information deficit concerning IPR infringements, counterfeiting and pirating companies.

A.4. Case study: GRUNER AG (Germany)

A.4.1. Company overview

Founded in 1953 by Wolfgang Gruner, *Gruner AG* has become over the past 15 years the world's leading manufacturer of polarised latching relays for energy management (metering) applications. Mr. Eduard Spreitzer joined Gruner AG in 1982 as Managing Director and in 1998 he took over his present position as President and CEO and is shareholder of the company.

The production and administration building of the company is in Wehingen, Germany and the assembly plants are located in Tunisia, Serbia and India. Gruner works with distribution partners worldwide as well. Its product range or core markets are bi-stable relays primarily for energy management *"Today, Gruner is one of the last independent relay producers in Europe as well as the leading provider of polarized bi-stable relays for energy management. Gruner products are also compulsorily prescribed by numerous users in the relay industry. This says a great deal about the construction quality as well as the overall quality of the series products, and underscores the difference between Gruner products and numerous plagiarisms that continually appear in the market."* They also produce customized solenoids for the semiconductor, automotive and mechatronics industries and actuators for building management. Technology of polarized latching relays is also used in automotive applications. The products are developed, manufactured and then sold to Original Equipment Manufacturers (OEMs).

Between 2003 and 2008, employment increased from 250 to 570 people and turnover increased from EUR 16 million to EUR 45 million. Around 6% of sales were spent on R&D from 2003 to 2008. Gruner is selling its products worldwide with an export share of 40% in 2003 and 70% in 2008.

A.4.2. IPR strategy and dealing with counterfeiting/piracy

Today, Gruner AG is confronted with many copies of its most popular relays from Asia, especially from China. *"The high growth rates of the relay market have motivated many companies to offer 1:1 copies, irrespective of IPR. Some of these copies appear identical to the Gruner original, down to the colour, logo and model number. Specifically, where a product achieves significant turnover, it is just a question of time when the first companies from Asia will offer identical copies to the market"*. Innovation and prompt reaction to market requirements are the keys to success for Gruner AG.

Gruner products are protected by patents and trademarks supported by Non-Disclosure Agreements (NDAs)– in sum, Gruner has eight patents and one trademark. *"To protect itself, Gruner AG works with the German government, which in turn has initiated discussions at the governmental level with representatives of the respective countries. Gruner AG will continue to keep an eye on further market developments to trace back product piracy and to apply for confiscation of such products at the border, if necessary."* Official papers have been handed over from the German government to the Chinese government. What is needed from governments or what EU and the U.S. could jointly do better is increase awareness of counterfeiting problems. In general, Gruner's strategy is to keep customers as well as plagiarists informed.

Gruner has experienced infringement of its patents by seven Chinese manufacturers of different size (up to 500 employees). The company learned about these cases at trade shows, through customers and advertisements. The company's IPR have been intentionally infringed worldwide. Damages from infringements include pricing pressure as well as the loss of customers (estimated damages of 500,000 to 1 million Euros). Gruner usually informs its customers as well as the infringers about its IPR. The company has not used mediation/arbitration, or private service providers they feel it does not make sense in China. Instead Gruner tried to negotiate directly with the infringers. In overall, to keep the customers sensitive against infringers, counterfeiters and pirates seems to be successful. So, when their customers are confronted with copied products, they inform the company and Gruner can discuss

this problem with them. In Mr. Spreitzer's opinion, the key barriers and challenges are the legal system in China.

To communicate counterfeiting issues Mr. Spreitzer has published articles about product piracy in magazines or given interviews on TV. He recommends that governmental agencies regularly issue reports in appropriate magazines to increase awareness of this problem. From the viewpoint of Mr. Spreitzer, any company of any size is affected by counterfeiting. Overall, Spreitzer believes that consumers should be kept informed and that governments should emphasize the importance of this problem in international talks and meetings.

A.4.3. Conclusions and lessons learned

The following conclusions and lessons learned can be derived from the experiences of GRUNER AG:

- Be innovative and offer good quality: Companies shall continue to develop and produce innovative top quality products to stay competitive. *"Of course, customers are looking for cheaper and identical alternatives but copied products can turn out to be a dangerous undertaking. Lack of know-how and careless manufacturing can lead to severe problems, such as contact welding, reduced life and reduced short circuit resistance."*
- Communication/Information: keep customers informed about infringers; companies shall inform their customers about copies, counterfeiting and piracy and hence the danger of using them.
- Campaigns/Awareness: Governmental agencies and associates shall issue reports in appropriate magazines in regular intervals to increase awareness of this problem.

A.5. Case study: FANI GIOIELLI srl (ltd) (Italy)

A.5.1. Company overview

These gold-jewellery and jewellery makers based in Firenze, Italy were originally named “Donna Gioielli”. In 1993, the company became part of the Fani Group with the trademark “*Fani Gioielli*”. Fani itself started in the 1970s as a silversmith’s workshop in line with the great school of the Florentine masters. The partners in the company are Massimo Bonifazi, executive manager, and Grazia Bonifazi, designer and creator of the several lines of high-class jewellery with precious stones.

The company manufactures several collections of jewellery made from gold and precious stones. The company takes care of all production steps and also makes repairs when necessary. The business model is “handicraft” in terms of production and “brand” in terms of marketing and advertising.

In 2004, they launched a new trademark called “Ny” which recalls the style and care to details of the “Fani Gioielli “haute couture” products in a less costly collection. The Fani Gioielli signature is renowned in Italy and all over the world for its design, a mixture of tradition and innovation that has always anticipated trends and fashion. In Italy there are 11,467 enterprises in the field of jewellery making; 90% of which are SMEs. In 2003, 2004 and 2005 the turnover was more or less constant reaching approximately EUR 6 million; in 2006 it increased to EUR 9 million; and in 2007 and 2008 Fani Gioielli had an income of EUR 10 million, 40% of which was made by selling the “Ny” products. Forty percent of the sales are made in Italy and 60% from exports to the world, mainly to Russia, the Middle East, Asia and the U.S. However, exports to the U.S. market have been decreasing since 2007 and nowadays they represent less than 10% of the company’s total exports.

From 2003 to 2008, the company spent 12% of its turnover in research and development activities and 5% in advertising campaigns. The company has 10 employees and 10 sole agents; the collections are made in three different workshops by almost 20 skilled artisans. This company thus falls under the category of SME.

A.5.2. IPR strategy and dealing with counterfeiting/piracy

Fani Gioielli does use instruments of the IPR system. The challenges that Fani faces are not exactly in terms of counterfeiting as it is usually defined. The company has encountered a different kind of problem: the imitation of design and/or style. It means that the company constantly discovers products made by other companies (usually direct competitors) that are not identical but very similar to the ones manufactured by Fani Gioielli and made with much less care and sold at a lower price. In summary, they know that someone else is stealing their ideas and IPR is in consequence very important for their business model.

Fani Gioielli holds six patents, two trademarks and five designs. As an informal means of protecting its intellectual property, the company uses “Certified date”, available at the Jury of Design, a panel of alternative justice run by ASSICOR – the Association of Italian Chambers of Commerce for the developing of jewellery and silverware which is essentially an arbitration mechanism. This instrument is used to give a sure dating to each collection. In case of imitation discovered during and within the trade fairs, the company files a formal claim to the Jury of Design. The company has changed its usage of the IPR traditional system over time because it has become increasingly expensive.

The company has experienced cases of intellectual property infringement, counterfeited or pirated, mostly related to design rights and this at least six times a year. Fani learned about such cases by viewing copies in the window displays of other companies (mostly large competitors) or from clients or dealers. Their rights are mostly infringed domestically but also in Asia. The company believes that the infringement is always intentional and quite obviously the damage is felt as a decrease of the company’s turnover. To mention an example, the company clearly perceives a diminution of its turnover in the U.S. market where imitations are sold at a lower price, meaning unfair competition for Fani.

When the company identifies an infringement the normal procedure undertaken is, as said above, to present a claim to the Jury of Design during the trade fair and then they prosecute with a civil action. As of today, they have two current civil actions. Fani has never used mediation or arbitration systems such as WIPO or similar, because, for them, it seems complicated and perhaps expensive; the latter in terms of securing the help of attorneys which would charge the company a very high price for their services. In terms of negotiating directly with infringers, the company has tried in the past but with no positive results so it has not tried this again.

Moreover, the action against infringers provided by the Jury of Design during the fairs has proven effective. It is a system which is very quick and cost free. To recall, the civil actions at the Italian courts last long (the average is ten years) and thus, at the end, it is very difficult to decide who wins the case. The key success factors are, according to Fani, documentation, certified dates and valuable design rights and the key barriers are the 'incredibly' (sic) long lasting civil actions.

In terms of being accused of infringing other peoples' or firms' IPR, this has happened perhaps only once in the last six years. The company can proudly affirm that the accusation was so unfounded that it never turned on to a civil action against Fani. It was quite easy for the company to assert (using simply e-mail) and secure the respect of the validity of their rights.

The way the company is dealing with IPR in general and counterfeiting or infringement issues in particular have changed over time in a "sad" way. The patents and the design rights do not prevent the imitators from making their illegal business and in Italy ordinary justice proceeds are very slowly. Furthermore, it is very costly to prosecute them in foreign countries. For these reasons, Fani feels angry and resigned at the same time. Moreover, the economic and financial problems that are affecting all companies have pushed the company to invest money and energy in the research for new designs rather than in the reaction against copies of the company's old designs.

Fani Gioielli is aware of the existence of government-funded support services. For example, in March 2005, a new Code of Industrial Property Rights entered into force in Italy. The new code brings together the old and new laws into a single document. The design pieces may now benefit from the copyright protection and 12 Italian courts (tribunals) are now specialized in judging legal cases concerning the design. Moreover, almost any Chamber of Commerce in Italy has created its own Arbitration and Conciliation Chamber. The problem with these government-funded support services is that companies in Italy, especially SMEs, are not used to utilizing these services. The company thinks that it is a question of education and information.

As a recommendation, the type of support or improvements needed from the government could be summarized under three big chapters: i) information (giving wider and free information to companies – for example how to include IPR clauses into commercial contracts), ii) improvement of civil actions (by making them quicker and affordable) and, iii) alternative justice (by improving the access to this tool which has proven useful). Fani has made use of private service providers in the form of a patent expert (for the compilation of forms and applications) and of one regular attorney. The experience is, generally speaking, good.

As a firm, they do not have specific strategies regarding the communication of counterfeiting issues. What they do try to do is to make the public aware of these issues at every opportunity; e.g., information sessions with the press, with the organizers of trade fairs, with the representatives of the craft unions, with entrepreneurs and traders. Fani knows about communication campaigns against counterfeiting and piracy, stemming from the public sector and/or business associations. They can see these campaigns by means of large posters in the streets. Fani believes they are important but not so effective because they sound too general, too vague; they keep repeating to the companies the same story: do not copy, and to the consumers: do not buy counterfeited items. According to Fani, a good campaign means many campaigns, at least one for each group of products (e.g. one for counterfeiting of leather items, one for jewellery, one for textile, one for furniture and accessories, among others).

On the way the EU and U.S. could jointly address the issue of counterfeiting and/or piracy, specifically in the field of jewellery production, they recommend an agreement concerning the mutual acknowledgement of patents, especially for design rights. This is important for EU companies which could spend a huge amount of money in extending their rights in every single state of the U.S.

Secondly, both partners could agree mutually on customs/duty rules/rates, specifically for imported or exported jewellery items. This would require educational programs for the customs' officers. In Italy, for instance, the so-called Agenzia delle Dogane (Customs Bureau) has a program called "Falstaff" which allows Italian companies to send an advice and require special control at the border when there is a confirmed risk of introduction of counterfeited items on the Italian market. Yet, the formal approach to this procedure is still quite complicated and only a few SMEs benefit from it.

A.5.3. Conclusions and lessons learned

The following conclusions and lessons learned can be derived from the experiences of Fani Gioielli:

- The IPR system is effective in its statements and rules, while the approach to and usage of the system should be simplified, particularly in two points: first, the introduction of mutual rules to make the usage of IPR in different countries much easier than today and second, civil and penal actions, which are the ordinary consequence of an IPR infringement, quicker and less expensive (it means creating agency procedures).
- In terms of the difference between SMEs and large companies and their specific needs, Fani believes that SMEs are impacted differently by the problems of counterfeiting and imitation. It depends on the kind of products and the success in the market: the more innovative and successful are the products, the higher is the risk of imitation. In the specific field of jewellery, imitation is so widespread and so common that for years and years it has been considered by the companies as a "necessary evil". Moreover, the SMEs have less financial strength to react than the big corporations. The priority is now to better face the enormous troubles of the market rather than constantly tackling the counterfeiting problems.
- However, companies must continue to assign a special priority to the protection of IPR and not remain compliant or acquiescent.
- Policy makers should realize once and for all that we are living in a globalized world which requires quick and broad solutions to the occurring IPR problems, especially when the issues involved have a significant added value of design. In this world, where knowledge and communication are very powerful and simple to spread, new ideas in design can be counterfeited/copied very easily and quickly. At the same time, new ideas become outdated very quickly. This means that rules should be written in order to achieve strong and quick results, and to provide for strong and quick sanctions. Moreover, a distinction between copying and counterfeiting should be formally asserted by the policy makers.
- According to the company, any interview on IPR issues should clearly mention at least once the words "copying/imitating" in addition to the word "counterfeiting". As said, imitation is a more subtle, more deceptive way of counterfeiting but equally damaging for companies. It creates confusion in the market and pushes the consumers to buy the copies, even though they look a little different from the originals, because copies offer the same appeal and "look" while being generally much less expensive with lower quality.

A.6. Case study: ABRO Industries, Inc. (USA)

A.6.1. Company overview

ABRO Industries, Inc. was incorporated as a wholly owned subsidiary of United Export Corporation in 1977. United Export Corporation was founded in 1939 as a translation service and evolved into a traditional export management company. The first ABRO products were pressure sensitive tapes - primarily masking tape. The successful marketing of that roll of ABRO masking tape led to the introduction of 400 different ABRO products ranging from gasket makers to car waxes to epoxies to furniture polish to lubricants. ABRO products became such a large part of the business that on January 1, 2001, United Export Corporation and ABRO Industries, Inc. were merged with ABRO Industries, Inc. being the survivor corporation. United Export now operates as a division of ABRO Industries, Inc. ABRO's export sales have increased from US\$12.9 million in 1988 to over US\$84.0 million in 2005.

A.6.2. IPR strategy and dealing with counterfeiting/piracy

A key component of the plan to develop ABRO sales and market share is to protect the name "ABRO®". The company made a substantial commitment to register the ABRO mark in as many countries as possible and to aggressively fight counterfeiters. As Mr. William Mansfield, a former military intelligence specialist and currently ABRO's intellectual property attorney, points out, *"You need to outsmart the counterfeiters at their own games, and you can't always rely on traditional methods for doing so."* With a presence in more than 180 countries and an anti-counterfeiting team in more than 100, ABRO's need for a dedicated intellectual property (IP) officer seems clear.

ABRO battles two primary types of counterfeit products: (1) exact counterfeiters who copy the packaging of ABRO's products but provide inferior products, and (2) trade dress counterfeiters who slightly change the product's packaging to give the consumer the impression of an ABRO original.

By combining knowledge of IP laws around the world and an aggressive strategy to stop counterfeiting, ABRO states to have made significant progress in recent years, particularly in China. *"We've been very pleased with the Chinese system,"* says Mr. Mansfield. While competent advisers are crucial, and sanctions are not as severe as in the U.S., *"overall, we believe the Chinese are on the cusp of a breakthrough in their legal system, giving IP holders real options [against counterfeiting] in China."* ABRO is very active in China as counterfeiters try to exploit the country's vast manufacturing system. Mr. Mansfield adds, *"China is a huge country, and counterfeits keep popping up. But because of our legal successes in court, we know there is no one we can't stop."*

However, Mr. Mansfield believes that ABRO's most significant IP challenges in the long run will stem from trade dress counterfeiting. Because ABRO's efforts to thwart exact counterfeiters have proven successful, criminals have shifted gears to focus on deceptive trade dress efforts. *"You've got to hit the counterfeiters in ways they don't expect to keep them moving,"* Mr. Mansfield explains. *"When they can't see it coming, they will move to the fringes of counterfeiting and replace ABRO' with ABRD' to try to catch the consumer off guard."*

While exact counterfeiting requires focusing on a select group of countries where this illegal manufacturing takes place, trade dress counterfeiting requires battling a more comprehensive global strategy because it can happen at any point throughout the supply chain. The first step in combating this type of activity is early trademark registration in every country where ABRO's products appear. With more counterfeiters in foreign countries copying product descriptions and making subtle packaging changes, ABRO works to educate local distributors and arm them with experienced agents and counsel to determine where the fakes are coming from. Once identified, retaliatory actions include the use of cease and desist orders, civil and

subsequent criminal court actions, and collaboration with local police and regulatory agencies for raids and fines.

While legal enforcement is a major component of ABRO's strategy, the company also directs substantial energy to cultivating strong relationships with local distributors. Maintaining relationships based on trust with distributors is key, as reliable distributors have a vested interest in stopping the counterfeiting of ABRO's products. Distributors who are confident in ABRO's enforcement efforts become more willing to invest in its products. These relationships help ABRO maintain its trusted name worldwide.

Personal relationships with investigators and prosecutors also figure prominently in ABRO's enforcement efforts. *"You can't run an effective anti-counterfeiting program from your desk,"* explains Mr. Mansfield. He argues that personal contact is critical in helping the parties understand how serious this problem is. *"One of the best investments of my time is travelling. When you fly halfway around the world to meet with people on an urgent matter, they know you mean business."* Mr. Mansfield believes in seeing the problems up close and personal so that he can work with his colleagues on the best way forward in a particular market. Mr. Mansfield adds, *"Every region and every country is so different that you really have to view them up close to make accurate predictions for what will or won't work."*

ABRO devotes considerable resources to educating and training customs officials worldwide to help them detect fake ABRO products. Because customs' checkpoints often represent the first opportunity to stop fakes from entering a particular market, developing a dependable worldwide customs support program is vital. This is particularly important in light of the company's extensive distribution network, which means that goods often pass through a number of countries before arriving at the end user.

ABRO helps coordinate supply chain links to bring information to distributors and customs' officials, thereby facilitating prosecutions. Mr. Mansfield cautions that this approach only works when connections with key people and organizations are created before they are needed. *"Showing up a day before you think a ship might arrive and trying to bully customs' officials into dropping what they are doing to help you won't work. Unfortunately, it's what many companies end up doing. You have to get them on your side before you need them."*

ABRO recognizes that the counterfeiting of its products is a challenge that comes with the territory of being a globally respected enterprise. While counterfeiters are becoming increasingly sophisticated in their efforts to steal from companies, ABRO is confident that its focus on building relationships and alliances to tackle the problem is reaping rewards.

A.6.3. Conclusions and lessons learned

The following conclusions and lessons learned can be derived from the experiences of ABRO Industries, Inc.:

- One should not adopt a "cookie-cutter" approach to fighting counterfeiting, but rather understand that there are different types of counterfeiting thus requiring creative solutions to be truly effective.
- When detailed knowledge of local IP laws around the world and an aggressive strategy are combined, a company can effectively work the system, ultimately deterring counterfeiters or altering their counterfeiting behaviours.
- One of the best multipliers of an aggressive strategy of legal enforcement is energy devoted to cultivating strong in-country relationships whether with local distributors or custom officials. This approach is only truly effective when connections with key individuals and organizations are developed prior to when they may be actually needed.

A.7. Case study: NBC Universal (USA)

A.7.1. Company overview

NBC Universal is one of the world's leading media and entertainment companies in the development, production, and marketing of entertainment, news, and information to a global audience. Formed in May 2004 through the combining of NBC and Vivendi Universal Entertainment, NBC Universal owns and operates a valuable portfolio of news and entertainment networks, a premier motion picture company, significant television production operations, a leading television stations group, and world-renowned theme parks. NBC Universal is 80% owned by General Electric and 20% owned by Vivendi.

According to the General Electric Annual Report NBC Universal revenues increased \$1.6 billion, or 10%, to \$17.0 billion in 2008. The company employs approximately 16,000 people worldwide.

A.7.2. IPR strategy and dealing with counterfeiting/piracy

New developments in digital content technology; combined with globalization and the Internet, have made computers portals for entertainment just a mouse click away. Today, entertainment-based intellectual property is quite literally America's most valuable export sector.

While millions across the world enjoy legitimate Internet offerings of entertainment content, the rise of technology has also brought about one of the greatest challenges facing content companies like NBC Universal—namely, digital theft, sometimes referred to as piracy. According to a 2006 study done for the Institute for Policy Innovation, each year the U.S. economy loses more than \$20 billion in output from movie piracy alone, which translates into more than 140,000 lost jobs for U.S. workers and more than \$837 million in lost taxes to federal, state, and local governments.

NBC Universal's (NBCU) General Counsel Rick Cotton emphasized the scale of the corrosive effects: *"Digital theft is one of the greatest challenges facing the motion picture and television industry today. When a copyrighted work loses revenues to piracy, that money is not available to reinvest into more production work. This loss not only affects the company and its workers who would have contributed to or benefited from these unmade productions. It also reduces the revenue of the upstream suppliers to movie producers. This includes set construction and location rentals, the truckers that move the equipment, and restaurants, caterers and hotels that provide housing and meals to the hundreds of crew members working on location. Downstream industries, like movie theatres, DVD retailers, and video rentals are also affected."*

NBCU's strategy to reduce digital theft recognizes that progress depends on cooperative action from three sources. First, NBCU and the industry are embracing digital technology to provide consumers with legitimate sources for high-quality content with ease and convenience. Second, infrastructure distribution companies must work with content companies to put into place business practices and technology tools that prevent counterfeiters and digital thieves from hijacking distribution capabilities in order to put illegitimate products into the stream of commerce. Third, enhanced, specialized, and dedicated law enforcement resources must be brought to bear on the problem. Counterfeiters and digital thieves now operate globally on an organized basis. They are not the cottage industry of 20 years ago. The head of the World Customs Organization has called this tidal wave of global counterfeiting "a second industrial revolution." Brand owners and content companies need an aggressive enforcement apparatus that is commensurate with the explosive growth of organized crime dedicated to counterfeiting enterprise.

A recent successful example of this three-part approach to Internet digital theft occurred during the Beijing Olympics, for which NBCU had the exclusive broadcast and Internet rights in the United States. Prior to the games, various pundits had predicted failure for NBCU in light of the time difference between Beijing and the

United States and the danger of unauthorized Internet streaming of the games—a particularly grave risk given the recent growth of Internet piracy on Chinese Web sites.

NBCU's strategy was first to make an unprecedented amount of Olympic coverage available on legitimate platforms—a total of 3,600 hours on various NBCU television networks and on the Web site NBCOlympics.com. Then, NBCU and the International Olympic Committee worked with the key distribution video-sharing Web sites to deploy two types of technology-based anti-theft capabilities: (1) technology-based content recognition software to prevent uploads of unauthorized Olympic content and (2) tools that enabled NBCU and the IOC to immediately remove infringing content that managed to get through the content recognition software. Finally, in response to concerns over piracy on Chinese sites, the Chinese government provided key cooperation and formed a task force to reduce or eliminate Internet infringements of the Olympics on Chinese video-sharing Web sites during the games.

The result confounded the naysayers, as the Beijing Olympics became the most-viewed television event in U.S. history with more than 214 million viewers on NBCU's networks. Moreover, NBCOlympics.com was visited by more than 52 million unique users who logged more than 1.24 billion page views and viewed more than 10 million hours of streaming Olympic video. NBCU estimates that only 1% of online viewing of Olympic video in the United States took place on infringing sites.

A.7.3. Conclusions and lessons learned

From NBCU standpoint, the success story of the Olympics confirms a three-part template for success in combating digital theft:

- The development of legitimate alternatives to piracy.
- Content recognition blocking technology and automated takedowns of infringing content by the Web sites.
- Cooperation from government.

NBCU's Olympic content protection effort was headed by a combined legal-technology team, with NBCU lawyer Steve Kang heading the legal side and NBCU technologist Joe Cares heading the tech side. *"Once the NBCU Sports and Olympics programmers provided such an exceptional source of legitimate content, we could work with the video-sharing sites to insert video fingerprints of Olympic video into their content recognition software on a real-time basis to block infringing uploads. The results were very positive,"* said Mr. Cares. Mr. Kang's work with representatives of the IOC and the Chinese government completed the picture. *"The effective efforts of the Chinese government to prevent infringing Olympic video from appearing on Chinese video-sharing sites were key to our success,"* said Mr. Kang. *"We know that technology tools work to minimize infringing content on video-sharing Web sites. The issue and the challenge were to get major Web sites around the world to implement effective technological solutions. Our Olympic experience demonstrates that this can be done with cooperation from Web site operators and the support of government enforcement efforts."*

A.8. Case study: Johnson & Johnson & Co., Inc. (USA)

A.8.1. Company overview

In 1886, the founders – Robert Wood Johnson, James Wood Johnson and Edward Mead Johnson – started a small medical products company in New Brunswick, New Jersey. They made the first-ever commercial sterile surgical dressings. Through mergers, acquisitions and the formation of new companies Johnson & Johnson (J&J) has become the world's most comprehensive and broad-based manufacturer of health care products and related services for the consumer, pharmaceutical, and medical devices and diagnostics markets. More than 250 Johnson & Johnson operating companies employ approximately 121,000 people in 57 countries and sell products throughout the world. The fundamental objective of Johnson & Johnson is to provide scientifically sound, high quality products and services. In 2007, the company generated approximately US\$12.3 billion annual free cash flow and invested US\$7.7 billion in research & development.

A.8.2. IPR strategy and dealing with counterfeiting/piracy

For Johnson & Johnson, protecting its products from counterfeiting is a top priority—but not its first. As Mr. David Howard, director, Product Protection, Global Brand Integrity says, *“We have a single focus; it's called our company credo. It maintains that our first priority is the men and women, the patients, and the doctors. The entire brand integrity effort is built around reassuring and protecting the source of supply of goods to users and consumers.”* J&J's focus becomes how it can accomplish this goal through product development, packaging, sourcing, and distribution networks.

J&J has three market segments: consumer, medical device and diagnostics, and medicines and nutritionals. Within these market segments are team members and organizations dedicated to brand integrity activities. For example, the medical device and diagnostics team, led by a vice president of brand integrity, includes dedicated individuals focusing on product and packaging protection technologies; a person who handles supply chain integrity and channel management; and an employee dedicated to market monitoring and enforcement. The Johnson & Johnson team also has representatives from each of the corporate entities—legal, regulatory affairs, communications, corporate security, and trademarks. The diversity of talent and background leverages each team's ability to develop a successful brand integrity operation, including anti-counterfeiting strategies.

Authentication and tracking technology for J&J are a means to an end. They are part of a comprehensive effort to protect its customers from dangerous and defective counterfeit products. To effectively decide how to best protect a product, J&J developed an assessment tool that asks 35 questions specific to that product, focusing on the potential risk of counterfeiting. Based on the assessment, the product is then processed through a scoring system that awards points for the number of covert protection features. *“The goal is to develop overt and covert features that best meet the needs of the individual product at risk,”* says Mr. Howard. *“The scoring of authentication features considers form factor of the item being protected as well as product and packaging dynamics. The closer you can get product protection features to the product, the easier it is to authenticate.”* This system is available to all J&J's operating companies to analyze risk potential at the early stages of research and development and marketed products to build risk deterrents into each product and its packaging.

With more than 250 operating companies, the anti-counterfeiting teams collaborate on the importance of implementing protection at the research and development stage and take multiple steps to protect their brands. Layering technologies is one of the primary tactics J&J uses to safeguard its products. Both overt and covert technologies are used to mark a legitimate product. Mr. Howard explains, *“I'm going to pick a pharmaceutical bottle as an example. We may have overt and covert features integrated into a label for the bottle. We may have overt and covert features in the introduction seal of the bottle itself or in the cap. A single layer simply doesn't offer*

the protection we believe is necessary we also don't use the same protection at each layer. Mixing technologies such as molecular markers, colour-shifting ink, and even font shifts or changes in graphics provides for a much more robust line of defence."

When looking for a technology supplier, Johnson & Johnson's first concern stems from its credo. The company wants to ensure that as it works hard to protect consumers and products, its affiliates are good to their people, the environment, and have a concern for consumer protection. Beyond that, Mr. Howard says, *"With the brand integrity elements, we want to make sure that suppliers have a strong knowledge base. We also want to make sure that they have the ability to supply to people who hold even higher security levels than we may think of, such as companies that produce bank notes and secure papers. Those are the types of suppliers that understand the importance and the nature of maintaining confidentiality in their secure products."*

J&J is in the process of developing a technology rollout and education plan that will be standard operating procedure for all its operating companies. This plan will be based on current successful efforts put into place by the monitoring and enforcement person in each of the three market sectors. It includes educating groups in the field—doctors, nurses, law enforcement officials, customs officials, distributors, supply chain partners, security groups, and other parties that handle J&J's products.

A.8.3. Conclusions and lessons learned

The following conclusions and lessons learned can be derived from the experiences of Johnson and Johnson:

- Measuring the benefits of authentication technology and brand protection tactics is easier said than done. According to Howard, *"It's very difficult from our perspective to accurately gauge how big a counterfeiting or diversion problem is across a company the size of J&J."* Ultimately, however, measuring performance based on anything other than protecting the patient doesn't really have a payback.
- Moving forward, Johnson & Johnson will continue to evaluate and reconfigure its technologies to stay ahead of the counterfeiters. Howard says, *"We try to make people aware that if they have a technology that could have an application in our industry we will give them an opportunity to educate us."* J&J also tries to introduce non-associated companies, whose technologies may benefit from one another. This further promotes combining tactics for ultimate protection. Mr. Howard concludes, *"You have to immerse yourself in this issue. You have got to get in and be willing to work and listen to make it really happen."*

A.9. Case study: Bendix Commercial Vehicle Systems LLC USA)

A.9.1. Company overview

In 1927 Bendix Corporation was formed by automotive engineer Vincent Bendix producing "Safety Servo" vacuum brakes. Today, Bendix Commercial Vehicle Systems LLC, a member of the Knorr-Bremse Group, develops and supplies active safety technologies, air brake charging and control systems, and components under the Bendix brand name for medium-duty and heavy-duty trucks, tractors, trailers, buses and other commercial vehicles. Employing more than 2,200 people, the company is headquartered in Elyria, Ohio.

A.9.2. IPR strategy and dealing with counterfeiting/piracy

Several industries, including automotive, take a particularly dire view of counterfeiting and piracy because of the effect of these activities on consumer safety. According to Mr. Anthony C. LaPlaca, Bendix vice president and general counsel, large quantities of Bendix look-alike valve and brake products reach the automotive aftermarket annually—putting drivers at risk with low durability; poor fit, and inferior workmanship. He notes that the sophistication of counterfeit operations has improved to the point where it is difficult for consumers to discern the real from the fake. However, in terms of performance, quality; and actual costs, the differences are huge. *"We've actually seen air dryers that were filled with kitty litter instead of desiccant."*

Beyond safety, counterfeiting clearly undermines brand equity. When fake products fail prematurely, there is a natural perception that the (supposed) Bendix product has not performed as expected. For Bendix, counterfeit-related safety problems usually aren't the result of customers looking to save a few dollars. In fact, people frequently return failed products to Bendix, and only then discover that these "under-warranty" items are fakes. Real Bendix products have a logo or other unique identifying mark cast into them, but unless the customer looks closely, he might fail to notice a missing logo or detect a counterfeit one. Manufacturing codes are also attached to legitimate Bendix parts, but these are easily duplicated by counterfeiters. Moreover, a maker of fake products can always claim that the codes are their own.

In some industries, the knock-off problem can be mitigated with distinctive and/or tamper-resistant packaging. Unfortunately, heavy truck parts—which usually are sold through distributor outlets and repair facilities—often are removed from the packaging before final sale, or are installed without the customer ever seeing them. So despite the fact that Bendix parts arrive in boxes with the Bendix name and trademark on them, the package and the customer may never "meet."

The bottom line is that most—but not all—customers are unwilling or unknowing participants when it comes to counterfeit or knock-off parts. However, a portion of the buying public may simply be convinced that paying extra for the genuine article is a waste of money. It also is common for sellers to believe that the "off-brands" on their shelves and in their warehouse do not represent a safety hazard to the end user or the general public.

So who are the offenders? Mostly, they are manufacturers, distributors, repair services, and retailers of deliberately-identical, non- or illegally-branded parts that are intentionally misrepresented as Bendix. The part or the packaging doesn't even have to have the Bendix logo, name, or part number on it to be fraudulently marketed as genuine Bendix. On the manufacturing end, Asia is the most common source of counterfeit product. Quality control and manufacturing consistency in these facilities is largely, if not completely, lacking. Also absent is the warranty and service support that accompanies each genuine Bendix product. Their sole mission is margin—just like the (mostly independent) distributors, retailers, and repair services that import and sell the fake products.

Bendix has taken numerous actions to protect itself and its customers. The heart of these efforts is its Intellectual Property Protection and Enforcement Program, activities which include:

- Instituting patent- and trademark-infringement actions against companies that sell or distribute knockoff parts that infringe on Bendix patents and trademarks.
- Circulating Bendix trademark usage guidelines to distributors and dealers.
- Providing ongoing training to sales force and customer service personnel.
- Implementing customer- and industry-awareness campaigns.
- Meeting with senior management at distributors to discuss intellectual property compliance.
- Working closely with industry and trade associations, as well as groups concerned with legal and governance issues, such as brand protection and intellectual property.
- Maintaining an active trade show presence, with literature and side-by-side displays of inferior (knock-off) products and genuine Bendix products. Bendix also works with trade show sponsors to have infringing products and literature removed from offending parties' booths.

A.9.3. Conclusions and lessons learned

The following conclusions and lessons learned can be derived from the experiences of Bendix:

- Bendix knows the problem is ubiquitous. Still, Mr. LaPlaca is pleased with the results that his company's efforts have produced. Even simple cease and desist communications have been effective—probably due to litigation successes Bendix has experienced with trademark infringement cases. To date, the company has made few attempts to “go to the source”—the (largely Chinese) manufacturers of bogus products.
- Fortunately, the U.S. government has been more receptive—offering (among other things) immigration and customs training through the National Intellectual Property Rights Coordination Center. Working in this manner has helped Bendix form useful relationships with government agencies and to understand government intervention programs. For example, after attending a Coordination Center seminar, Bendix was spurred to accelerate its process of registering common law trademarks. The hope now is that lawmakers will extend intellectual property protection to industrial designs of safety-related products such as air brake systems and components. The entire automotive industry and other key U.S. sectors would benefit from this type of legal protection.
- However, to really make a dent, Mr. LaPlaca notes that it will be necessary to intervene at the source: getting to the overseas manufacturers by expanding intellectual property protection where products are produced. Ever higher levels of ongoing consumer education will also be necessary not only helping end users recognize fake parts, but giving them the tools and the fortitude to make sure they're protecting themselves by acquiring the genuine article.

A.10. Case study: True Religion Brand Jeans® (USA)

A.10.1. Company overview

True Religion Brand Jeans® (True Religion) is owned and operated by Guru Denim, Inc., a wholly owned subsidiary of True Religion Apparel, Inc., which is a public corporation trading on the NASDAQ exchange. Based in Los Angeles, True Religion began in the summer of 2002, with the goal of taking denim in a new direction. The company makes and sells premium denim products for men, women, and children in more than 50 countries around the world. Its line consists of pants, skirts, shorts, jackets, T-shirts, and all products in between. The company has been combating counterfeiters almost since its inception.

A.10.2. IPR strategy and dealing with counterfeiting/piracy

“Counterfeiting is a problem that affects premium and luxury items. We are a highly sought brand and, as such, we know that we have to fight counterfeiters,” says Ms. Deborah Greaves, secretary and general counsel at True Religion. Ms. Greaves’ team uses multiple anti-counterfeiting “weapons” and measures to combat counterfeiting and ensure that only authentic True Religion jeans reach mainstream commerce. Among other approaches, True Religion uses high-tech tags, raises awareness through anti-counterfeiting kits, and vigorously prosecutes violators.

True Religion’s fight with counterfeiters began early. *“These criminals know what they’re doing. They attend industry trade shows looking for the next hot brand so that they can exploit trademark laws around the world for their benefit,”* says Ms. Greaves. She goes on to explain that because of the first-to-file patent systems outside the U.S. and the difficulty of proving the fame of the mark of a fledgling brand at the time a pirate application is filed, legitimate trademark holders need to be proactive about filing their trademarks abroad as a pre-emptive strike against counterfeiters.

Working in Los Angeles, the epicentre for high-end denim brands, Greaves has been involved with the fight against counterfeiters throughout her career. The reason for this fight is simple. *“Issues of counterfeiting come up in all types of products because consumers either can’t distinguish between legitimates and fakes, or because they simply don’t care about the impact that buying fakes has on the economy,”* says Ms. Greaves.

In addition to protecting their brands from trademark thieves, True Religion uses a multitude of methods to discourage and catch counterfeiters. One of its most effective weapons is raising awareness. *“We don’t keep our anti-counterfeiting measures a secret. We want law enforcement and consumers to know how to spot a fake,”* says Ms. Greaves. True Religion’s anti-counterfeiting kit includes genuine parts such as button faces, button backs, labels and tags, as well as tips on how to distinguish real True Religion jeans from the fakes. These kits are shared with local, state, and federal agencies, including the Federal Bureau of Investigation, Immigration and Customs Enforcement, and Customs and Border Protection. While more can always be done, Ms. Greaves is confident that the company’s efforts have put a dent in the counterfeiters’ business schemes. *“We get 20 to 30 letters per week from law enforcement and private investigators on counterfeiting activities.”* These reports can range from the identification of a store selling fake products to large-scale investigations undertaken by the federal authorities in confiscating container loads of products.

Despite the growing sophistication of counterfeiters, some counterfeit jeans remain fairly easy to spot, given their poor quality. *“Counterfeiters cut corners, so their quality is poor,”* says Ms. Greaves. *“I can tell over 95% of the time with one look if a product is counterfeit.”* True Religion’s commitment to detail and quality remains one of the company’s defining features. Its value can be found in the consistency of the stitching, the use of real copper buttons with logos, high-quality zippers, and pella pocket lining, among other features. In addition to the manufacturing detail, True Religion also uses premium quality trims that are attached to the jeans and placed in strategic places. All of these items and attention to detail are too expensive for counterfeiters to copy identically. And what about the harder-to-detect counterfeits

that even Greaves has a hard time spotting? True Religion incorporates the use of high-tech security labels by BPS Brand Security. The labels have a special type of security yarn woven into the label that shows unique printed words and numbers that can only be viewed under a 100x magnifying glass.

Counterfeiting is a global problem, so any limitation on foreign manufacturers helps in the fight. Does True Religion have issues with its overseas suppliers? *“One of the nice things about ‘made in the USA’ is control,”* says Ms. Greaves. True Religion makes all its adult-size jeans in the U.S.; therefore, any jeans entering the U.S. through a seaport are automatically suspect. As an added security measure, True Religion uses special numbering on its security labels to determine manufacturing and distribution details.

To ensure that True Religion is doing everything it can on this front, Ms. Greaves’ team monitors a counterfeit hotline, reviews online auction sites frequented by counterfeiters, and aggressively pursues counterfeiters using the thing these criminals loathe most—the law. *“We are leaving no stone unturned in our effort to protect our brand and our customers,”* says Ms. Greaves.

A.10.3. 1.3 Conclusions and lessons learned

The following conclusions and lessons learned can be derived from the experiences of True Religion:

- In this instance, we see the value of diversifying a company’s efforts at combating counterfeiting by using multiple “weapons” and measures. As the counterfeiters are sophisticated, a company must adopt sophisticated counter-measures such as the use of high-tech tags, raising awareness through anti-counterfeiting kits, vigorously prosecuting violators, and proactively filing trademarks abroad.
- True Religion’s experience also shows the value in not keeping your anti-counterfeiting measures secret, so as to maximize the awareness among law enforcement and consumers of how to identify a fake product.
- By limiting all its adult-size jeans to being ‘made in the USA,’ True Religion is able to use this as an added security measure since any jeans entering the U.S. through a seaport are automatically suspect. Obviously not all companies have such recourse available to them, but for those companies like Guru Denim this can provide significant anti-counterfeiting protection that might not have been thought of previously by management.

A.11. Case study: Unilever (U.K. and The Netherlands)

A.11.1. Company overview

As one of the world's largest consumer goods companies, *Unilever* strives to meet the everyday needs of people through its food, home, and personal care product lines. With around US\$ 50 billion in annual revenue and 170,000 employees, Unilever's brand protection efforts require a global perspective that accounts for the numerous markets in which it operates. The company has gone to great lengths to combat counterfeiting, which threatens its brands, workers, and the health and safety of consumers.

With a product portfolio of more than 400 widely recognized brand names, Unilever has many targets for counterfeiters. A majority of illegitimately distributed Unilever products originate in Asia, with China being the most prolific offender due to existing networks of sophisticated manufacturers, brokers, and intermediaries. Illegal operations typically consist of medium-size and large-scale manufacturers spread out in multiple production sites throughout China's provinces. Over time, these manufacturers have honed their ability to produce the components that make their way into the finished goods. Those products are then sent to markets around the world, particularly in Asia and Africa, and often reach end users in the United States and Western Europe, as the largest markets.

A.11.2. IPR strategy and dealing with counterfeiting/piracy

Mr. Richard Heath, Unilever's vice president and legal and global anti-counterfeit counsel, oversees the company's efforts to protect its numerous products from intellectual property theft. *"We are known for being tough on counterfeiters and have a successful track record of raids and seizures in manufacturing facilities and through our border efforts with customs agencies,"* says Mr. Heath.

He attributes Unilever's successes to the multifunctional steering group that the company established in 2006 to combat counterfeiting. The group is led by the company's legal and sales teams and involves personnel from the supply chain, communications, public affairs, research and development, safety and environmental, IT, and marketing divisions. One example of how the group operates can be seen when its global sales force works with other divisions to gather intelligence on alleged counterfeit products, which then result in raids at manufacturing locations carried out by agents and government officials. As Mr. Heath explains, the group's mission is *"to create an environment that is both hostile and disruptive to counterfeiters by developing a fully integrated strategy and operational approach. Information sharing is key to this effort."*

Other proactive measures play a major role in Unilever's anti-counterfeiting strategy. The company performs background inquiries on proposed distributors and undertakes a full risk assessment program for new suppliers. These risk assessments help ensure the authenticity of raw materials and allow Unilever to implement its product safety program earlier in the supply chain. Because counterfeit activity can occur anywhere along the organization's supply chain, Unilever also develops special term contracts for predetermined high-risk suppliers.

Despite these diligent efforts, counterfeiting still occurs, requiring strong enforcement measures and cooperation with law enforcement agencies. *"It is critical that we establish public-private partnerships and create the best possible legal and enforcement frameworks to discourage counterfeiters,"* says Mr. Heath. Direct engagement with relevant law enforcement agencies in a source, transit, or destination country is pivotal for following through on suspected counterfeit activity and, ultimately, yielding optimal results for the organization. *"For instance, with border seizures, we invest in considerable technical assistance, training, and capacity-building programs with customs agencies wherever the need is identified,"* says Mr. Heath. *"The civil [court] process is often too slow and ineffective in developing countries, requiring us to go down the criminal law or administrative enforcement route, even though penalties in many countries are still not tough enough."*

In addition to the more blatant forms of counterfeiting, Unilever also faces a challenge from products that are identical in practically every way to the authentic versions, with only minor variations on the packaging. *“A look-alike, which may use a slightly different brand but otherwise look just like the real thing, is dealt with as another form of trademark infringement and pursued through the civil courts,”* says Mr. Heath.

Another challenge stems from counterfeiters who manufacture products under a Unilever brand that does not match the products, with the goal of confusing the consumer. For example, counterfeiters may pair a fake toothbrush under a Unilever soap brand, resulting in consumers buying defective products or being turned away from buying Unilever products altogether. Mr. Heath sums up the nature of this particular problem saying, *“The threat to consumer confidence is the hardest to quantify and potentially the most damaging, especially when the counterfeiter is copying a plausible line extension.”*

Despite these challenges, Mr. Heath is confident that Unilever’s efforts are helping protect consumers, while ensuring that the company’s brands maintain the public’s trust. He acknowledges, though, that there is still much work needed to raise consumer awareness. *“Stopping the counterfeiters at our end is one part of the battle, but our customers, retailers, and consumers also need to be equipped with the information necessary to spot fakes and help us in this effort.”*

A.11.3. Conclusions and lessons learned

The following conclusions and lessons learned can be derived from the experiences of Unilever:

- In addition to its cross-division steering group, Mr. Heath believes that another one of Unilever’s strengths is the company’s *“leadership, involvement, and cooperation with strategic alliances and trade associations at the global, regional, national, and local levels that are driving public policy on these issues.”* Companies must also look within and *“establish internal brand protection programs that are tailored to each industry and the specific threats each company faces.”*
- In a global economy, Unilever recognizes that its goals of entering new marketplaces and broadening the reach of its products also bring additional challenges. Fortunately, Unilever is not alone in this fight against counterfeiting and piracy. It has been able to cultivate alliances with government and industry to effectively confront this threat by pushing for a more effective legislative and enforcement framework. By taking proactive measures, the company is taking the steps necessary to safeguard its long-term competitiveness, maintain its workers’ jobs, and protect consumers who rely on its numerous product offerings.

A.12. Case study: DORNBRACHT (Germany)

A.12.1. Company overview

The Aloys F. Dornbracht GmbH & Co. KG is an international manufacturer of high-quality designer fittings and accessories for bathrooms and kitchens. The company was established in 1950 and has its headquarters in Iserlohn, Germany. Established as a family business for the production of fittings, the firm started with the manufacture of standards fittings under the brand ‘ADIA’ and has expanded steadily since then. In 1955, the first export deals were signed. In the 1960s and 1970s, Dornbracht started to increasingly focus on exclusivity. The first dedicated ‘luxury fitting’ was introduced in 1969 (‘Edition 2000’ fitting). In 1977, eight new exclusive fittings were introduced as well as new finishes such as Bronze and Old Silver. In 1985, the company started to collaborate with the external renown designer ‘DOMANI’ – a collaboration which is still prospering today. As of 2008, the company employed a total of 829 persons (+33 % if compared to 2003) and had a turnover of € 195 Mio. (+62 % if compared to 2003). The export share amounts to around two thirds of the sales volume, with the U.S. and several EU countries (France, the Netherlands, Italy, Austria, the UK) being markets of special significance. Dornbracht

sees itself as a market leader for ‘premium end’ design fittings in several countries, a segment where the firm found its niche. Noteworthy is also the fact that Dornbracht has its production facilities solely located in Germany. Most of the value added is created within the vicinity of the main production plant in Iserlohn.

A.12.2. IPR strategy and dealing with counterfeiting/piracy

Intellectual Property Rights were used by Dornbracht already early in its history – the first patent was filed in 1952 for the invention of an extendable spout –, but the conscious use of IPR and the significance of IPR for the protection of innovations has changed (and increased) over time. This development goes hand in hand with the expanded internationalisation activities. Today, the most important IPR instrument for Dornbracht is the ‘registered design’ and the trademark. Informal IP protection strategies are pursued insofar, as the firm produces – with its focus on high quality luxury items – at a quality and precision level which counterfeiters usually cannot attain.

Nonetheless, the company is faced by frequent attempts of unlawful copying by competitors which try to imitate the look of the various fittings. The infringement of design rights is thus the counterfeiting activity the firm is mostly confronted with. Every year, the firm handles around 20 design rights infringement cases (some of which are new, some are left over from earlier years, as such cases can last for a long time). The usual approach taken is to settle the cases out of court, whereby the infringing party has to sign a declaration to cease and desist from producing/selling DORNBACHT-look alike fittings. In addition, the company demands compensation for the fees of its attorneys. Negotiations are usually handled by the attorney contracted on behalf of the company. DORNBACHT considers the design rights to be a fairly effective tool of protection, at least in the EU.

Asked about the origin of the counterfeit goods, the company responded by stating that most infringements take place and are brought to court in Germany. However, manufacturers may be headquartered outside of Germany in countries such as Italy (which was a very significant source of counterfeits in the past, but is not as important any more) or in China. There are nonetheless also cases of German companies infringing the design rights. Usually, the company learns from counterfeiting activities at trade fairs. This is also the reason, why DORNBACHT tries to cooperate with executive authorities at the fairs and accompanies them when they visit fair booths and check them for counterfeit items.

The company tries to take an active approach when communicating the problem of counterfeiting. The rationale for this approach is seen in creating public awareness on the quality differences in comparison to fake fittings and to strengthen and maintain thus the value of the design and the brand. Mr. Friedrich, the Assistant to the managing director Marketing / Sales, explains: *“However, as a mid-sized company, there are limits to the extent you can reach a wider audience. This is also the reason why one of our goals of our communications strategy is to reach out to other companies, prove the benefits of taking an active approach and get them also to publicly discuss their experiences with counterfeiting”*. Important customer groups that need to be informed are for example those in the project business of Dornbracht, i.e. in projects such as hotels that are to be built or renovated, yachts etc. Asked about the damages incurred through counterfeiting, Mr. Friedrich replies: *“We estimate that counterfeiters have a sales volume of around € 50 to € 100 Mio. with look-alikes of our products per year. Without counterfeiting activities, we would be able to employ around 100 persons more.”*

The figures provided suggest that even if not all of those people buying look-alikes would buy the legitimate goods, damages would still be considerable.

As concerns public support programmes and initiatives in the field of IP enforcement, the DORNBACHT employee said that he was not aware of any such measures but would welcome them if they existed. It is especially in the international context, where the company sees a role for public authorities, e.g. in the supply of information on country-specific ways the topic of IPR and IP enforcement is dealt with and in

providing sign-posting services in third countries to relevant authorities, business associations, lawyers, but also to fellow companies which can share their experiences on that topic. Public awareness campaigns run by business associations are also an important tool which could support DORNBACHT, but improvements are definitely possible. For DORNBACHT, most of these campaigns are not known enough by the general public. Finally, asked about the biggest barrier to IP enforcement, Mr. Friedrich responded: *“Usually, we are not faced with exact copies of our products, but with attempts to imitate in most, but not all aspects. It is thus to an extent also up to a judge whether the likelihood of confusion is high enough to justify a ruling that our design rights are infringed.”*

A.12.3. Conclusions and lessons learned

The following lessons and conclusions can be drawn from the case study:

- Companies should not forget to look into IP protection provided by design rights, where relevant. In the case of DORNBACHT, this IPR instrument seems to be an effective means against counterfeiters – at least in Europe –, and it is usually a tool that is under-estimated by other companies in its possibilities and effectiveness.
- Companies should look into the possibilities of pursuing an active IP enforcement policy. Successful litigation of high visibility cases can prove to be an effective deterrent for future counterfeiting activities stemming from certain countries, as evidenced through the decline of counterfeits originating in Italy after the court trials that DORNBACHT had pursued there.
- There is a clear need on the side of the policy makers – as noted also in other case studies – to inform the businesses on support available for them in the area of IPR and IP enforcement. There is definitely a demand present with respect to services that help companies deal with IP enforcement in third countries.

Appendix B - Federal protection and enforcement of IP rights under U.S. law as of March 2008

Table 6 Summary of Federal Protection and Enforcement of IP Rights under U.S. Law (GAO, March 2008)¹²

Type of IP protection	Criminal penalties	Non-criminal actions and penalties (by federal government)	Civil remedies and penalties (available to rights holders and other victims)
U.S. Copyright			
Criminal Infringement for Profit 17 USC 506(a)(1)(A) and 18 USC 2319(b)	Individuals 1st offense, maximum 5 years imprisonment and \$250,000 fine or twice gain/loss; 2nd offense, maximum 10 years imprisonment Corporations 1st offense, \$500,000 fine or twice gain/loss Criminal forfeiture available	Civil forfeiture available (of infringing copies, and plates, mold, tapes, or other equipment from which infringing copies can be made)	Copyright infringement (even where it is neither wilfully committed nor for profit) is actionable under 17 U.S.C. § 501 et seq. For wilful copyright infringement, copyright owners may obtain injunctions, ex parte orders to seize infringing items, and recover actual damages or statutory damages of up to \$150,000 per work infringed, as well as attorneys' fees and costs.
Bootleg Recordings of Live Musical Recordings (unauthorized fixation of and trafficking in sound recordings and music videos of live musical performances) 18 USC 2319A	Individuals 1st offense, maximum 5 years imprisonment and \$250,000 fine or twice gain/loss; 2nd offense, 10 years imprisonment Corporations \$500,000 or twice gain/loss Criminal forfeiture available	Civil forfeiture available (for bootlegs imported into the U.S.)	Performers whose performances are recorded or distributed without authorization may, pursuant to 17 U.S.C. § 1101, obtain injunctions and recover damages equivalent to those available for copyright infringement under 17 U.S.C. §§ 502-505.
Camcording (unauthorized recording of motion pictures in motion picture exhibition facility) 18 USC 2319B	Individuals 1st offense, maximum 3 years imprisonment and \$250,000 fine or twice gain/loss; 2nd offense, maximum 6 years imprisonment Corporations \$500,000 fine or twice gain/loss Criminal forfeiture available		No specific civil remedies for camcording, although camcording is actionable as copyright infringement.
Large-Scale Infringement without Profit Motive (reproduction or distribution over any 180-day period/more than \$1,000 total retail value) 17 USC 506(a)(1)(B) and	Individuals 1st offense, maximum 3 years imprisonment and \$250,000 fine or twice gain/loss; 2nd offense, 6 years imprisonment Corporations \$500,000 fine or twice gain/loss Criminal forfeiture available	Civil forfeiture available	Copyright infringement (even where it is neither wilfully committed nor for profit) is actionable under 17 U.S.C. § 501 et seq. For wilful copyright infringement, copyright owners may obtain injunctions, ex parte orders to seize infringing items, and recover actual damages or statutory damages of up to

¹² Does not cover the provisions of the PRO-IP Act

18 USC 2319(c)			\$150,000 per work infringed, as well as attorneys' fees and costs.
Distribution of Pre-Release Works or Material over Publicly-Accessible Computer Network for Commercial Purposes (17 USC 506(a)(1)(C) and 18 USC 2319(d))	Individuals 1st offense, maximum 5 years imprisonment and \$250,000 or twice gain/loss; subsequent offense, 10 years imprisonment Corporations \$500,000 fine or twice gain/loss Criminal forfeiture available	Civil forfeiture available	Actionable as copyright infringement (see above).
Distribution of Pre-Release Works or Material over Publicly-Accessible Computer Network Not for Commercial Purposes (17 USC 506(a)(1)(C) and 18 USC 2319(d))	Individuals 1st offense, maximum 3 years imprisonment and \$250,000 fine or twice gain/loss; subsequent offense, 6 years imprisonment Corporations \$500,000 fine or twice gain/loss Criminal forfeiture available	Civil forfeiture available	Actionable as copyright infringement (see above).
Use of Technology to Violate Anti-Circumvention Systems and Anti-Piracy Protections and Protection of Integrity of Copyright Management Information (17 USC 1201-1204)	Individuals 1st offense, maximum 5 years imprisonment and \$500,000 fine or twice gain/loss; 2nd offense, maximum 10 years imprisonment and \$1 million fine or twice gain/loss		Civil court action available, including -temporary or permanent injunction -impoundment -actual and statutory damages -costs -attorney's fees -remedial modification or destruction of violating product -triple damages for repeat violations within 3 years of initial violation
Trafficking in counterfeit labels, illicit labels, or counterfeit documentation or packaging (18 USC 2318)	Individuals Maximum 5 years imprisonment and \$250,000 fine or twice gain/loss Corporations \$500,000 fine or twice gain/loss Criminal forfeiture available	Civil forfeiture available	Available civil remedies include -temporary or permanent injunction -impoundment -attorney's fees and costs -actual damages and any additional profits -statutory damages of up to \$25,000 per violation
U.S. Trademark			
Trafficking in Counterfeit Goods or Services (using counterfeit mark) (18 U.S.C. § 2320)	Individuals 1st offense, maximum 10 years imprisonment and maximum \$2,000,000 fine or twice gain/loss; 2nd offense, maximum 20 years imprisonment and maximum \$5,000,000 fine or twice the gain/loss Corporations 1st offense, maximum \$5,000,000 fine or twice gain/loss; subsequent offense, maximum \$15,000,000 fine or twice the gain/loss Criminal forfeiture	Civil forfeiture available	Available civil remedies include -temporary or permanent injunction -impoundment -attorney's fees and costs -actual damages and any additional profits -statutory damages of up to \$100,000 per type of goods (up to \$1 million if violation is wilful)

	available.		
U.S. Patent		Business Software Alliance (BSA), Annual BSA and IDC Global Software Piracy Studies (here: 2004 study)	Business association
False Patent Marking (35 U.S.C. § 292)	No criminal penalties, but criminal fines based on criminal conduct related to patents.	Maximum \$500 fine for every offense	Any private individual may sue for the civil penalty of \$500, which is split with the government.
U.S. Trade Secrets			
Economic Espionage (18 U.S.C. § 1831)	Individuals maximum 15 years imprisonment or \$500,000 fine or twice gain/loss, or both Corporations \$10,000,000 fine or twice gain/loss Criminal forfeiture available	The Attorney General may obtain injunctions against violations.	No express federal cause of action, although remedies are available for trade secret theft under state law.
Theft of Trade Secrets (18 USC 1832)	Individuals 1st offense, maximum 10 years imprisonment or \$250,000 or twice gain/loss; 2nd offense, 10 years imprisonment Corporations Maximum \$5,000,000 fine or twice gain/loss Criminal forfeiture available	The Attorney General may obtain injunctions against violations.	No express federal cause of action, although remedies are available for trade secret theft under state law.

Source: GAO 2008

